

Estimating a New Keynesian Phillips curve for Bolivia

Antonio Murillo Reyes

Abstract

In this study it is examined the empirical relevance of the New Keynesian Phillips curve for Bolivia. A new Keynesian hybrid Phillips curve is estimated for the period 2006-July 2014. The empirical model for the case of an open economy is extended, considering the influence of the percentage changes of external inflation on domestic prices; it also takes into account the influence of past inflation on the formation of prices. It is not included in the model estimation the nominal exchange rate due to endogeneity biases encountered in the analysis, especially in the period 2008-2014.

Throughout the study, it is found that domestic inflation responds to a greater extent to its past behavior, than to the future expectation about its behavior. Being a small and open economy to foreign trade, imported inflation is an important determinant of domestic price formation. Similarly, the output growth, as a proxy for GDP growth cycle, positively affects inflation, especially in periods of high economic activity. In the long term, backward and forward-looking components and imported inflation have no effect on prices.

JEL Classification: C5, C52, E31, F41

Keywords: *New Keynesian Phillips Curve, inflation dynamics, generalized method of moments*