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Research Announcement

Continuous time models of interest rate: testing peso-dollar exchange rate.

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Abstract

As an extension of the article by Núñez, De la Cruz and Ortega (2007), different parametric models with jumps are tested with the methodology developed by Ait-Sahalia and Peng (2006), based on the transition function. Data analyzed are the peso-dollar exchange rate. The idea is to implement continuous-time parametric models for the peso-dollar exchange rate. The results confirm that the proposed continuous time models are not good enough to explain the behavior that describes the peso-dollar exchange rate. However, considering some continuous time models with Poisson jumps is possible to describe such behavior.

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