

Wage indexation to prices in Japan
Structural interpretation based on impulse response matching
approach

PRELIMINARY AND INCOMPLETE

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Abstract

This study analyzes the dynamic relationship between prices and wages in Japan. We first estimate Markov-switching VAR model including prices, nominal wages and GDP to reveal the linkage between prices and wages in each regime as well as the number of structural breaks. Then, we estimate the DSGE model using the impulse response matching technique in order to interpret the reduced-form empirical evidence obtained from the VAR analysis. The results are summarized as follows. The number of structural breaks for the period 1980-2014 is three; 1993Q3, 1998Q3 and 2008Q3. In the fourth regime started from 2008Q3, it is found that the wage indexation for prices increases compared with other regimes.

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