

Author's Accepted Manuscript

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Mario J. Crucini, Hakan Yilmazkuday



PII: S0304-3932(14)00070-1

DOI: <http://dx.doi.org/10.1016/j.jmoneco.2014.04.012>

Reference: MONEC2692

www.elsevier.com/locate/jme

To appear in: *Journal of Monetary Economics*

Received date: 15 July 2010

Revised date: 16 April 2014

Accepted date: 17 April 2014

Cite this article as: Mario J. Crucini, Hakan Yilmazkuday, Understanding long-run price dispersion, *Journal of Monetary Economics*, <http://dx.doi.org/10.1016/j.jmoneco.2014.04.012>

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Understanding Long-run Price Dispersion

Mario J. Crucini^{a,*}; Hakan Yilmazkuday^b,

^a Vanderbilt University, Nashville, TN 37235, USA; mario.j.crucini@vanderbilt.edu.

^b Florida International University, Miami, FL 33199; hakan.yilmazkuday@fiu.edu.

Received Date; Received in Revised Form Date; Accepted Date

Abstract

A unique panel of retail prices spanning 123 cities in 79 countries from 1990 to 2005 is used to uncover the novel properties of long-run international price dispersion. At the PPP level, almost all of price dispersion is attributed to unskilled wage dispersion. At the level of individual goods and services, the average contribution of these wages is significantly reduced, reflecting that good-specific sources of price dispersion, such as trade costs and good-specific markups, tend to average out across goods. At the LOP level, borders and distance contribute about equally to price dispersion that is rising in the distribution share.

Keywords: Real exchange rates, Purchasing Power Parity, Law of One Price, Dynamic panel

JEL classification: E31, F31, D40

*Corresponding author: Mario J. Crucini, Department of Economics, Vanderbilt University, VU Station B #351819, 2301 Vanderbilt Place, Nashville, TN 37235-1819. Phone: (615)-322-7357, Fax: (615) 343-8495. mario.j.crucini@vanderbilt.edu

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