Testing Purchasing Power Parity Based on High-Frequency Scanner Data

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Abstract

This study analyzes the dynamics of the yen-dollar real exchange rate using scanner data collected in U.S. and Japanese retail stores from September 1989 to May 1997. We calculate a weekly multilateral price index, free from chain-index drift, for items commonly available in both countries. The results reveal that the weekly real exchange rates show strong mean-reverting tendencies even when the yen appreciated sharply. To conclude, we apply the unit-root test to the real exchange rate, rejecting the purchasing power parity hypothesis.

JEL classification codes: F31, C43, C81
Key words: Purchasing Power Parity, GEKS Price Index, Scanner Data