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# New evidence on purchasing power parity from 17 OECD countries

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I would like to thank Professor Mark Taylor for helpful comments and suggestions on an earlier version of this paper. I should also like to thank Professor Amit Sen for making available his GAUSS codes used to generate the results reported in this paper. Any errors or omissions are, however, my own.

#### Notes

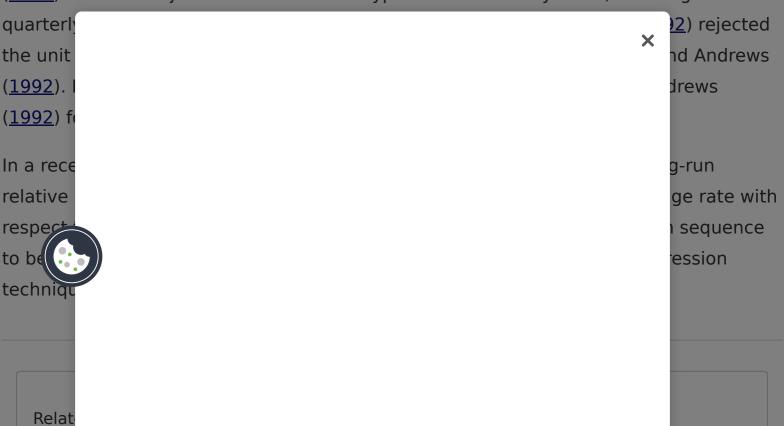
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Arguing in favour of using a time trend in testing for a unit root in real exchange rates, Shively (2001, p. 202) states that 'rejection of the random walk hypothesis in favour of the trend stationary alternative is evidence that the real exchange rate returns to a long-run equilibrium and therefore evidence in favour of a true long-run purchasing power parity relationship'. For further importance of incorporating a time trend in the model, see Marcela et al. (2003).

This section draws heavily on the work of Sen (2003).

Source: Journal of International Money and Finance

He tests for the presence of a unit root in postwar US quarterly real GNP and all Nelson and Plosser (1982) series, except the unemployment series, based on Model C, unlike previous studies. His results are comparable to that of Zivot and Andrews (1992). Sen (2003) is able to reject the unit root null hypothesis for money stock, real wages and



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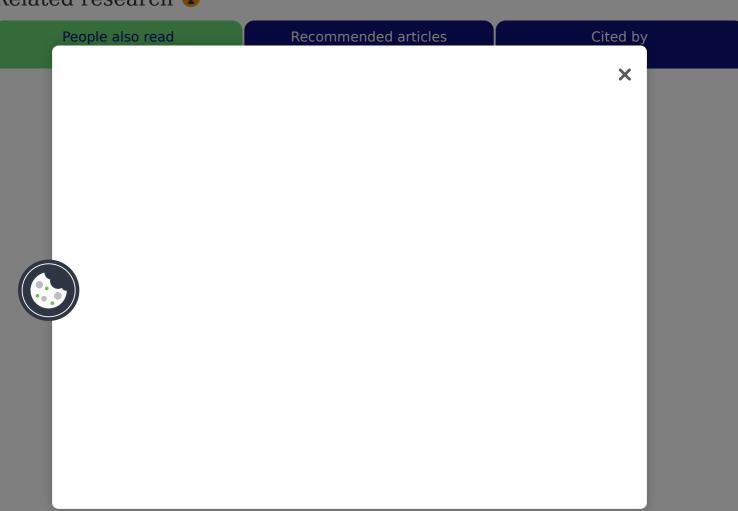
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