The stationarity of Asian real exchange rates for 1984–2007: An empirical application of stepwise multiple testing to nonstationary panels with a structural break

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ABSTRACT

This paper investigates the stationarity of real exchange rates against the US dollar for ten Asian countries during the period of 1984Q1–2007Q4 by using two types of testing methods. First, to understand explicitly the different impacts of the Asian financial crisis in 1997–98 on their respective currencies, the unit root test for dependent panels is applied. This test allows that various structural breaks can occur at unknown time periods across countries. Next, this paper employs Romano and Wolf's (2005) stepwise multiple testing method to identify which country holds the PPP, i.e., the real exchange rate stationarity among them. This testing strategy controls the multiplicity problem that occurs when testing the multiple hypotheses simultaneously. Finally, the results show that the stationarity hypothesis of the real exchange rate can be significantly supported for some Asian countries.

Keywords: purchasing power parity, structural break, nonstationary panels, multiple testing

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