Abstract

Uncovered interest rate parity (UIP) is a theoretical relation linking changes in exchange rates and corresponding interest rate differentials. Despite its considerable intellectual appeal, uncovered interest rate parity has very often been found wanting empirically. I reinvestigate this relation using a 17-country panel of historical time series data at its longest—for the US–UK country pair—spanning 217 years. I find results that are largely consistent with theory: over the long term, in most countries, bond yields expressed in common currency bear a positive relationship to one another as UIP predicts. This is in contrast to the very nearly opposite findings reported in much of the literature and now taken as a stylized fact.