

|                      |                                  |          |          |           |           |           |          |          |           |          |          |          |          |       |          |
|----------------------|----------------------------------|----------|----------|-----------|-----------|-----------|----------|----------|-----------|----------|----------|----------|----------|-------|----------|
| <b>Equation 3.17</b> | <b>Exchange Rate</b>             | 1.717246 |          | -0.002789 | -0.002566 | -0.002109 | 0.002169 | 0.001741 | -0.001144 | 0.970938 | 0.072372 | 2.253919 | 0.03814  | 2E-06 | 0.004779 |
| <b>t-statistics</b>  |                                  | 9.545285 |          | -1.333117 | -1.883433 | -1.295713 | 1.489829 | 1.406967 | -0.750532 |          |          |          |          |       |          |
| <b>Equation 3.18</b> | <b>Inflation + Exchange Rate</b> | 1.718017 | 0.864716 | -0.002986 | -0.002428 | -0.002179 | 0.001994 | 0.00151  | -0.001316 | 0.970969 | 0.072333 | 2.096689 | 0.053348 | 2E-06 | 0.003449 |
| <b>t-statistics</b>  |                                  | 9.592691 | 1.060261 | -1.510612 | -1.78114  | -1.342289 | 1.477376 | 1.19829  | -0.864899 |          |          |          |          |       |          |
| <b>Equation 3.19</b> | <b>Trade Balance</b>             | 1.720732 |          | 0.001268  | 0.001189  | -0.001158 | 0.00042  | 0.000205 | -0.000498 | 0.970184 | 0.073304 | 0.897172 | 0.497134 | 1E-06 | 0.24896  |
| <b>t-statistics</b>  |                                  | 10.02855 |          | 0.776814  | 0.58126   | -0.73065  | 0.53794  | 0.237714 | -0.547898 |          |          |          |          |       |          |
| <b>Equation 3.20</b> | <b>Inflation + Trade Balance</b> | 1.721462 | 0.866579 | 0.001353  | 0.001378  | -0.001016 | 0.000281 | 0.000302 | -0.000461 | 0.970223 | 0.073256 | 0.917293 | 0.48257  | 1E-06 | 0.130972 |
| <b>t-statistics</b>  |                                  | 10.06864 | 0.981486 | 0.820558  | 0.664452  | -0.640063 | 0.367996 | 0.349892 | -0.511265 |          |          |          |          |       |          |

- NOTES: 1. EPRR = the ex post real rate of interest, based (for purposes of this paper) on the log of the Frankfurt Interbank Offered Rate minus the log of inflation.
2. INFLATION(-1) = the log of inflation at a monthly rate, lagged one month = the log of the German Consumer Price Index CPI divided by the German CPI for the previous period (i.e.,  $CPI(-1) = CPI/CPI(-1)$ ).
3. All data is monthly, seasonally adjusted. All variables are defined in **V. Procedure**.
4. Wald Test Probability = the significance level at which the null hypothesis that all independent variable coefficients jointly equal zero may be rejected.
5. Breusch-Godfrey Serial Correlation LM Test Probability = the probability of rejecting the null hypothesis of no serial correlation.
6. White Heteroskedasticity Test Probability = the probability of rejecting the null hypothesis of no heteroskedasticity.