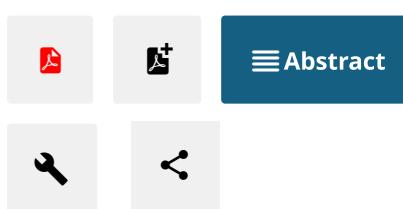




Transaction Costs and Interest Arbitrage: Tranquil versus Turbulent Periods

Jacob A. Frenkel and Richard M. Levich



 More

Abstract

This paper deals with the effects of transaction costs on the efficacy of covered interest arbitrage during three periods: 1962-67, the tranquil peg; 1968-69, the turbulent peg; and 1973-75, the managed float. Several conclusions emerge: (i) during the managed float transaction costs have risen dramatically, (ii) these costs played a similar role in accounting for deviations from parity during the periods of the tranquil peg and the managed float but not during the turbulent peg. Similar conclusions emerge from a time-series analysis of the various exchange rates with the implication that a classification of periods according to the degree of turbulence is preferred to a classification based on the legal arrangement (e.g., pegged or floating rates), and (iii) covered interest arbitrage does not seem to entail unexploited opportunities for profits.

Permissions

Statement of Publication Ethics

Diversity and Inclusion at the University of Chicago

Contact us

Terms and Conditions

Privacy Notice

Media and advertising requests



© 2025 The University of Chicago and other publishing partners. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.