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Purchasing power parity: The West African experience

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The fifteen heads of States of the Economic Community of the West African States (ECOWAS) are currently considering a unified currency called “Eco”. This decision suggests the need to study the purchasing power parity (PPP) of the existing currency for the various countries. Thus, in this paper, we investigate the existence of the relative PPP theory over a 50 years period that spanned through 1970 to 2019 for the sixteen West African Countries against the U.S. Dollars using a panel data analysis approach. The two approaches for testing the PPP hypothesis namely; the panel unit root test and the panel cointegration test were employed to check the existence of unit root and or cointegration between the nominal exchange rate of West African countries and price ratio. The results of Im-Pesaran-Shin panel unit root test show that the nominal exchange rate and price ratio panels have a unit root, which implies that the two variables are non-stationary in their level difference and thus they are *I*(1). On the other hand, the results from the Kao and Westerlund panel cointegration tests supported the existence of a long-run relationship between nominal exchange rate and price ratio. The convergence of the two results shows that there exists a long-run relationship between the two variables as well as a long-run PPP for all the sixteen West African countries. The results of this paper further imply that there is a long-run relationship between relative change in the exchange rate and price ratio for the West African countries over the period reviewed. Therefore, the recent