



## International Finance Discussion Papers: Some Simple Tests of the Globalization and Inflation Hypothesis

By Jane Ihrig

BiblioGov. Paperback. Book Condition: New. This item is printed on demand. Paperback. 72 pages. Dimensions: 9.7in. x 7.4in. x 0.1in. This paper evaluates the hypothesis that globalization has increased the role of international factors and decreased the role of domestic factors in the inflation process in industrial economies. Toward that end, we estimate standard Phillips curve inflation equations for 11 industrial countries and use these estimates to test several predictions of the globalization and inflation hypothesis. Our results provide little support for that hypothesis. First, the estimated effect of foreign output gaps on domestic consumer price inflation is generally insignificant and often of the wrong sign. Second, we find no evidence that the trend decline in the sensitivity of inflation to the domestic output gap observed in many countries owes to globalization. Finally, and most surprisingly, our econometric results indicate no increase over time in the responsiveness of inflation to import prices for most countries. However, even though we find no evidence that globalization is affecting the parameters of the inflation process, globalization may be helping to stabilize real GDP and hence inflation. Over time, the volatility of real GDP growth has declined by more than the volatility of domestic demand,...



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