

Discussion of Halka and Kotlowski 's
"Does domestic output gap matter for inflation
in a small open economy?"

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BIS, CEPR, Dallas Fed, Swiss NB conference:
Inflation dynamics in a Post-Crisis Globalized Economy
Zurich, 22 August 2013

What the paper does

1. Estimate the effects of the Polish economy output gap on sectoral sub-indices for the Polish CPI
2. Build an index of "output gap sensitive" CPI components

Main results of the paper

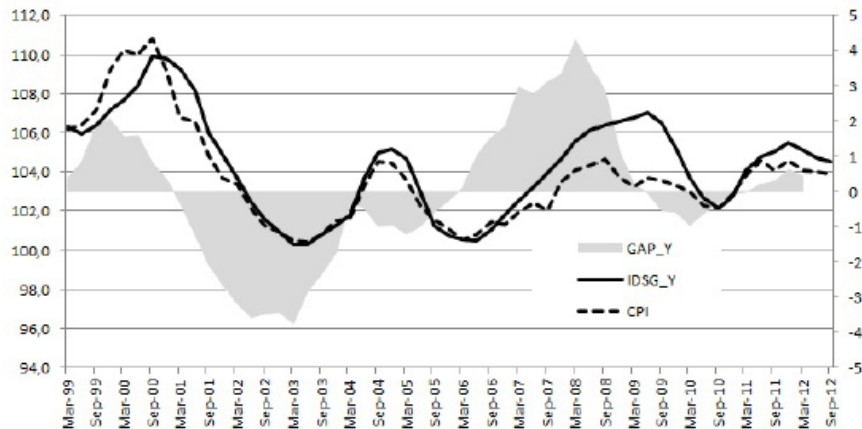
1. **Heterogeneity** in the "significance" of the effects of the output gap on various sectors:

	w_i	$S_i(\beta > 0)$	Euro Area
services	28	55 – 63	63 – 83
durable	4	36 – 36	39 – 87
semi-durable	8	28 – 28	32 – 51
non-durable	59	59 – 60	61
administered	14	56 – 77	<i>na</i>

(Euro area: Fröhling and Lommatzsch, 2011)

Services appear, as in the euro area, more frequently sensitive to output than goods

Main results of the paper



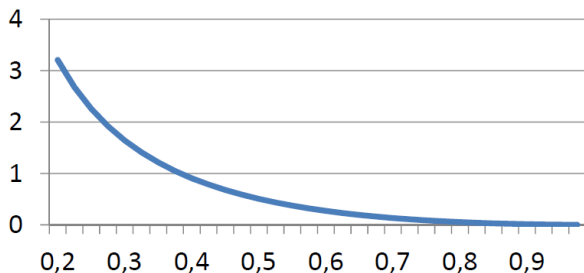
Discussion outline

1. Academic debate on price stickiness and the NK Philips curve
2. Policy debate on the current accuracy of Philips curve models of inflation

Academic debate

$$\pi_t = bE(\pi_{t+1}) + \frac{(1-\theta)(1-b\theta)}{\theta} (\mu + mc_t - p_t)$$

slope(theta)



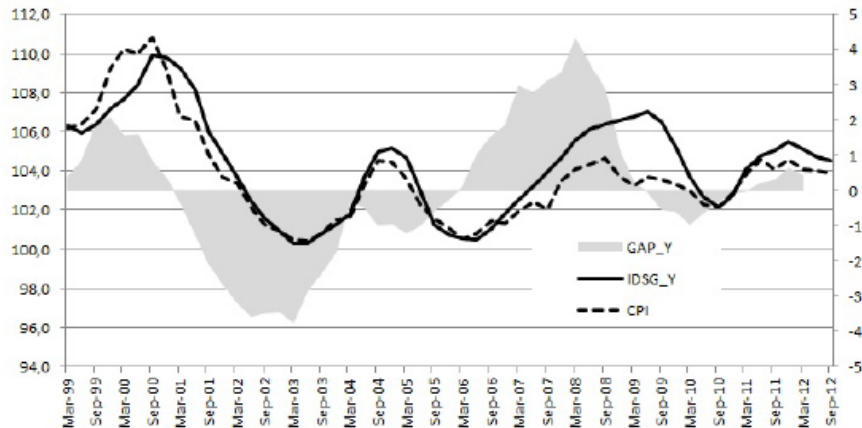
Academic debate

- ▶ Do we get that sectors with the highest degree of price stickiness are the least sensitive to "output gap/ marginal costs"?

	w_i	$S_i(\beta > 0)$	Euro Area	IPN freq
services	28	55 – 63	63 – 83	5.6
durable	4	36 – 36	39 – 87	18*
semi-durable	8	28 – 28	32 – 51	18*
unprocessed food	13	8	85 – 100	28
process food	11	7	71 – 97	14
non-durable	59	59 – 60	61	
administered	14	56 – 77	<i>na</i>	

IPN (Altissimo et al.)

Policy debate: why did we not get deflation after the crisis?



Policy debate: why did we not get deflation after the crisis?

$$\pi_t^{YES} = bE(\pi_{t+1}) + \frac{(1-\theta)(1-b\theta)}{\theta} (\mu + mc_t^{YES} - p_t)$$

$$\pi_t^{NO} = bE(\pi_{t+1}) + \frac{(1-\theta)(1-b\theta)}{\theta} (\mu + mc_t^{NO} - p_t)$$

Several possibilities:

1. Increasing disconnect between the YES and the NO sectors: why? Statistical / size of estimated coefficients.
2. Financial constraints and mark up of firms, see Gilchrist et al. tomorrow at 12:00
3. Disconnect between output gap and the relevant mc , see the discussion by Giorgio Primiceri of Beaudry and Portier at the last NBER macroannual

Conclusion(s)

- ▶ Interesting results
- ▶ Open appetite for explanations of the results