Unbiased Estimation of the Half-Life to PPP Convergence in Panel Data

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Three potential sources of bias present complications for estimating the half-life of purchasing power parity deviations from panel data. They are the bias associated with inapproiate aggregation across heterogeneous coefficients, time aggregation of commodity prices, and downward bias in estimation of dynamic lag coefficients. Each of these biases have been addressed individually in the literature. In this paper, we address all three biases in arriving at our estimates. Analyzing an annual panel data set of real exchange rates for 21 OECD countries from 1948 to 2002, our point estimate of the half-life is 5.5 years.

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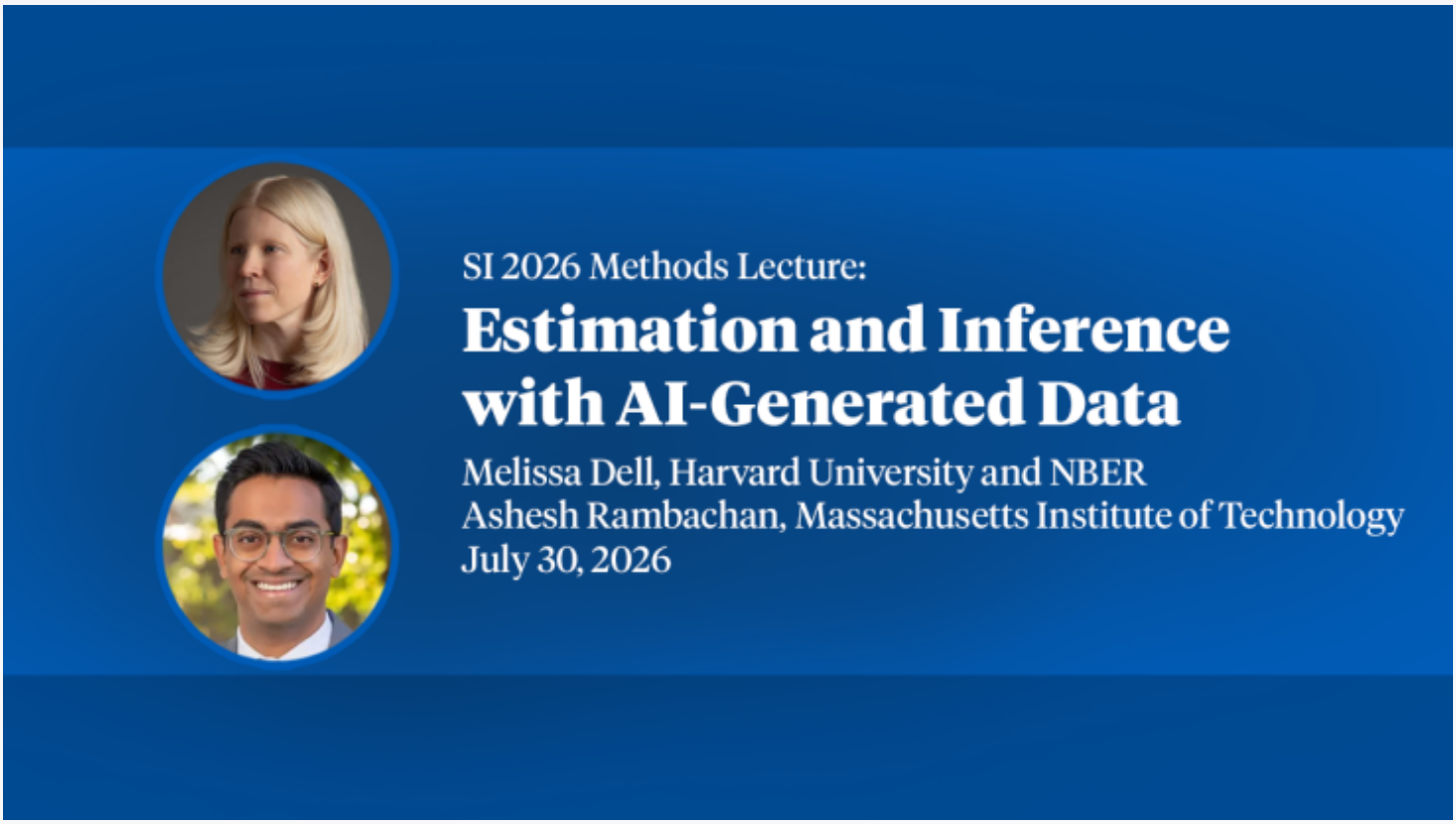


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