

William's Update

Identifying Related Papers

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Abstract

This document compiles and ranks related literature by relevance to “Productivity and Wedges: Economic Convergence and the Real Exchange Rate” (Devereux, Fujiwara, & Granados, 2025). More literature will follow.

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1 Introduction

This is an updated document, representing William’s current work on identifying related literature.

We have also sent a Zotero library invitation to Michael.Devereux@ubc.ca (invited on 2025-07-10 16:56:43), which provides access to the current literature we are reviewing.

Any feedback is appreciated.

1.1 Recent Papers

Links:

- [Disconnect Revisited – Chahrour et al.](#)
- [Springer Article](#)
- [AEA Journal Article](#)
- [Tech Dollars and Exchange Rate Reconnect – UTD](#)

1.1.1 Exchange Rate Disconnect Revisited

Authors: Ryan Chahrour (Cornell University), Vito Cormun (Santa Clara University), Pierre De Leo (University of Maryland), Pablo Guerrón-Quintana (Boston College), Rosen Valchev (Boston College)

Date: November 10, 2023

Links: [Working Paper](#)

Notes:

-

2 Related Literature (Ranked by Relevance)

2.1 High Relevance

2.1.1 Understanding Korea's Long-Run Real Exchange Rate Behavior

Authors: Douglas A. Irwin, Maurice Obstfeld

Date: August 2024

Links: [NBER Working Paper](#)

Notes:

- Challenges the Harrod-Balassa-Samuelson hypothesis,
 - Decomposes real exchange rate changes into internal and external components.
 - Suggests that Korea's policy of intervening to smooth nominal exchange rate fluctuations may be justified
-

2.1.2 The Predictive Power of Equilibrium Exchange Rate Models

Authors: Michele Ca' Zorzi (European Central Bank), Adam Cap (Bank for International Settlements), Andrej Mijakovic (European University Institute), Michał Rubaszek (Warsaw School of Economics)

Date: January 2020

Links: [Google Drive](#), [SSRN](#)

Notes:

- Evaluates the predictive performance of three equilibrium exchange rate models—PPP, BEER, and MB.
 - Finds that PPP provides the most reliable forecasts.
 - BEER fails to outperform PPP.
 - The MB approach, while theoretically rich, performs the worst in forecasting.
 - Robustness checks confirm that model adjustments do not significantly improve prediction accuracy.
-

2.1.3 Measuring the Balassa-Samuelson Effect: A Guidance Note on the RPROD Database

Authors: Cécile Couharde, Anne-Laure Delatte, Carl Grekou, Valérie Mignon, Florian Morvillier

Date: May 2020

Links: [Google Drive](#), [ScienceDirect](#)

Notes:

- Introduces the RPROD database developed by CEPII to complement the EQCHANGE dataset.
 - Serves as an empirical tool for analyzing the Balassa-Samuelson effect.
-

2.1.4 The Determinants of Real Exchange Rates in Transition Economies

Authors: Dan Meshulam, Peter Sanfey (EBRD)

Date: 2019

Links: [Google Drive](#)

Notes:

- Empirical analysis of real exchange rate drivers in transition economies.
 - Strong support for the Balassa-Samuelson hypothesis.
 - RER aligns with productivity trends more than other variables like capital inflows or government consumption.
-

2.1.5 In Search of Dominant Drivers of the Real Exchange Rate

Authors: Wataru Miyamoto, Thuy Lan Nguyen, Hyunseung Oh

Date: May 8, 2025

Links: [Google Drive](#)

Notes:

- Examines the dominant macroeconomic drivers of real exchange rates and macro aggregates at business cycle frequencies across G7 countries.
 - Dominant drivers of the real exchange rate are orthogonal to the main drivers of business cycles.
-

2.1.6 The Story of the Real Exchange Rate

Authors: Oleg Itskhoki

Date: 2021

Links: [Google Drive](#)

Notes:

- *Must Read.* Presents a comprehensive general equilibrium framework for real exchange rate (RER) determination.
 - Mechanisms such as home bias, incomplete pass-through, expenditure switching, goods market clearing, imperfect international risk sharing, fiscal constraints, and monetary policy regimes.
 - Discusses issues related to the stationarity and predictability of exchange rates.
-

2.2 Medium to High Relevance

2.2.1 Real Exchange Rate Misalignments and Currency Crises in the Former Soviet Union Countries

Authors: Viktor Dudzich

Date: November 25, 2021

Links: [Google Drive](#)

Notes:

- Estimates equilibrium exchange rates for 10 former Soviet republics using BEER and NATREX concepts with a pooled mean group estimator.
 - Compares estimated misalignments before, during, and after currency crisis episodes, and examines their relationship to crisis-related variables.
 - Journal is not as highly ranked.
-

2.2.2 What is Needed for Convergence? The Role of Capital and Finance

Authors: Bryan Hardy, Can Sever

Date: June 13, 2025

Links: [Google Drive](#)

Notes:

2.2.3 Housing Rent, Inelastic Housing Supply, and International Business Cycles

Author: Seungyub Han

Date: September 21, 2024

Links: [Google Drive](#)

Notes:

- Connects to the Balassa-Samuelson effect to housing
-

2.3 Medium Relevance

2.3.1 Piecing the Puzzle: Real Exchange Rates and Long-Run Fundamentals

Authors: Hilde C. Bjørnland, Leif Brubakk, Nicolò Maffei-Faccioli

Date: February 2025

Links: [Google Drive](#)

Notes:

- Examines the structural determinants of real exchange rates, focusing on persistent low-frequency movements.
-

2.3.2 Temperature and Real Exchange Rates

Authors: Yue Gu, Jing Zhang, Xiaohui Liu

Date: 11 July 2025

Links: [Google Drive](#)

Notes:

- Incorporates average temperature into the Balassa-Samuelson model.
 - Examines the impact of temperature differences on real exchange rates (RERs).
-

2.3.3 The Price of Development: The Penn–Balassa–Samuelson Effect Revisited

Authors: Fadi Hassan

Date: 2016

Links: [Google Drive](#)

Notes:

- Revisits the Penn effect, showing a non-linear price–income relationship that turns negative for low-income countries.
 - Suggests structural transformation stages as key to explaining RER variation in developing economies.
 - Robust to PPP measurement bias.
 - May be less directly relevant, as its primary focus is on developing countries.
-

2.3.4 Competitiveness and Productivity in the Baltics: Common Shocks, Different Implications

Authors: Saioa Armendariz, Carlos de Resende, Alice Fan, Gianluigi Ferrucci, Bingjie Hu, Sadhna Naik, Can Ugur

Date: January 17, 2025

Links: [Google Drive](#)

Notes:

- Although focused on competitiveness, it uses multivariate filtering consistent with Balassa-Samuelson.
 - Relevant Quote: “Multivariate filtering techniques and estimates of the real effective exchange rates based on historical productivity trends, consistent with Balassa-Samuelson, confirm that differences in long-term total factor productivity growth have affected external competitiveness.”
-

2.3.5 The Real Exchange Rate in the Long Run: Balassa-Samuelson Effects Reconsidered

Authors: Michael D. Bordo, Ehsan U. Choudhri, Giorgio Fazio, Ronald MacDonald

Date: 2017

Links: [DOI](#), [Google Drive](#)

Notes:

- Uses historical data to investigate the Balassa-Samuelson effect over the long run.
 - Demonstrates significant variation in productivity effects across different monetary regimes.
-

2.3.6 Real Effective Exchange Rate Misalignment in the Euro Area: A Counterfactual Analysis

Authors: Makram El-Shagi, Axel Lindner, Gregor von Schweinitz

Date: November 26, 2015

Links: [Google Drive](#)

Notes:

- (REER) misalignments within the Euro area using synthetic matching methods.
 - Constructs counterfactuals for member states to quantify the extent of misalignment.
 - Crisis countries align with a mix of advanced and emerging economy profiles.
 - Highly relevant to the literature on Eurozone imbalances.
 - Mid-tier journal.
-

2.3.7 The ‘Real’ Explanation of the PPP Puzzle

Authors: Nicholas Ford, Charles Yuji Horioka

Date: April 2016

Links: [NBER](#), [Google Drive](#)

Notes:

- Argues that global financial markets alone are insufficient to enable net capital transfers and real interest rate equalization across countries.
-

2.4 Low to Medium Relevance

2.4.1 Exchange Rate Models Are Better Than You Think, and Why They Didn’t Work in the Old Days

Authors: Charles Engel, Steve Pak Yeung Wu

Date: 2024

Links: [Google Drive](#), [NBER](#)

Notes:

- Explores why traditional exchange rate models now better fit U.S. data.
 - Argues that inflation-targeting and improved monetary policy reduce self-fulfilling expectations, improving model fit post-2000s.
-

2.4.2 The Purchasing Power Parity and Exchange-Rate Economics Half a Century On

Authors: Hai Long Vo, Duc Hong Vo

Date: 2023

Links: [Google Drive](#)

Notes:

- A survey paper providing historical and theoretical context for exchange-rate economics.
 - Not directly relevant but may be useful for broader insight.
-

2.4.3 The Balassa-Samuelson effect reversed: new evidence from OECD countries

Authors: Matthias Gubler & Christoph Sax

Date: 27 February 2019

Links: [Full Text](#)

Notes:

- Reconsiders the Balassa-Samuelson (BS) hypothesis using an OECD country panel from 1970 to 2008.
 - Compares three data sets on sectoral productivity, including newly constructed data on total factor productivity.
 - Within- and between-dimension estimation results do not support the BS hypothesis.
 - Mid-tier journal.
-

2.5 Low Relevance

2.5.1 Subnational Purchasing Power of Parity in OECD Countries: Estimates Based on the Balassa-Samuelson Hypothesis

Authors: Alex Costa, Jaume Garcia, Josep Lluís Raymond, Daniel Sánchez-Serra

Date: 2019

Links: [Google Drive](#)

Notes:

- Examines regional PPP estimation within OECD countries using a method based on the Balassa-Samuelson hypothesis.
 - Methodologically adjacent, but limited applicability to national RER studies.
-

2.5.2 Real Exchange Rate Misalignments in the Euro Area

Authors: Michael Fidora, Claire Giordano, Martin Schmitz

Date: July 28, 2020

Links: [Google Drive](#)

Notes:

- Tackles the same topic of real exchange rate misalignments from a Euro Area perspective.
 - While the journal is not highly ranked, the paper offers relevant comparative insights for understanding regional dynamics in real exchange rate adjustments.
-

2.5.3 Is the Balassa-Samuelson Hypothesis Still Relevant? Cross-Country Evidence from 1950–2017

Authors: Mohammed Ershad Hussain, Mahfuzul Haque

Date: September 28, 2020

Links: [Google Drive](#), [DOI](#)

Notes:

- 182 countries. Employs Arellano-Bond dynamic panel data estimation.
 - Low ranked journal.
-

2.5.4 Real Exchange Rate Fundamentals: A Synthesis of the Literature

Authors: Oluremi Davies Ogun (University of Ibadan)

Date: 2019

Links: [Google Drive](#), [DOI](#)

Notes:

- Synthesis of approaches to modeling equilibrium real exchange rates.
 - Limited reputation.
-

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