

Heterogeneity and Convergence of Regional Inflation (Prices)

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Abstract

It is generally thought that members in monetary union experience a similar level of inflation. This paper verifies this conventional belief. Using regional data, we present statistical evidence of heterogeneous inflation in Japan. Not only does the average inflation differ significantly across regions, but regional inflation responds differently to common economic and monetary factors. Furthermore, we show no evidence of price convergence in a group of entire regions although there is some evidence of convergence in subgroups. These results suggest that diversified regional inflation can exist within monetary union.

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