Comments on

The Balassa-Samuelson Hypothesis in Developed Countries and

Emerging Market Economies: Different Outcomes Explained

by

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The paper measures two-stage Balassa-Samuelson (BS) effect for two groups of countries: 16 Latin American countries and 16 OECD countries using US economy as a benchmark. The results are sensitive to the level of countries' development. The first stage BS effect linking differences in productivities and differences in prices of tradable and non-tradable is observed in both panels. However, the second stage BS effect based on price differential and real exchange rate is found in Latin American (LA) countries only. Finally, first and second stage BS effect is simultaneously observed in three OECD countries, five LA countries, and LA as the whole region.

While the paper is interesting and leaves generally a very good impression, a couple of suggestions would further improve it.

My main concern is a short time period for individual series. The authors use annual data that implies 14 observations per country. How reliable can be unit root and cointegration tests in this case? Why the authors did not try to use monthly data and estimate BS for smaller group of countries if the data at monthly frequency is not available for all LA countries? For example, Égert (2005) uses annual observations to show a general picture and estimates BS for CIS and South-Europe on monthly data. In addition, structural breaks may occur in LA time-series, but it is impossible to test and to account for breaks in this data.

It would be an advantage to make a brief literature review on BS effect in the LA countries and compare own results with the previous studies (for example, Drine and Rault, 2003). In case, there is a lack of BS estimates for the LA countries, it is worth to mention it in the paper, since it gives an additional motivation to the study.

If I understand the authors' approach correctly, they transform the series into logarithms first, and then compute indices. Is it correct?

Finally, given that BS is estimated for a large number of countries which differ by the level of economic development, speed of convergence, openness and other

macroeconomic characteristics, in the future research it could be interesting to explain differences in observed BS effect for individual countries performing some regression analysis.

Reference:

Balázs Égert, 2005. "Balassa-Samuelson Meets South Eastern Europe, the CIS and Turkey: A Close Encounter of the Third Kind?," European Journal of Comparative Economics, Cattaneo University (LIUC), vol. 2(2), pages 221-243, December.

Imed Drine and Christophe Rault, 2003. "Do panel data permit the rescue of the Balassa-Samuelson hypothesis for Latin American countries?," Applied Economics, Taylor and Francis Journals, vol. 35(3), pages 351-359, January.