

Does purchasing power parity hold in Thailand?

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Abstract:

The main objective of this study is to use disaggregate data between Thailand and its major trading partners to examine the validity of the purchasing power parity (PPP). Bilateral exchange rates between domestic currency (Thai baht) and each currency of major trading partners as well as the relative prices during the period of July 1997 to December 2007 are used to investigate the existence of stationary real exchange rates and cointegration between nominal exchange rates and relative prices. The results from various unit root tests and cointegration test show that PPP does not seem to hold in Thailand.

JEL Classification: C22, F31

Keywords: Purchasing power parity, bilateral exchange rate, unit root, cointegration.