

Trends in Real Exchange Rates and the Relative Price of Traded Goods: An Empirical Investigation

Brahim Razgallah

brazgallah@etu.u-paris2.fr

The aim of this paper is to show that long term trends in real exchange rates are explained not only by the relative price of non-traded goods but also by the real exchange rate of traded goods. The paper examines the key assumption of the Balassa-Samuelson hypothesis, by testing the existence of a cointegration relationship between the real exchange rate and the relative price of traded goods. Technological improvements are a major factor in explaining permanent appreciations of the real exchange rate of tradable goods.

Key words: real exchange rate, tradable prices, non-stationary panel.
JEL Classification: C32, C33, F31