

Title: **PPPS AND EXCHANGE RATES
EVIDENCE FROM ONLINE DATA IN SEVEN COUNTRIES**

Speaker: **Alberto Cavallo
MIT and NBER**

Importance: Why this matters:
The Billion Prices Project collects online data from retailers on a daily basis, and uses the data to estimate inflation. The results appear more timely and more accurate than standard approaches to constructing CPI indices. These data can be used to estimate Purchasing Power Parity (PPP) and Real Exchange Rates (RER) for cross-country comparisons.

Investigation: "Speaker analyzed XXX data to address the questions yyy, zzz, etc."
Described MIT's Billion Prices Project, and compared the approach to alternative methods. Used the data to construct RER (ratio of real price to exchange rate) series for seven countries. Investigated the average level and mean reversion behavior of each.

Innovation: Are there new techniques of interest in the data or approach to the problem?
The Billion Prices Project is able to more accurately measure inflation (for goods that are sold online). The data can be used to estimate and model the behavior of exchange rates relative to prices. Benefits include: higher frequency data, consistent methodology across countries, and tradable goods are perfectly matched. Limitations include: excludes services and goods that are not sold online, and data is currently available for only seven countries.

Insights: 1-2-3, what are the three most important things the speaker offered?

1. The Billion Prices Project is able to provide better estimates of inflation than other approaches.
2. While there are persistent differences in the average levels of prices, most countries exhibit mean reversion of Real Exchange Rates. Differences of RER from normal levels increase pressure on currencies to adjust.
3. Probably due to having a managed currency, China is the exception. Its Real Exchange Rate shows a persistent upward trend for the entire period.

Audience rating: 4.28