

Price Variability, Speed of Adjustment and The Empirics of the Law of One Price: Evidence from Slovakia

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Abstract

This paper uses a large panel data set of final goods and services across 38 Slovak districts for the period 1997:01-2001:12 to discuss the question of the law of one price in the context of the small transition economy. In this paper we provide three type of investigations.

First, having a strong prior that the static (absolute) law of one price does not hold at a given time period we apply some simple statistics to investigate the range of price differences across Slovak districts.

Second, following Engle and Rogers (2001) we measure variability across cities and across final goods and services. As a stylized fact an observation emerges that the variability of relative prices in the same district is higher than the variability of the prices of the same good across different districts. We investigate the factors, which may be held responsible for this stylized fact.

Third, using two benchmarks we investigate the speed of convergence to the law of one price following Parsley and Wei (1996). We find evidence for convergence; however its speed - while faster than typically found in cross-country data - is lower than what is found for the US cities. The speed of convergence considerably increases if we subtract cross-sectional mean and then base the tests on the transformed data.

References

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