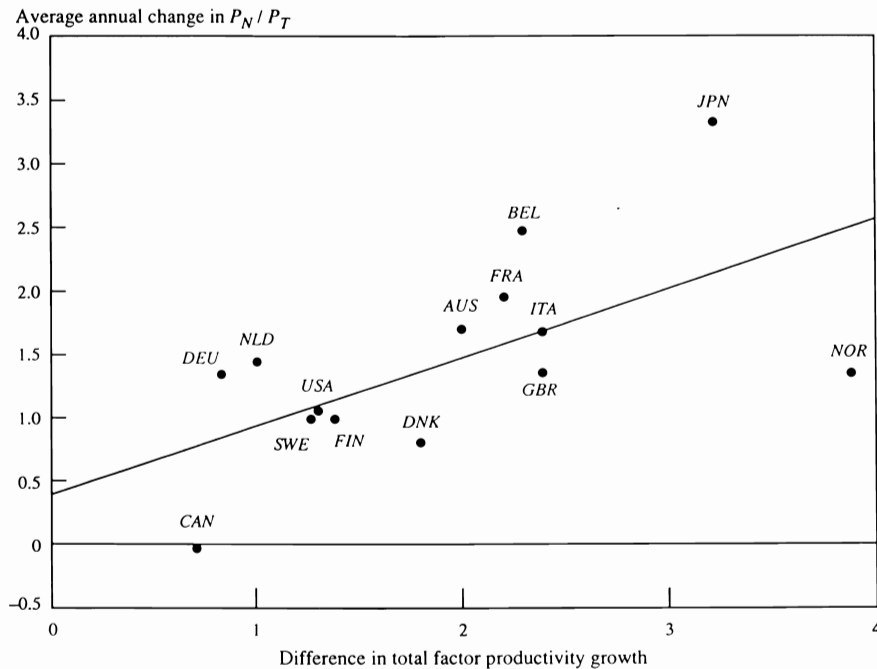


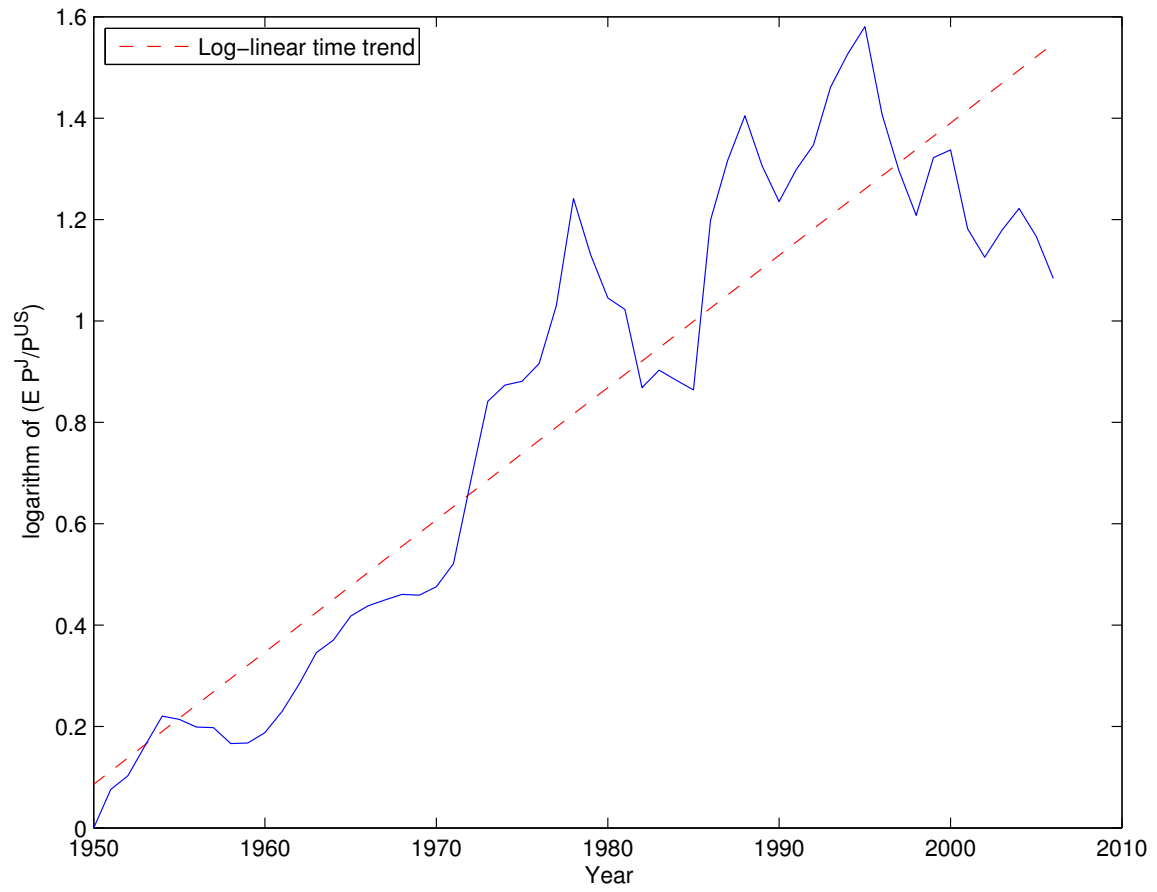
Economics 170: International Macroeconomics
Handout on Understanding Long-Run Movements in the Real Exchange Rate
March 28, 2008

Figure 1: Differential Factor Productivity Growth and Changes in the Relative Price of Nontradables



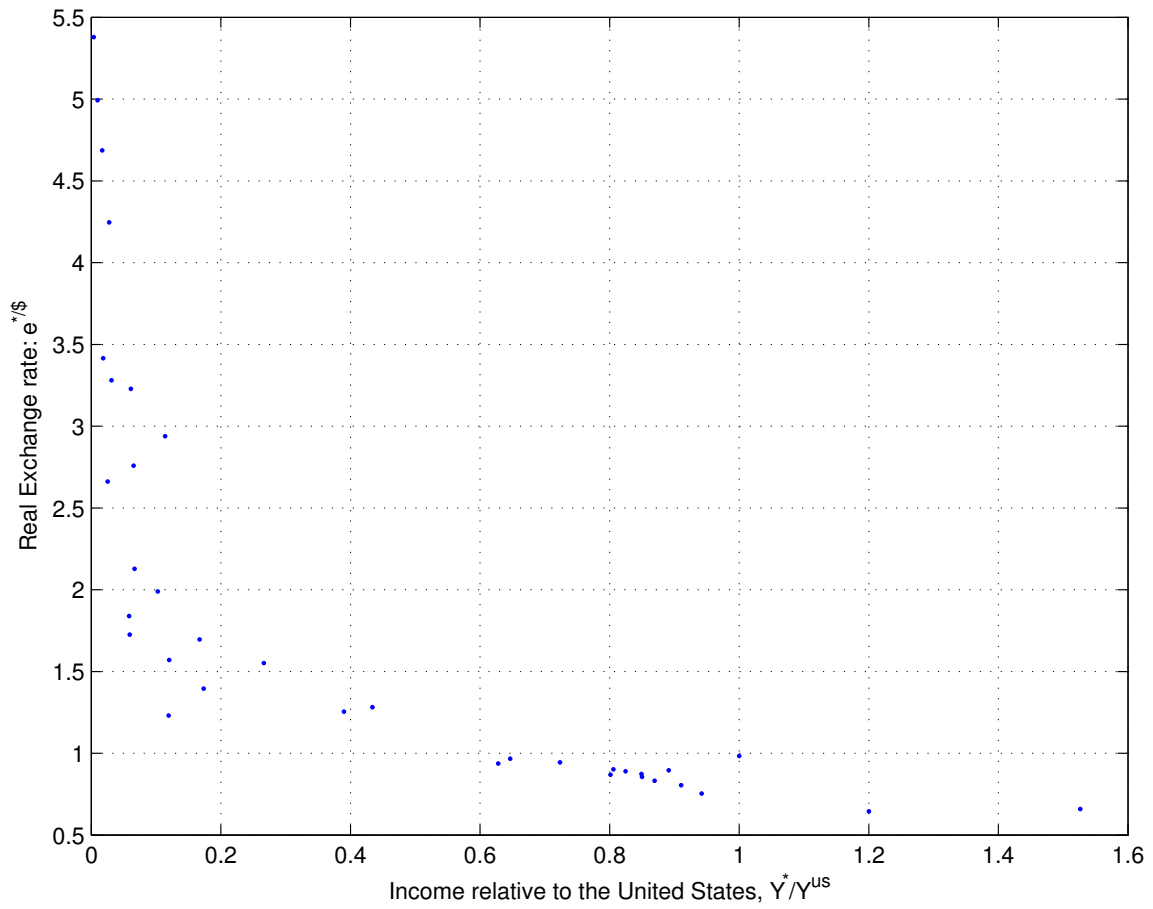
Note: The figure plots the average annual percentage change in the relative price of nontradables in terms of tradables (vertical axis) against the average annual growth in total factor productivity differential between the traded sector and the nontraded sectors (horizontal axis) over the period 1970-1985 for 14 OECD countries. Source: José De Gregorio, Alberto Giovannini, and Holger C. Wolf, "International Evidence on Tradable and Nontradable Inflation," *European Economic Review* 38, June 1994, 1225-1244.

Figure 2: The \$/¥ Real Exchange Rate, 1950-2006



Data Source: IFS.

Figure 3: The real exchange rate of Poor and Rich Countries, 2005



Data Source: World Economic Outlook Database, IMF, April 2006.