

The Purchasing Power Parity Persistence Paradigm: Evidence From Black Currency Markets

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This paper provides an extensive analysis of the PPP persistence puzzle by using a unique data set of black market real exchange rates for thirty-six emerging market economies. In estimating PPP persistence the problems of small sample bias and serial correlation are addressed by using exact and approximate median unbiased procedures. Strikingly, it is found that point estimates of half-lives are much lower than the 'celebrated' 3-5 year range suggested by Rogoff (1996). Some of the confidence intervals are quite narrow, a corollary being, in the emerging market context at least, that there is not a PPP persistence puzzle after all!

Keywords: Exchange Rate Persistence; Half-Lives; Black Markets; Median Unbiased Estimation; Bootstrap Confidence Intervals

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