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**Are there Bubbles in Exchange Rates?**

**Some New Evidence from G10 and Emerging Markets Countries**

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**Abstract**

We apply the generalized sup ADF (GSADF), unit root tests of Phillips, Shi and Yu (2015b, PSY) to investigate exchange rate bubbles in some G10, Asian and BRICS countries between March 1991 and December 2014. We present results based upon tests of the unit root null with and without an intercept. We show, with an intercept, that we can identify equivalent periods of collapse or recovery and also spurious bubbles. Whereas without an intercept in the null leads to identification of only bubbles (if they exist) and none is spurious. Bubbles are considered in the nominal exchange rate, which are then tested whether they are driven by exchange rate fundamentals (the relative price of traded or non-traded goods) or represent rational bubbles. We also test for bubbles in the exchange rate fundamentals themselves. Of particular interest is that we conclude that the US Dollar-Mexican Peso crisis of 1994-95 was a bubble.

**Keywords**

bubbles

rational bubbles

GSADF test

G10 countries

emerging markets countries

**JEL Classifications**

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