

# Measuring long-run equilibrium exchange rates using standardized products with different specifications

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## **Abstract**

*Purchasing Power Parity (PPP) is an appealing theory of the determination of long-run equilibrium exchange rates as it is founded on the intuitive proposition that opportunities for arbitrage will not go unexploited. However, in practice, measuring PPP exchange rates is hindered by difficulties in isolating the cost of tradeable inputs in the price of a reference product basket. This paper proposes a method that can extract this component using price information embodied in slightly different specifications of otherwise identical, standardized products. The method is illustrated using two well-known information and telecommunication (ICT) products, and could readily be applied to a broader, more representative product basket.*

**JEL classifications** – F31

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