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Abstract

The present study tests for the validity of long-run Purchasing Power Parity (PPP) for 17 European economies in transition. Analysis is performed following the methodological suggestions expressed in recent studies for PPP. Long-run PPP is initially tested for each economy vis-a-vis the USA, using the Johansen cointegration methodology and then for the whole set of countries using the Larsson et al. (2001) panel cointegration technique. The analysis provides support for long-run equilibria, but the coefficients of the estimated cointegrating vectors violate the symmetry and proportionality hypotheses suggested by PPP. We provide some arguments for these findings, based on the existing literature on transition and foreign exchange markets.

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