

The Impact of British Pound/American Dollar Parity on Global Gold Prices (1792-2020)¹

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ARTICLE INFO	ABSTRACT
Keywords: Pound/USD Parity Global gold prices Bretton Woods 1792-2020 Blockchain Bitcoins Received 22 April 2020 Revised 27 July 2020 Accepted 30 August 2020 Article Classification: Research Article	Purpose – In that study, the goal is to unravel the effect of British Pound / US dollar parity from 1792-2020 on global gold prices. Design/methodology/approach Robust-M test, VAR impulse response analysis, Johansen cointegration method, Markov regime switching method, least squares with breaks method, filtered regime probability methods were applied. Not only data were analyzed for the aggregate period(1792-2020); data were also analyzed for different periods. For each different period, econometrical methods were implemented. Findings – Pound / USD parity had an adverse effect on the fluctuations in global gold prices, according to the Robust-M test. In least squares with breaks method and Markov switching regression model, in each state, the Pound/USD parity impact on global gold prices are different. For after the Bretton Woods period, filtered regime probability analysis unearthed that there was a regime change during the 2008 global financial crisis. It can be indicated that the Pound/USD parity regime's impact on global gold prices has not changed until the 2008 global financial crisis. Moreover, VAR based impulse response analysis result is similar to the least squares with breaks results for after the Bretton Woods period. After the Bretton Woods regime, no long term relationship was found between Pound/USD parity and global gold prices that are priced by USD. With the flow of time, the positive impact of Pound/USD parity grew from 1974-2020 as global gold prices shifted. Between 2009-2020, the parity had a significant positive influence on global gold prices. It can be indicated that appreciation of Pound against USD led global gold prices to increase fast after the 2008 global financial crisis. Discussion – The research results correspond with Sjaastad (2008)'s theoretical approach. Since global gold prices are priced in USD, Pound had significant importance on USD priced global gold prices. Stability between Pound and USD is significant to have a sustainable global economy. If that stability does not exist in the global economic system, gold prices can rise fast, and that can lead to inflation rates to increase across the world. Moreover, in the future, new steady bitcoins can be used as hedging tools.

¹ That research was only presented at BOR 2019 İzmir conference. Major revisions were made.

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