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Contents; I. Introduction; II. An Analytical Framework of the Real Exchange Rate; Box 1. The LOOP and the Purchasing Power Parity-Origins and Concepts; III. How are Bivariate Equilibrium Real Exchange Rates Estimated?; A. The International Comparison of Prices Dataset; B. Estimation Methodology and Underlying Assumptions; Figures; 1. Relative Price Levels and Income per Capita (1990 ICP Dataset); IV. Empirical Evidence; A. Cross-Section Evidence; 2. Balassa-Samuelson Relationship-Income and Regional Groups; Tables; 1. Estimation Results; 2. Panel Estimation Results  
3. Average Over-valuation (+) and Under-valuation (-) Results-2006B. Time-Series Evidence; 4. Closing Gap between Actual and Balassa-Samuelson Exchange Rate; C. Discussion; V. Conclusions; Appendix I. List of Countries Included in Econometric Estimations; Appendix II. The Low-Income Country Puzzle; Appendix Table 1. Estimation Results for Sub-samples of Low-Income Countries; References

Sommario/riassunto

This paper focuses on assessments of real exchange rates using PPP data and examines their limitations when these are based exclusively on bivariate estimations. It begins by presenting an analytical framework of the real exchange rate that shows that these estimations make many restrictive assumptions. In turn, the empirical evidence presented shows that the estimates are not robust to changes in sample, such as those that arise from differences in incomes per capita. The conclusion is that the bivariate assessment of real exchange rates do not control for the heterogeneity that exists across countries, thus limiting their usefulness. This critique of bivariate estimations does not apply however to multivariate approaches such as utilized by CGER.