

Abstract. The focus of this chapter is on the behavior of exchange rates and price levels over the long term. It presents evidence on this subject using two very different bodies of data. The first comes from consecutive 21-year samples of cross-county panel data for the period 1974 to 1995. The second is from a study by Lothian and Devereux (2016) for the Netherlands and the UK using data for the ultra-long period 1590 to 2010. In both bodies of data, empirical behavior is highly consistent with theory. Inflation rates adjusted for exchange rate changes are highly correlated and bear close to one-to-one relationships to one other. Even more remarkable, is the close correspondence between the results for the two bodies of data. If the two sets of scatter plots and regressions had been left unlabeled, a reader would have a hard time distinguishing between them.