

Searching for Balassa Samuelson in Post-War Data^{*}

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Summary

The Balassa Samuelson effect is a central result in trade theory. It is also fundamental to our understanding of what occurs during economic growth. As it turns out, the positive relationship between real income and the price level predicted by Balassa Samuelson occurs only after 1970. Why does Balassa Samuelson hold for recent years but not earlier? We provide an empirical explanation for this puzzle. Our point of departure is the observation that measurement error in comparative GDP data biases standard tests against finding a Balassa Samuelson effect. Allowing for measurement error, we find that Balassa Samuelson is present in the data for all post-war decades.