

# **Research on various topics session: abstracts**

## **1. Do Unit Value Export, Import, and Terms of Trade Indices Represent or Misrepresent Price Indices?**

**Mick Silver, IMF**

Unit value export and import indices compiled from returns to customs authorities are often used as surrogates for price indices to measure inflation transmission, terms of trade (effects), and to deflate import and export value series to derive volume series. Their widespread use is mainly due to their relatively low cost compared with establishment price surveys. This paper provides evidence of substantial bias in their representation of such price changes. Their continued use would mislead economic analysis. The paper considers the efficacy of alternative strategies for their improvement, and argues for a move to establishment-based price surveys.

JEL: C43, C82, E31, O47.

**Keywords: Unit Value Index; Export Import Price Index; International Trade Price Indices; Terms of Trade.**

## **2. International Evidence on the Setting of Individual Consumer Prices**

**Etienne Gagnon, Federal Reserve Board**

The failure of prices to adjust fully and rapidly to changing demand and supply conditions is seen by most economists as a major source of economic instability: “Price stickiness” can exacerbate the impacts of economic disturbances, such as oil shocks or exchange rates movements, and amplify economic expansions and recessions. Moreover, it is considered a key channel by which monetary policy impacts the economy. Despite the importance of price stickiness to economists, the empirical evidence on the adjustment of individual prices remained, until recently, embarrassingly limited. Over the last few years, however, several statistical agencies have made available to researchers the micro data they collect for the purpose of computing consumer price indices. These data bases are gold mines of information because they track the price of tens of thousand of goods and services over time and are representative of consumer spending.

In this paper, I review the main findings about the adjustment of individual prices. I first decompose price changes in terms of their frequency and magnitude, and present the main characteristics of the distribution of price changes and the hazard function of price changes. I then analyze how individual prices respond to shocks, focusing on changes in value added taxes, the rate of inflation, and the exchange rate. Finally, I discuss how these new facts affect the assessment of the importance of price stickiness and highlight the main differences across countries.

### **3. Different Approaches to the Treatment of Seasonal Products: Tests on the Israeli CPI**

**Yoel Finkel, Anna Rakhmilevich and Victoria Roshal (Israel Central Bureau of Statistics)**

Seasonal products are either (1) not available during certain seasons of the year, and are termed strong seasonality products, or (2) have regular fluctuations in prices or quantities according to different seasons and are termed weak seasonality products. In this paper we analyze various approaches to the treatment of seasonal products according to Chapter 22 of the CPI/PPI Manual which uses an artificial dataset to present them. We use the real data from the Israeli CPI to compare different methods of seasonality treatment, to test the conclusions made in Chapter 22, and to reveal some problems arising in calculation of the CPI on the practical basis, especially for products that have strong seasonality. We then proceed to introduce the methods used in the Israeli CPI to overcome seasonal fluctuations and bias.

This paper is based on the one published by Artsev and Finkel (ECE 21(2) who make similar analysis for the years 1997-2001. In this paper, the price and quantity dataset for fresh fruits (strong seasonality) and fresh vegetables (weak seasonality) is extended for the years 1997-2005. These years include higher and lower inflation rates and we test whether this affects the results in any way.