

Dipartimento di Economia e Crenos

Ciclo di Seminari

Prossima iniziativa:

Venerdì 4 dicembre 2009

Carla Massidda, Università di Cagliari

*VAR estimates of the New Keynesian Phillips curve at regional level:
The case for Italy*

(Si veda l'abstract a pag. 2)

Se non è diversamente indicato, i seminari si svolgono nell'aula magna della Facoltà di Economia in Viale Sant'Ignazio 74, alle ore 12 del giorno indicato.

La serie di seminari è coordinata dal Prof. B. Moro e dal Prof. F. Schivardi.

Per maggiori informazioni, siete pregati di mettervi in contatto con Prof. B. Moro, telefonando al numero 070 675 3313 o via e-mail all'indirizzo

moro@unica.it

In agenda:

Venerdì 11 dicembre 2009

Giovanni Bella, Università di Cagliari

*Global indeterminacy in the Chamley model of endogenous growth in
correspondence of a Bogdanov-Takens singularity*

Venerdì 18 dicembre 2009

Stefano Usai, Università di Cagliari

The geography of inventive activity in OECD Regions

Nota

In ciascuna iniziativa viene rilasciato un attestato di frequenza agli studenti che lo richiedono. Ogni 5 attestati e una breve relazione su un seminario si può avere il riconoscimento di un credito.

Tutti i ricercatori interessati a presentare i risultati, anche parziali, delle loro ricerche in un seminario sono invitati a prendere contatti col prof. Moro (moro@unica.it) o col prof. Mattana (mattana@unica.it) o col prof. Schivardi (fschivardi@unica.it).





Dipartimento di Economia e Crenos

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Venerdì 4 dicembre, h. 12.00

*Carla Massidda and Paolo Mattana**

VAR estimates of the New Keynesian Phillips curve at regional level: The case for Italy

Abstract

The dualism of the Italian economy represents a well-known persistent phenomenon that has been extensively studied in the last decades. In general terms, attention has been mainly focussed on the regionally-differentiated real mechanisms governing the dualistic productive systems. Conversely, less consideration has emerged in the literature regarding the impact that persistently differentiated regional inflation dynamics (*or firms' price decisions*) may have on real variables, possibly in the long-run. With this paper we intend to give our contribution on the issue. To this end we estimate the New Keynesian Phillips Curve (*NKPC*) for the 20 Italian regions giving particular attention to the recent debate involving the empirical performances of this model.

The *NKPC*, assuming imperfect competition in the output market and nominal rigidities, derives inflation dynamics as a function of past inflation, expectations of future inflation and some measures of marginal costs. In this framework, differentiated estimates of structural parameters at regional level would imply different firm's price-setting behaviors and, therefore, the possibility that a dualistic structure of the Italian economy also emerges from a nominal-side point of view.

Despite the model is theoretically very appealing, some notes of caution are compulsory; its empirical performance remains in fact controversial in several aspects, particularly in terms of estimation methodologies and weight to be attributed to the backward and forward-looking components (cfr. *inter al.* Rudd and Whelan, 2005; Galí and Gertler, 2005). Other questioned issues concern the choice of the technology in the specification of the production function and the correct calibration of the parameters (Gagnon-Khan, 2005). Surprisingly, with some remarkable exceptions (Petursson 1998, Bårdsen *et al.* 2004, Boug, Cappelen and Swensen 2006), the debate disregards the consequences of including non-stationary variables when estimating the model. As a matter of fact, existing estimates of the *NKPC* are built on linearised model and, therefore, assume that inflation and its driving variable are stationary processes.

However, aggregating data very often delivers time series that display a unit-root behaviour (e.g. Granger, 1980). Obviously, modelling variables as stationary when they are not turns out in incorrect estimates and wrong inference. Only recently, within a *VAR* approach, the econometric investigation of the *NKPC* has taken into account non-stationarity (cfr. Fanelli 2002, Barku and Batini 2005, Fanelli 2008). According to this idea, the *NKPC* is nested within a dynamic 2 system, possibly a cointegrated *VAR*, generating agents' forecast (Johansen and Swensen 1999). Results are still controversial: while Barku and Batini (2005) find that the *NKPC* offers a good representation of inflation dynamics in Canada, Fanelli (2008) suggests that in the case of the Euro Area the hybrid formulation of the *NKPC* suffers from missing dynamics.

In the light of this, we perform our empirical analysis appealing to the *I(1)* techniques as developed in Fanelli (2008). The intent is to produce new evidence to be compared with previous literature built on the more traditional *GMM* method (Massidda-Mattana, 2009). It follows that our results, besides adding new arguments to the Italian dualism debate, can also contribute to settle the more general controversy on the *NKPC* empirical performances. Our preliminary results seem to confirm that the persistence of variables over the selected period appears to be consistent with that of unit-root cointegrated processes and that the *NKPC* is a good approximation of regional inflation dynamics in Italy. Moreover, preliminary results of our homogeneity analysis seems to show that long-run elasticities between inflation and real marginal costs are differentiated at a macro-area level.

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