

Deviation from purchasing power parity in Albania

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Abstract

In this study we test the validity of purchasing power parity for Albania in comparison to the Euro-Zone using quarterly data for a period from 2002-2013. As in many similar empirical studies conducted for countries under economic transition, deviations from the PPP in the short run are very likely. Using unit root test approach and Johansen cointegration tests, result that the validity of purchasing power parity does not hold in the short run when comparing these economies. This result might be affected by the existing structural differences between these economies and differences in terms of trade pattern.

Keywords: Purchasing Power Parity; Exchange Rate; VECM; Firms; Albania.

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