

Purchasing Power Parity and Country Characteristics: Evidence from Panel Data Tests

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The purpose of this paper is to move beyond the developed countries dichotomy to investigate the role of country characteristics on purchasing power parity. The distinction is to investigate whether trade, inflation and geographical (distance) contribute towards the validity of purchasing power parity. This requires a sample that includes developing countries because the former contain too little variation to address the question. The stationary attributes of real exchange rates are examined by using four types of panel unit root tests for a group of countries for the period 2004Q1-2014Q4. We conclude that purchasing power parity depends on the country's characteristics with this perspective, it is appropriate to investigate purchasing power parity among countries with similar characteristics.

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