

Accepted Manuscript

Title: Purchasing power parity and the behavior of prices and nominal exchange rates across exchange-rate regimes

Author: James R. Lothian

PII: S0261-5606(16)30061-4
DOI: <http://dx.doi.org/doi: 10.1016/j.jimonfin.2016.06.015>
Reference: JIMF 1690

To appear in: *Journal of International Money and Finance*



Please cite this article as: James R. Lothian, Purchasing power parity and the behavior of prices and nominal exchange rates across exchange-rate regimes, *Journal of International Money and Finance* (2016), <http://dx.doi.org/doi: 10.1016/j.jimonfin.2016.06.015>.

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

Purchasing power parity and the behavior of prices and nominal exchange rates across exchange-rate regimes

February 2016

Draft 4,

James R. Lothian*

Gabelli School of Business, Fordham University

* 113 West 60th Street, New York, NY 10023; email: lothian@fordham.edu

Highlights:

- Investigate the relation linking exchange rates and price levels in different monetary regimes.
- Use annual multi-country panel data for 1870 -1914, 1921-39 and 1959-1998.
- Price levels in the different regimes behave the way theory suggests.
- Adjusted for exchange rate changes, inflation rates are related one-to-one.
- As long-run proposition purchasing power parity performs very well.

Abstract: The evidence presented in this paper shows that purchasing power parity as a long-run proposition is indeed a very useful approximation. We see this quite clearly in the panel data for three historical periods examined here – the classical gold standard era from 1870 to 1914, the interwar period from 1921 to 1939, and the period after World War II from 1959 to 1998. Price-level behavior across countries differs in the way that PPP suggests when monetary arrangements differ and is highly similar when monetary arrangements are themselves similar. Inflation rates adjusted for exchange rate changes in general are highly correlated and bear a one-to-one relation to one another within and across the three periods and the varied monetary regimes that prevailed.

JEL Classification: F31, F33, F41

Keywords: Exchange rates, purchasing power parity, international transmission, monetary regimes.

1. Introduction

Let me first of all thank my friend and colleague Iftekhar Hasan for organizing this conference at which I presented this paper and for editing this special issue of *JIMF* – a journal with which I was affiliated for two-thirds of my 50-year career. Let me also thank Kees Koedijk, *JIMF* 's Co-ordinating Editor and a long-time friend for his

Download English Version:

<https://daneshyari.com/en/article/5101204>

Download Persian Version:

<https://daneshyari.com/article/5101204>

[Daneshyari.com](https://daneshyari.com)