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THE LAW OF ONE PRICE: DEVELOPED AND DEVELOPING COUNTRY MARKET INTEGRATION

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Abstract

The Law of One Price (LOP) is important to models of international trade and exchange rate determination. This study investigates a variant of the LOP applied to developed and developing countries. The competing hypothesis are (1) that one price prevails in both developed and developing countries and (2) that one price prevails in developed countries and another single price in developing countries. Using data from an internationally competitive commodity (soybean meal), we found evidence favors the first hypothesis, although two large developing countries under study are active participants in regional trade integration, which may bias them against the first hypothesis.

Details

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Keywords law of one price (<https://ageconsearch.umn.edu/search?f1=keyword&as=1&sf=title&so=a&rm=&m1=p&p1=law%20of%20one%20price&ln=en>); developing countries (<https://ageconsearch.umn.edu/search?f1=keyword&as=1&sf=title&so=a&rm=&m1=p&p1=developing%20countries&ln=en>); error-correction model (<https://ageconsearch.umn.edu/search?f1=keyword&as=1&sf=title&so=a&rm=&m1=p&p1=error->

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Subject(s)	Demand and Price Analysis (https://ageconsearch.umn.edu/search? f1=subject&as=1&sf=title&so=a&rm=&m1=p&p1=Demand%20and%20Price%20Analysis&ln=en)
Issue Date	2000-12
Publication Type	Journal Article
Digital Object Identifier	https://doi.org/10.22004/ag.econ.15320 (https://doi.org/10.22004/ag.econ.15320)
Record Identifier	https://ageconsearch.umn.edu/record/15320
PURL Identifier	http://purl.umn.edu/15320
Language	English
Published in	Journal of Agricultural and Applied Economics
Volume	32
Issue	3
Page Range	429 - 440
Total Pages	12
Record Appears in	Southern Agricultural Economics Association (SAEA) (/collection/194?ln=en) > Journal of Agricultural and Applied Economics (/collection/1379?ln=en)

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