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Unbiased Estimation of the Half-Life to Price Index Convergence among US Cities

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Abstract:

Cecchetti et al. (2002) estimate the half-life to price index convergence among U.S. cities to be approximately nine years. Although they correct for the small-sample bias in their panel estimate of the half-life, they do not adjust for biases that may potentially arise due to heterogeneity in the dynamic behavior of prices across cities, and time aggregation of price indices. This paper finds no evidence of significant heterogeneity in the dynamics of prices in different cities. However, corrected for the combined small-sample and time aggregation bias, the panel estimate of the half-life is found to be about seven years – two years shorter than the previous estimate.