

Estimation of Purchasing Power Parities and Cross-Country Varying Commodity Specific Effects

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The paper considers the stochastic approach to index numbers in the area of spatial comparisons whereby a model is postulated that allows the estimation of purchasing power parities (PPPs) and cross-country varying commodity specific effects. The proposed model and estimation procedure ensures that the resulting PPPs are transitive and base invariant. The paper uses the Singular Value Decomposition approach by Doran and Rambaldi (1997) that allows the estimation of commodity specific effects subjected to cross-country varying restrictions. Using Data from Phase IV of The International Comparison Project, the model is tested empirically.

Key words: index numbers; purchasing power parities; varying commodity specific effects; singular value decomposition.

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