Applied Financial Economics Letters ›

Volume 3, 2007 - Issue 4

Original Articles

Gold investment as an inflationary hedge: cointegration evidence with allowance for endogenous structural breaks

Andrew C. Worthington & Mosayeb Pahlavani

Pages 259-262 | Published online: 23 Jul 2007

Cite this article https://doi.org/10.1080/17446540601118301

Abstract

This note tests for the presence of a stable long-run relationship between the price of gold and inflation in the United States from 1945 to 2006 and from 1973 to 2006. Since both the gold market and the inflationary regime have been subjected to structural change over time, a novel unit root testing procedure is employed which allows for the timing of significant breaks to be estimated, rather than assumed exogenous. After taking these breaks into account, a modified cointegration approach provides strong evidence of a cointegrating relationship between gold and inflation in the post-war period and since the early 1970s. The results lend support to the widely held view that direct and indirect gold investment can serve as an effective inflationary hedge.

Related Research Data

Price discovery in strategically-linked markets: the case of the gold-silver spread

Source: Applied Financial Economics

GOLD AS AN INFLATION HEDGE?

Source: Studies in Economics and Finance

Exchange rates, country-specific shocks, and gold

Source: Applied Financial Economics

Trend Adjustment Prior to Testing for the Cointegrating Rank of a Vector Autoregressive Process

Source: Journal of Time Series Analysis

Forecasting the price of gold: A fundamentalist approach

Source: Atlantic Economic Journal

The evolving relationship between gold and silver 1978–2002: evidence from a dynamic cointegration analysis: a note

Source: Applied Financial Economics Letters

Gold and commodity prices as leading indicators of inflation: Tests of long-run

Related research