

عنوان مقاله:

Inflation Dynamics in a Dutch Disease Economy

محل انتشار:

مجله بازنگاری اقتصادی ایران، دوره 19، شماره 3 (سال: 1394)

تعداد صفحات اصل مقاله: 30

نویسنده:

خلاصه مقاله:

Abstract In this paper, the effect of foreign sector macro-variable on inflation dynamics and firms' pricing behavior has been investigated in the context of a small open economy New Keynesian Phillips Curve. This curve is derived and estimated for a developing oil-exporting economy suffering from Dutch Disease. This version of NKPC is an extension of Leith and Malley's (۲۰۰۷) small open economy NKPC incorporating oil as a factor of production which is produced in the home country, but its price is determined by the world market. Using GMM technique, this curve has been estimated for standard closed and open economy specifications of the Iranian economy that, according to the empirical evidence, suffers from Dutch Disease. Introducing open economy elements produces three differences in the estimation compared to the closed version: firstly, the degree of price stickiness and the fraction of backward-looking firms decrease; secondly, the degree of substitutability is close to unity; and thirdly, the forward-looking behavior gains ground while the backward-looking behavior becomes less important. Moreover, the significant estimates of the marginal cost coefficient confirm the importance of the real marginal cost in explaining inflation dynamics in the Iranian economy.

کلمات کلیدی:

JEL codes: E۱۲, E۳۱, F۴۱ Keywords: Dutch Disease, hybrid New Keynesian Phillips curve, inflation dynamics, Iranian Economy, small open economy

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