

An Empirical Study on the New Keynesian Wage Phillips Curve: Japan and the US*

Ichiro Muto[†] Kohei Shintani[‡]

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Abstract

We provide an empirical analysis on the New Keynesian Wage Phillips Curve (NKWPC), which is derived by Galí (2011) as a micro-founded structural relationship between wage inflation and unemployment rate under sticky wage framework, using the data of Japan and the US. We find that the empirical performance of the NKWPC in Japan is superior to those in the US on the whole. We also find that the slope of the NKWPC is much steeper in Japan than in the US. These results suggest that the degree of wage stickiness is smaller in Japan than in the US. Inflation indexation plays a very important role in the US, but not so much in Japan. Subsample estimations indicate that the slope of the NKWPC has been flattened over time in Japan. The results using recent data indicate that the role of inflation indexation is quantitatively small in both Japan and the US, although this result might be influenced by low and stable inflation rates in a past few decades.

JEL Classification: E24, E31, E32

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[†]Director, Research and Statistics Department (currently, Financial System and Bank Examination Department), Bank of Japan. E-mail: ichirou.mutou@boj.or.jp. Tel: +81-3-3277-1111. 2-1-1 Nihonbashi-Hongokuchō Chūō-ku, Tokyo, 103-8660, Japan.

[‡]Research and Statistics Department, Bank of Japan, E-mail: kouhei.shintani@boj.or.jp.