

# Market Structure and the Persistence of Sectoral Real Exchange Rates

Yin-Wong Cheung,  
Menzie Chinn  
**Eiji Fujii**

We examine the relationship between market structure and the persistence of U.S. dollar-based sectoral real exchange rates for fourteen OECD countries. Our empirical results based on disaggregated data suggest that differences in market structure significantly determine the rates at which deviations from sectoral purchasing power parity decay. Specifically, industries with a larger price-cost margin are found to exhibit slower parity reversion of their sectoral real exchange rates. Further, as the degree of intra-industry trade activity increases, sectoral real exchange rate persistence becomes more pronounced. These findings imply that an imperfectly competitive market structure contributes to the well-documented persistence in real exchange rates.

**JEL Classifications:** F31, F40, L16

**Key Words:** purchasing power parity, market structure, imperfect competition

**Correspondence:**

Eiji Fujii:

Department of Economics

University of California

Santa Cruz CA 95064

Tel.: 831-427-9025

Fax: 831-459-5900

efujii@cats.ucsc.edu

Cheung: cheung@cats.ucsc.edu

Chinn: chinn@cats.ucsc.edu