

Abstract: Real exchange rate behavior

Using random simulations with artificial data with identical sample characteristics to the long-sample exchange rate data employed by Lothian and Taylor (Lothian, J.R. and Taylor, M.P. (1996). The recent float from the perspective of the past two centuries. *Journal of Political Economy* 104, 488–509.), we show that standard unit-root tests have extremely low power over sample sizes corresponding to the recent float. The probability of rejecting the null hypothesis when it is false is extremely low with 20 years or even 50 years of data and only reaches an acceptable level over much longer spans.