**Research Title:** Determinants Of Real Exchange Rate: Real, Monetary or Both

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**Abstract:** This study estimates the determinants of real exchange rate by further modifying the model presented by Sebastian Edward in the paper “Real and Monetary Determinants of Real Exchange Rate Behavior” (Edwards 1988). By adding new variables that are FDI (foreign direct investment), short term loans, and long term loans, along with the variables already given in the Edward (1988), this model is tested to find whether real, monetary or both variables effect the behavior of real exchange rate in Pakistan. Estimations are done by taking data from 1980-2013. The effect of real and monetary variables on real exchange rate is estimated by applying OLS and test for auto-correlation is done by applying Breusch-Godfrey Serial Correlation LM test the results obtained are generally in favor of the model proposed by Edward (1988), which implies that real variables are significantly affecting the real exchange rate behavior as compared to monetary variables.