Referee Report on

Is the Chinese Currency Substantially Misaligned to Warrant Further Appreciation?

The empirical paper discusses China’s misalignment in the REER of the RMB. The paper covers topical material but the analysis isn’t really innovative. In particular, the following critical points seem worth mentioning:

- What is the value-added of the paper? The authors should clearly specify what differentiates their paper from existing papers in terms of methodology or data. The authors claim, that they have demonstrated that there is no significant RMB undervaluation. This, for example, has already been demonstrated by Cheung et al. (2009) in their paper “The Overvaluation of Renminbi Undervaluation”, *Journal of International Money and Finance* 26, 762-785. Also see Dunaway et al. (2009) “How Robust are Estimates of Equilibrium Real Exchange Rates: The Case of China”, *Pacific Economic Review* 14, 361-375. Even more worrying is that they talk about “significant” undervaluation, but there are no confidence bands in Figure 2-4 (pp. 21-23).
- There even exist meta-studies analysing which factors influence the reported degrees of misalignments (see [http://ideas.repec.org/p/hhs/bofitp/2009_013.html](http://ideas.repec.org/p/hhs/bofitp/2009_013.html)). Again, the authors should discuss their results against the background of the literature.
- In several countries, exchange rate regime changes have occurred during the sample period 1994-2009. The authors should therefore account for structural breaks in their estimation and testing procedures.
- The economic policy debate is focused upon bilateral nominal exchange rates. On the contrary, the estimates deal with the REER. Funke and Rahn (2005) have demonstrated how to derive the implied bilateral nominal rates from the REER’s.

I think that the preceding considerations could be sufficient to impose some serious reflections on the methodology used in the paper, also taking into account the rather ambitious goal boasted in the introduction.