

Long-run validity of purchasing power parity and cointegration analysis for low income African countries

Abstract

Studies on long-run purchasing power parity based on rank test for nonlinear cointegration is limited. Therefore, to formally examine if nonlinear purchasing power parity really exist in the selected low-income African countries, the current study revisits the long-run validity of purchasing power parity by using the rank tests advanced by Breitung (2011). which is not only capable in the detection of cointegration. but can further distinguish linear from nonlinear relationship if cointegration exists, In addition, this study also follows the suggestion by Liew et al, (2012) to solve the rank problem in testing the PPP hypothesis, Results from the analysis indicate that nominal exchange rates and relative prices are cointegrated in Burundi. Madagascar. Malawi and Uganda. However, further analysis only found the existence of nonlinear cointegration in Burundi.