Title: Regional Inflation and Industrial Structure in Monetary Union

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Author: Jun Nagayasu

Address: University of Tsukuba, Graduate School of Systems and Information Engineering, 1-1-1 Tennodai, Tsukuba, Ibaraki 305-8573 JAPAN

Email: Nagayasu@sk.tsukuba.ac.jp

Abstract:

It is often argued that an optimal currency area requires homogeneous regional inflation. However, previous empirical studies point out heterogeneity in sectoral inflation and geographical concentration of industries within a monetary union. It follows that there must be a difference in regional inflation in such a union. We examine this view using regional data from Japan which has experienced a period of rapid change in industrial structure, and show that economic structure is closely related to heterogeneous regional inflation. This study suggests that heterogeneous inflation can be a prevailing and long-lasting phenomenon in a monetary union.

Keywords: Regional inflation, Monetary union, Optimal currency area, Industrial structure

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