

Real Exchange Rates Over the Past Two Centuries: How Important Is the Harrod-Balassa-Samuelson Effect?

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Abstract Using data since 1820 for the US, the UK and France, we test for the presence of real effects on the equilibrium real exchange rate (the Harrod-Balassa-Samuelson, HBS effect) in an explicitly nonlinear framework and allowing for shifts in real exchange rate volatility across nominal regimes. A statistically significant HBS effect for sterling-dollar captures its longrun trend and explains a proportion of variation in changes in the real rate that is proportional to the time horizon of the change. There is significant evidence of nonlinear reversion towards long-run equilibrium and downwards shifts in volatility during fixed nominal exchange rate regimes. JEL classification: F310, F410