

# The Law of One Price over 700 Years\*

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## Abstract

This paper examines annual commodity price data from England and Holland over a span of seven centuries. Our data set incorporates transactions prices on 8 commodities: barley, butter, cheese, eggs, oats, peas, silver, wheat as well as pound/shilling nominal exchange rates going back, in some cases, to 1273. We find that the volatility and persistence of deviations from the law of one price have been remarkably stable over time. LOP deviations are highly correlated across commodities (especially at annual horizons) and, for most pairwise comparisons in most centuries, at least as volatile as relative prices across different goods within the same country. Our analysis challenges the conventional view that the modern floating exchange rate experience is exceptional in terms of the behavior of relative (exchange-rate adjusted) prices across countries.

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