

New panel tests to assess inflation persistence

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Abstract

In this paper we propose new panel tests to detect changes in persistence. The test statistics are used to test the null hypothesis of stationarity against the alternative of a change in persistence from $I(0)$ to $I(1)$, from $I(1)$ to $I(0)$, and in an unknown direction. The limiting distributions of the test under the hypothesis of cross-sectional independence are derived. Cross-sectional dependence is also considered. The tests are applied to the inflation rates of 19 OECD countries over the period 1972-2008. Evidence of a change in persistence from $I(1)$ to $I(0)$ is found for a set of these countries.

Keywords: Persistence, Stationarity, Panel data.

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