

## **Real appreciation in the Czech Republic: Assessing sectoral disparities**

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Building on the assumption that the international market of differentiated goods is segmented enough to permit for pricing to market and on the assumption of local arbitrage between domestic and imported goods we devise a simple theoretical framework that links sectoral terms of trade ratios to real exchange rate disparities. It allows us to deal empirically with unobservable quality differences, which are notoriously difficult to measure.

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