

Mr Francesco Devere Bispham
University of Hull
Department of Economics
Hull HU6 7RX
U.K.
F.D.Bispham@econ.hull.ac.uk*

Testing for Long Run PPP: An Approach using Panel Data Methods

Abstract

This paper studies the long-run purchasing power parity (PPP) hypothesis for a panel of 20 OECD countries, using annual and quarterly data, for the period 1950-1990. A detailed analysis, using the latest panel unit root and panel cointegration techniques, is undertaken to test for PPP. The results show strong support for a weak form of PPP where the β_i coefficients fall within a range ($0 < \beta_1 < 2$, $-2 < \beta_2 < 0$). Whilst the results for a strong form of PPP, where ($\beta_1 = -\beta_2 = 1$), are found to be mixed. The study adds further support to the recent empirical findings in favour of PPP using panel methods.

Keywords: PPP, panel unit root tests, panel cointegration tests
JEL Classification: C12, C22, C23, C32, C33

*Acknowledgments: I would gratefully like to thank Keshab Bhattarai and Richard Green for their helpful comments and suggestions. I would also like to thank Allan Reese and all the staff at Hull University computing centre