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

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## 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.

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