

## **Does the Purchasing Power Parity Hold in Emerging Markets? Evidence from Black Market Exchange Rates**

**CERRATO Mario, SARANTIS Nicholas**

We examine the Purchasing Power Parity (PPP) hypothesis using a panel of monthly data on black market exchange rates for twenty emerging market economies over the period 19973M1-1993M12. We apply a large number of recent heterogeneous panel unit root and cointegration tests. Panel unit root tests favour the presence of a unit root in the real exchange rate. This result supports the issue of persistence in the real exchange rate across countries with different growth rates (Froot and Rogoff, 1995). Panel cointegration tests support evidence of cointegration between the nominal exchange rate and relative prices. These results contrast with those obtained from unit root tests. Since we believe that the former may be biased by the imposition of the joint symmetry and proportionality restriction, we test for such a restriction using likelihood ratio tests.

\*\*\*\*\*