SPURIOUS PHILLIPS CURVES AND THE LONG-RUN RELATIONSHIP BETWEEN INFLATION AND THE MARKUP IN THE UNITED STATES*

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11 January 2010

ABSTRACT

Phillips curves have traditionally been estimated without due attention to the underlying time series properties of the data. In particular, the possibility that inflation may have breaks in mean has been ignored. A simulation study and an empirical example based on United States data show that the standard estimates may be seriously flawed by such an omission leading to spuriously upwardly biased estimates of the dynamic inflation terms of the Phillips curve. We suggest a method to account for the breaks in mean and obtain meaningful and unbiased estimates of the short- and long-run Phillips curves in the United States.

Keywords: Phillips curve, inflation, panel data, non-stationary data
JEL Classification: C22, C23, E31

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