

Exploring Elements of Exchange Rate Theory in a Controlled Environment

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Abstract

This paper analyzes the simple implications of exchange rate theories in the laboratory. It shows that purchasing power parity, covered interest parity, and uncovered interest parity fare well in simple environments. Not-traded goods and non-stationary domestic prices do cause deviations from these elements of exchange rate theories. But the experimental evidence indicates that non-stationary domestic prices have a much stronger effect than not-traded goods in causing deviations from purchasing power parity and the two interest parity conditions.

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