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# Threshold cointegration and purchasing power parity in the pacific nations

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## Abstract

The paper uses a threshold cointegration methodology to explore the properties of long-run purchasing power parity (PPP) in the Pacific nations. Using Japan and the USA as base countries, it is shown that long-run PPP holds for most Asian countries but that the adjustment mechanism is asymmetric. In contrast to symmetric error-correction models, it is found that asymmetric adjustments of nominal exchange rates play an important role in eliminating deviations from long-run PPP.

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