Does PPP hold between Asian and Japanese economies? Evidence using panel unit root and panel cointegration

ABSTRACT

This paper presents an empirical analysis of panel unit root and panel cointegration tests of long-run absolute purchasing power parity (PPP) for seven Asian developing economies (ADE). The evidence shows that the panel parametric and non-parametric tests either with a trend term or without a trend term support the hypothesis of cointegration between the bilateral exchange rates and relative prices against the selected foreign country — Japan.

Keyword: Panel unit root, Panel cointegration, Purchasing power parity, Asian economies, Japanese economy