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Abstract

Behavioral Equilibrium Exchange Rate (BEER) models suggest many variables as potential drivers of equilibrium real exchange rates (ERER). This gives rise to model uncertainty issues, as ERER depends and varies, often drastically, on a particular set of chosen variables. We address this issue by estimating thousands of Vector Error Correction (VEC) specifications for Colombian data between 2000Q1-2019Q4. According to an extensive literature review, we employ thirty-five proxies categorized among five fixed groups of economic fundamentals that underlie the ERER: Indebtedness, Fiscal sector, Productivity, Terms-of-Trade, and Interest Rate Differentials. Our approach derives an empirical distribution of ERER that allows us to state with greater certainty, among hundreds of plausible economic specifications, whether the real exchange rate is either misaligned or in equilibrium.