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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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