Export and Import PPP’s

Introduction

ICP uses exchange rate for PPP on imports and exports

Instead, we could construct PPPs for imports and exports. This will correct for some anomalies in the results, e.g. Norway was a standout in 2017 comparing extrapolated PPPs from 2011

The benefit is to more accurately compute real GDP. The problems are that:

a) the calculation *might* fail in GK method because imports are negative;

b) what import and export prices to use?

Data

Use trade unit values to compute PPPs for imports and exports.

Use "Washington apples" effect to correct trade prices (under which distance is positively related to both CIF ***and FOB*** prices)

But a simpler regression might to include country-pair dummies for source and destination, in an extension of the CPD approach.

Potential Results

Obtain a measure of quality-adjusted import and export prices (by sector, or in the aggregate)

Can compare what we obtain from Washington applies approach with more complex approach of Feenstra and Romalis (QJE, 2014)

These quality-adjusted export and import prices can be used to compute PPPs in GK or other