

The effect of interest rate on exchange rate

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The main purpose of this paper is to analyze the relationship between the interest rate and exchange rate. Interest rate and exchange rate both play an important role in national economy recently. The interest rate in China dropped below 4.5%, which is the lowest in last few decades. On the other hand, the exchange rate is dropping faster than before. In the latest rate, 1 dollar equals to 6.5769 renminbi, which is the lowest in recent 10 years. The value of trade between China and other countries has suffered a major loss. The Chinese government is releasing a series of rules to adjust the interest rate, trying to affect exchange rates in order to compensate losses.

I will use the nation economic data from 1990 to 2015 in order to test the

positive correlation between these two rates.

