

The Effects of New Goods and Product Turnover on Price Indexes*

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Abstract

This study analyzes how important new products are for price measurement. Based on large-scale retail scanner data, we construct a unit price index and decompose its fluctuation into (1) standard price change effects, (2) substitution effects, and (3) turnover–new product effects. The second and third effects dominate the first to a great extent. In most cases, the substitution effects offset the turnover–new product effects. However, when the economy experiences large macroeconomic shocks, such as a change in the consumption tax rate, the turnover–new product effects offset the substitution effects. This creates a large departure of the unit price index from a standard price index, such as the Törnqvist index.

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