Copyright is owned by the Author of the thesis. Permission is given for a copy to be downloaded by an individual for the purpose of research and private study only. The thesis may not be reproduced elsewhere without the permission of the Author.
Is Globalisation Operating to Reduce Inflation: Evidence from Six OECD Countries

A thesis submitted in partial fulfilment of the requirements from the Master of Business Studies (Economics) at Massey University, Albany Campus

Supervisor: Dr. Martin Berka
Student: CAI Menghan
Student ID: 03368092
Abstract

This paper relates openness to the decline in inflation by using panel data for six OECD (the USA, Japan, Canada, Portugal, Finland, and Australia) countries over the period from 1980 to 2006. I obtain industrial level data for twenty industries in each of the six countries in the timeframe and estimate the effects of increases in openness, through its effect on productivity and markups on inflation. The methods used to construct the variables in this paper follow methods introduced in Chen, Imbs and Scott (2004), and the estimations follow Chen, Imbs and Scott (2007). The results suggest openness reduces the rate of inflation in the short run. Furthermore, it also reduces short run productivity and markups. The long run results are ambiguous, however. The evidence that openness leads to anti-competitive effects in the long run is weak.

JEL Classification: E31, F12, F14, F15, L16

Keywords: Openness, Prices, Productivity, Markups
I would like to express my sincere thanks to my supervisor, Dr. Martin Berka, for his invaluable advice and encouragement in the completion of this thesis.
# Table of Contents

*Abstract*

*Acknowledgment*

*Table of Contents*

1. Introduction ................................................................. 6

2. Literature Review .......................................................... 8

   2.1 Monetary Policy Effects .................................................. 8

   2.2 Openness Effects ......................................................... 11

3. Theory ................................................................................ 15

   3.1 Demand and Supply .......................................................... 15

   3.2 Trade Liberalization ......................................................... 15

   3.3 Model ............................................................................. 17

4. Data and Variables ............................................................. 19

   4.1 Data .............................................................................. 19

   4.2 Variables ....................................................................... 19

5. Methodology ..................................................................... 29

   5.1 Relative Variables .......................................................... 29

   5.2 Country pairs ................................................................. 29

   5.3 Aggregate Price Level ....................................................... 29

   5.4 Lagged Dependent Variable ......................................... 29

   5.5 Unit Root ...................................................................... 30

   5.6 Endogeneity .................................................................. 30
6. Results ........................................................................................................ 32
   6.1 Short Run Results ............................................................................. 32
   6.2 Long Run Results ........................................................................... 34
7. Robustness Check .................................................................................. 37
8. Explanations ............................................................................................ 39
   8.1 Short Run productivity ...................................................................... 39
   8.2 Real GDP ....................................................................................... 39
9. Conclusion ............................................................................................... 41
10. Appendixes ............................................................................................. 42
11. References ............................................................................................. 44
12. Tables ..................................................................................................... 47