

# What Prices Should be Targeted by a Central Bank?

## -A Case in VAT increase-

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### **Abstract**

This paper investigates what prices, the consumer price or the producer one, should be targeted by a central bank when the government increases the tax rate on the consumption goods, i.e. Value added tax (VAT). We compare with two policies using New-Keynesian DSGE model with the producer price stickiness. We see that the producer price, which means the price without tax, targeting better off when the producer price is flexible and the VAT increase shock is less persistency. On the other hand, consumer price target which includes the tax may be better off when the producer price is sticky or the VAT increase shock is quite persistency.

Key words: Value Added Tax (VAT), New Keynesian DSGE model, Producer price stickiness.

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