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Do regions matter for the behavior of city relative prices in the U. S.?

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Abstract:

In this paper, we examine the importance of regions in the behavior of city level relative prices in the United States. The results indicate that average relative price variability is significantly lower if the city pairs associated with a relative price series belong to the same region. However, after controlling for the effect of distance, relative price variability (measured by standard deviation of relative prices) increases significantly if both cities are in the West and relative price variability (measured by standard deviation of relative price changes) decreases if they both are in the Northeast. Further, relative price variability increases significantly if at least one city is located either in the South or in the West. We find that the likelihood of relative price convergence increases if both cities belong to the South and this result is robust irrespective of whether we control for distance or not. It, however, decreases if at least one city belongs to the West**.** Finally, distance appears to increase relative price variability and to lower the likelihood of relative price convergence if at least one city is located in the South.