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Abstract Abstract
Most of the empirical evidence relied mainly on using linear structure to explore PPP in the past. By using traditional ADF unit root test, the PPP is hard to be established. However, Dumas (1992) claims exchange rate demonstrates nonlinear adjustment status due to the existence of transaction cost. If using conventional unit root test or Engle and Granger's cointegration test to examine PPP is not appropriate and will cause bias. Therefore, the analysis of real exchange rate should be conducted under the nonlinear structure (Michael et al. 1997).
Liew et al. (2004) uses the model of nonlinear stationary test, proposed by KSS (Kapetanios, Shin, Snell，2003) to examine whether the real exchange rate is stationary or not. However, KSS's model of nonlinear stationary test can only be established under the ESTAR (exponential smooth transition autoregressive model) and the constraints of the assumption of delayed parameter should equal one (d=1). As a result, Liew's application of KSS's model of nonlinear stationary test is not appropriate.

Therefore, this study uses the STAR methodology proposed by Granger and Terasvirta (1993) & Terasvirta (1994) to examine whether the deviation of PPP is a nonlinear dynamic adjustment or not among the following seven Asian-Pacific countries: Japan, Korea, Singapore, Malaysia, Philippine, Indonesia, and Thailand. If the linear assumption was rejected, then to distinguish the model of STAR is LSTAR or ESTAR. To find out countries with ESTAR and delayed parameter equals one (d=1) and examined whether the PPP can be held or not with KSS's model of nonlinear stationary test.
Empirical findings revealed that the seven Asian-Pacific countries, except for that Singapore fits in linear model, demonstrate nonlinear dynamic adjustment. Moreover, Korea, Malaysia, Philippine, Indonesia, and Thailand belong to ESTAR and, among the five countries, Malaysia, Philippine, Indonesia, and Thailand fits in the delayed parameter equals one. Then, using KSS's model of nonlinear stationary test to examine Malaysia, Philippine, Indonesia, and Thailand and revealed that the real exchange rate of the four countries is a stationary time series and hence the PPP is established.
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