Journal of Post Keynesian Economics ›
Volume 25, 2002 - Issue 2

Original Article

Interest parity, risk premia, and Post Keynesian analysis

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Pages 237-249 | Published online: 23 Dec 2014

Abstract

This paper develops the cambist (or Post Keynesian) view of forward exchange rates previously put forward in Lavoie (2000), according to which the forward exchange rate is not a predictor of future spot rates. The paper deals with imperfect asset substitutability, the peculiarities of fixed exchange rates, and the impact of speculation in forward exchange markets. Whereas covered interest parity always holds in the cambist view, with the causality running from differentials in interest rates to differentials between the forward and the spot rates, a graphical analysis is provided to illustrate [...] differential.

Keywor[...]

Parity Theorems

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Journal of Post Keynesian Economics
Published online: 3 Nov 2015