AN EXAMINATION OF UNCOVERED REAL INTEREST RATE PARITY IN THE LABOR-INTENSIVE MANUFACTURING INDUSTRIES IN UNITED STATES

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Abstract

In this paper, we employ the augmented Dickey-Fuller, KPSS, and augmented Dickey-Fuller GLS Unit Root tests to examine the stationarity of real interest differentials. The real interest rates are computed based on trade weights in seven distinct U.S. labor-intensive manufacturing industries. Using quarterly observations on deposit rates and inflation rates of twenty-five countries, we support the mean-reverting property of real interest differentials and hence the real interest rate parity.

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