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Nota di contenuto	CONTENTS; I. Introduction; II. Nonlinear Dynamics in Real Exchange Rates; A. Theoretical Underpinnings; B. Estimation Methodology and SETAR Model; C. Testing Procedures; III. Estimation Results; A. Testing for Nonlinear Price Convergence; Figure; 1. Extent of Price Convergence between Mexico-U.S. and Canada-U.S; Tables; 1. SETAR Estimation Results; B. Estimated Transaction Costs; C. Robustness of Results; 2. SETAR Estimation Results (Detrended Data); 3. SETAR Estimation Results (Controlling for Different Mean during Tequila Crisis); D. Half-Lives 4. Estimation of Half-Lives for Sectoral Real Exchange Rates (In Months) 5. SETAR Estimation Results for Aggregate Price Indices; Box; 1. Real Exchange Rate Thresholds at the Aggregate CPI Level; IV. Determinants of Thresholds in Real Exchange Rates; V. Summary of Results and Conclusion; 6. Threshold Regressions; References
Sommario/riassunto	A self-exciting threshold autoregressive model is used to measure transaction costs that may explain relative price differentials and nonlinearities in the behavior of sectoral real exchange rates across Mexico, Canada and the U.S. Interpreting price threshold bands as transaction costs, we find evidence that Mexico still face higher transaction costs than their developed counterparts, even though trade liberalization lowers relative price differentials between countries. The distance between countries and nominal exchange rate volatility are found to be determinants of transaction costs that limit price convergence. Other factors-including weak domestic competition and transportation-are also likely to be important.