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Colombian Purchasing Power Parity Analysed Using a Framework of Multivariate Cointegration

Working Paper No. 252 Keep in mind
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This paper tests for purchasing power parity (PPP) between Colombia and its main trading partners using the Johansen framework of multivariate cointegration. The tests shows that PPP does not hold in the strong sense, but a clear purchasing power relationship is, nevertheless, show to exist. The model is, furthermore, show to have significant forecasting power. It outperforms a random walk in out-of-sample forecasting on the 12 and 24-month horizon but not on the 3 and 6-month horizon.

Fuente: https://www.banrep.gov.co/en/borrador-252