

The effectiveness and determinants of foreign exchange
intervention in Japan:
a simultaneous censored regression approach *

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Abstract

By using a simultaneous equation system approach, this paper investigates the effectiveness and the determinants of the foreign exchange market intervention in Japan. We regard the Japanese authorities' market intervention a variable that is censored from below at zero; and the latent variable is a linear model with determinants such as the current yen per dollar exchange rate. This paper models a simultaneous equation system with market intervention and exchange rate as the endogenous variables with a conventional structural Tobit model. The identification issue of this simultaneous equation system will be discussed in detail. The results are compared with those in Ito (2003, 2005) who do not consider the censoring. We find the foreign exchange intervention is effective during Year 1995 to Year 2004.

Key Words: Control function; determinants; effectiveness; endogeneity; sale of yen; structural Tobit model

JEL Classification F31; F41

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