

CHANGES IN ARAB CROSS-EXCHANGE RATES UNDER CONDITIONS OF ARBITRAGE

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The objective of this study is to investigate the validity of the International Arbitrage Pricing Theory (IAPT) of Solnik (1983) to explain changes in Arab cross-exchange rates during the period 1981-1990. Employing the notion of arbitrage pricing of systematic risk, evidence suggests the relevance of the IAPT in explaining changes in Arab exchange rates during the respective period. The findings indicate that the most influential factors that cause changes in Arab exchange rates are non-arbitrage factors but are those related to individual Arab economies. Moreover, the results concede that possibility of investigating the viability of IAPT to explain differences in stock returns in Arab capital markets.