

## **Regional inflation, spatial locations and the Balassa-Samuelson effect**

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We empirically analyze regional inflation using data from Japan where there is no regulation to impede the free movement of labor, capitals, goods and services across regions. In particular, our analysis will focus on the geographical location of regions and the productivity effect as explanation for the dynamics of regional inflation. Technically, given that home inflation is often affected by that of neighbors, spatial models have been employed in order to explicitly capture this spillover effect. Similarly, the productivity spillover is modelled in the specification. Then we find that both spatial locations and productivity are important determinants of regional inflation. Furthermore inflation persistence is reported to play an important role in explaining regional data.