Is the Persistence of Japan's Low Rate of Deflation a Problem?

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1. Deflation and Liquidity Trap

Fig.1 Inflation Rate of GDP Deflator
(Fixed-Based, excluding Consumption Tax)

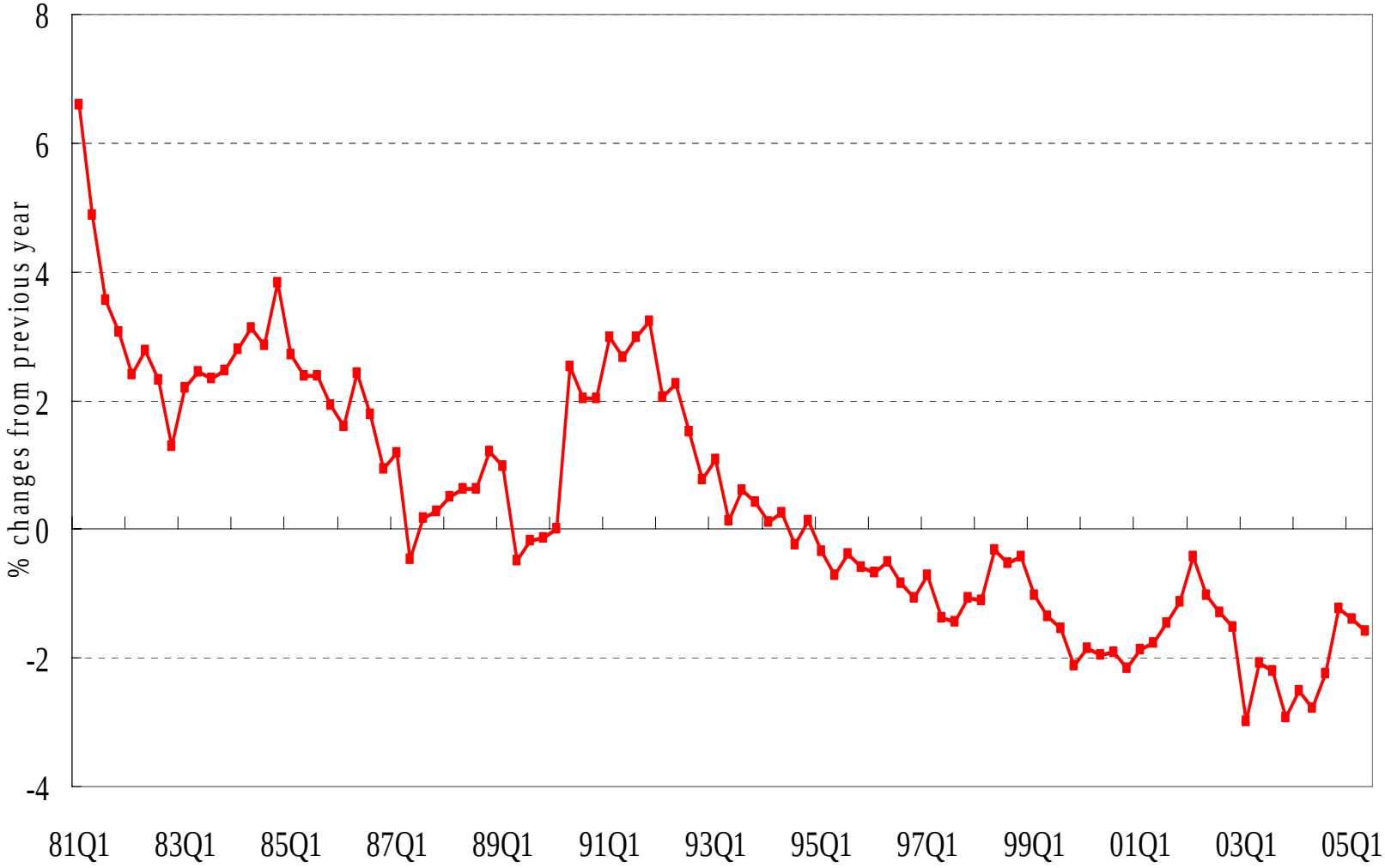
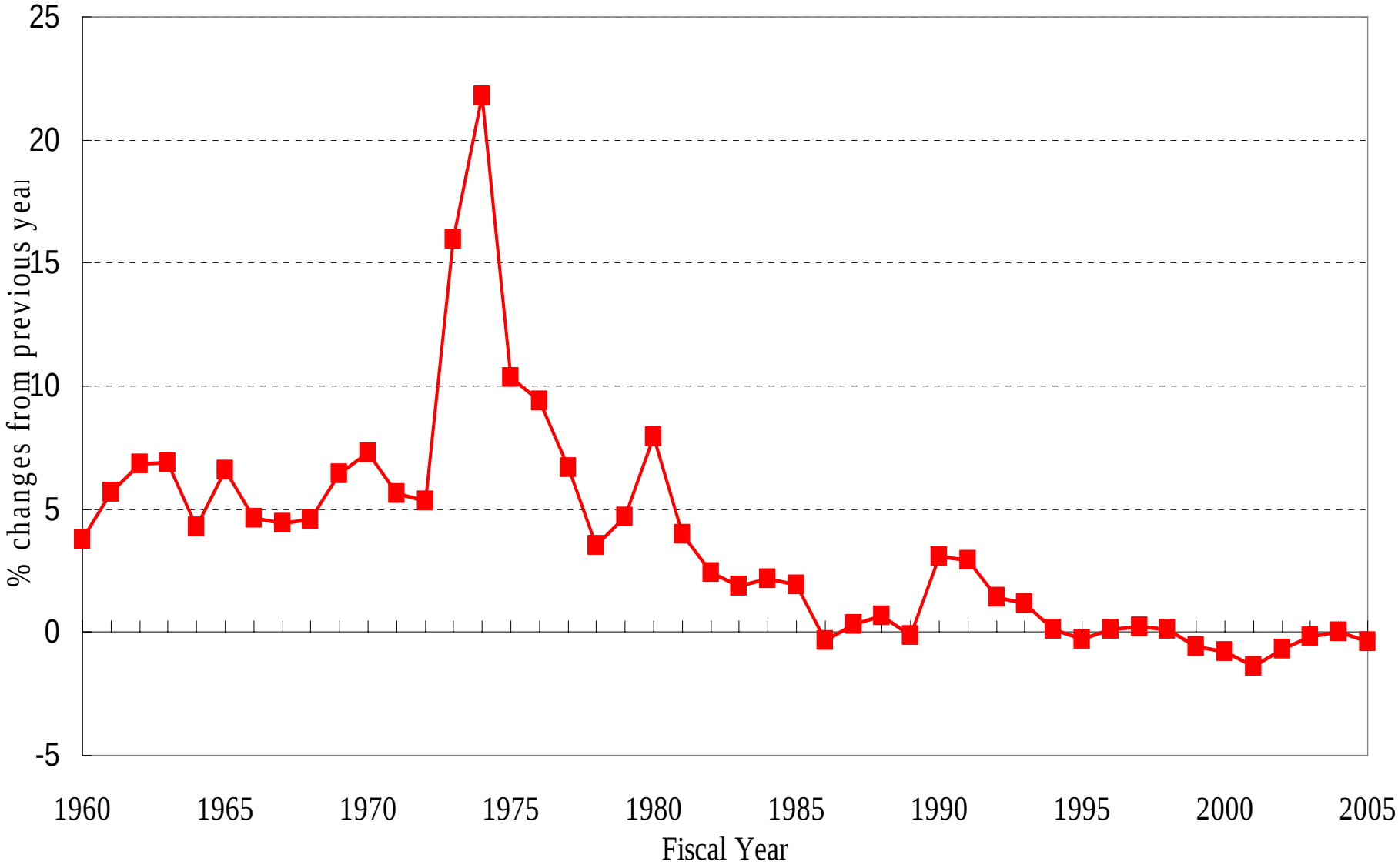


Fig.2 CPI Inflation Rate excluding Consumption Tax



Demand for Narrow Money

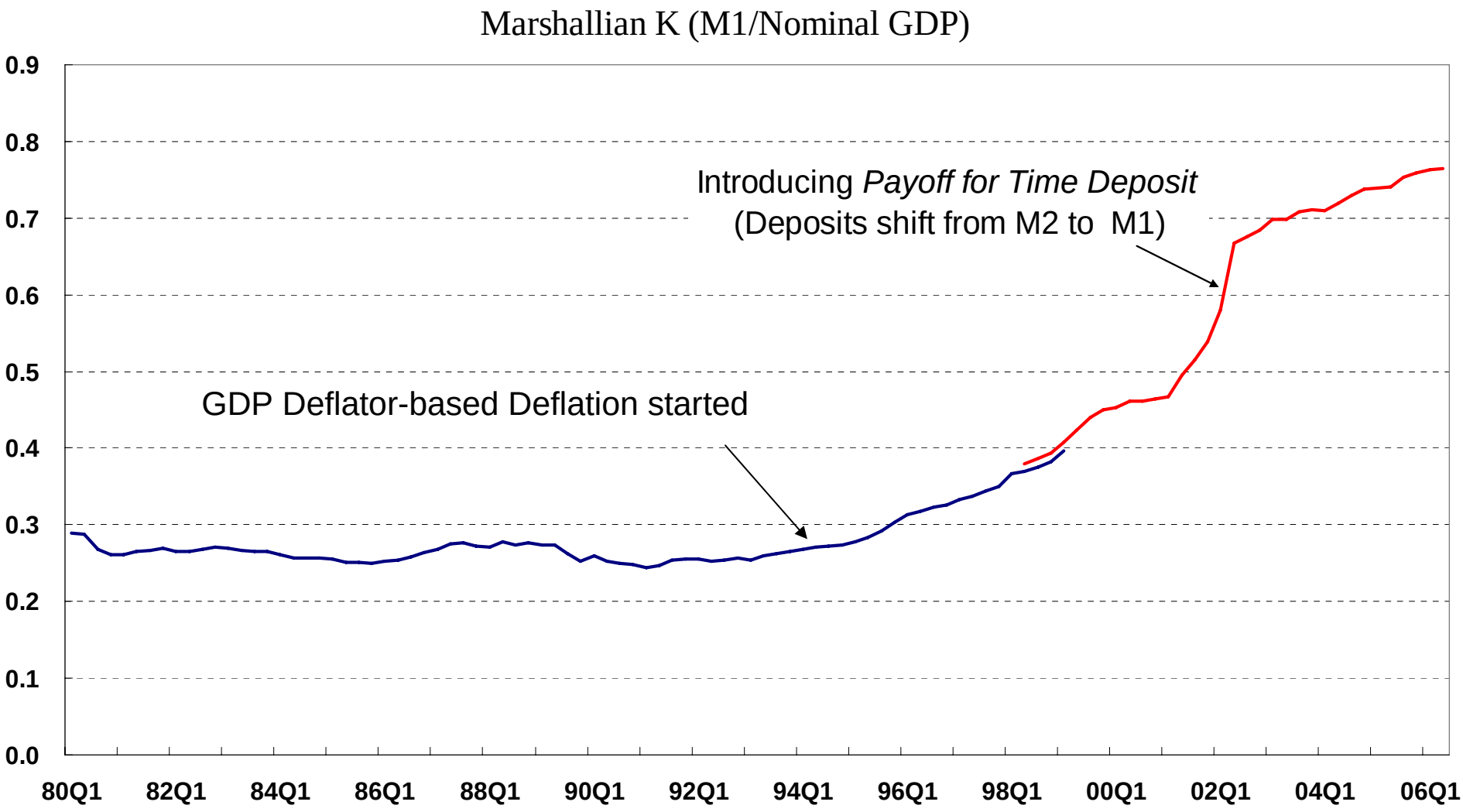
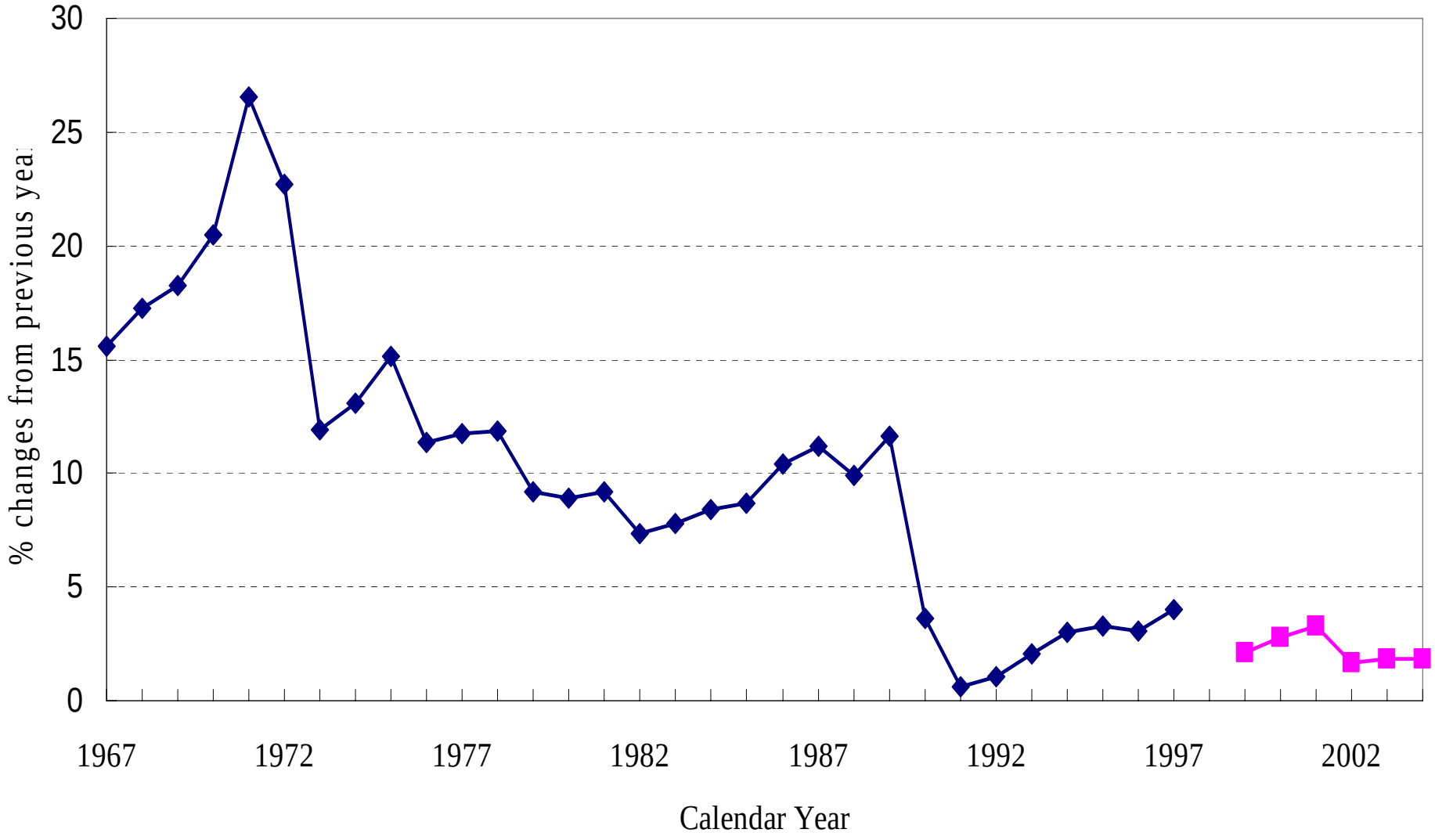


Fig.5 Growth Rate of Money Stock (M2+CD's)



ln(Money Stock) **Fg.3 Change of Monetary Growth happened at T**

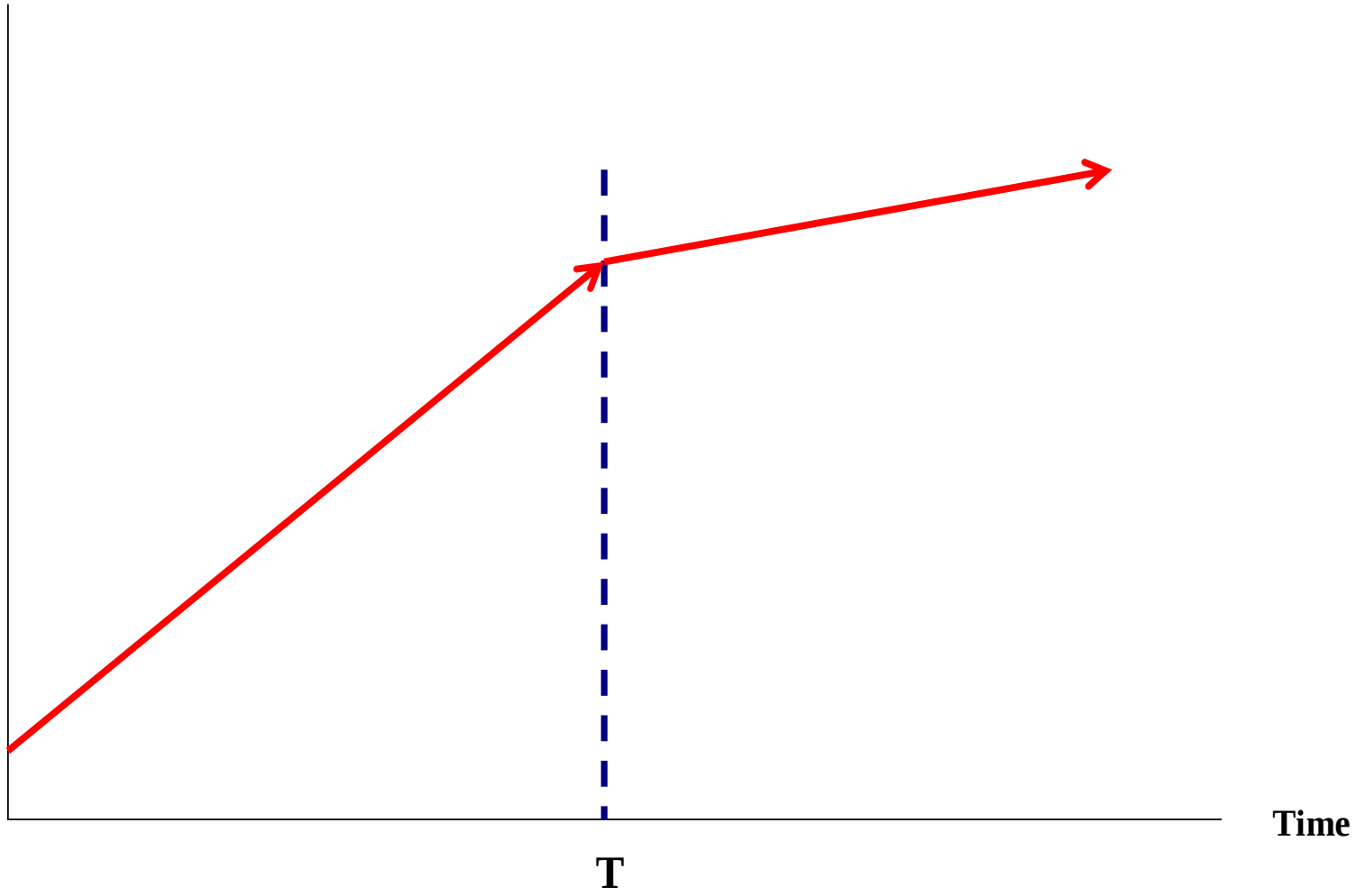
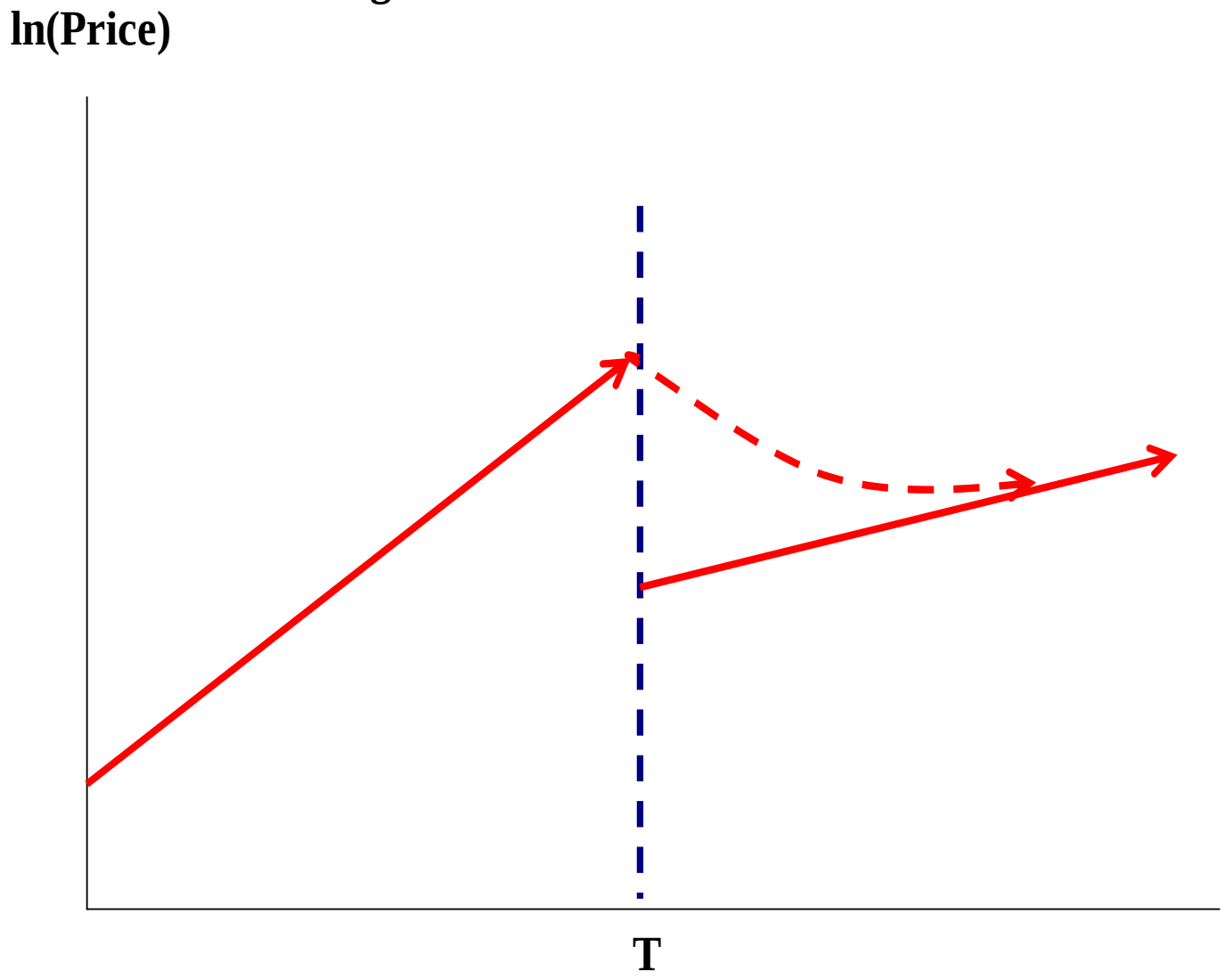
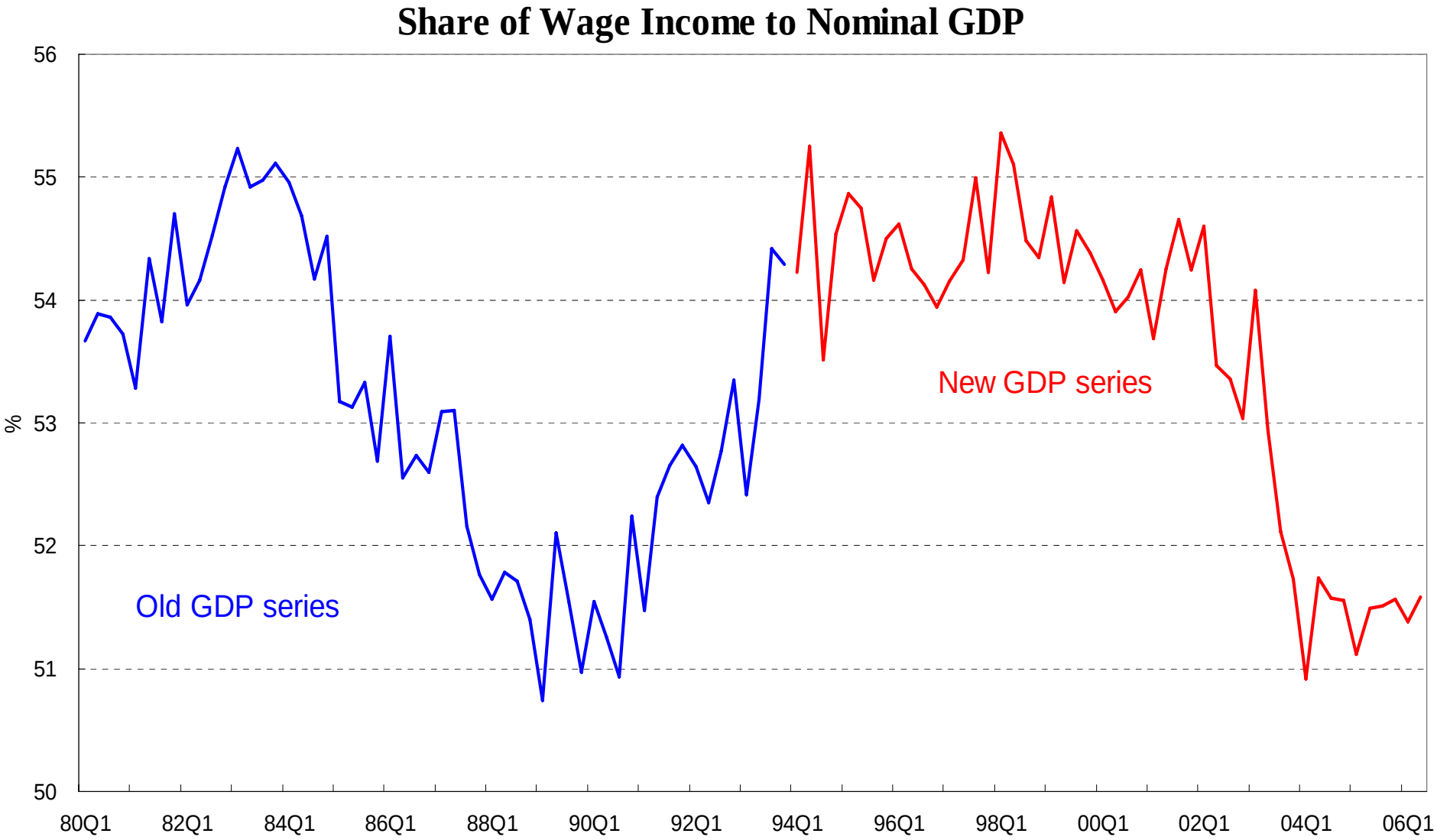


Fig.4 Transition Path of Price Level



2. Real Wages, Deflation and Corporate Profit


Share of Wage Income to Nominal GDP
56
55
54
53
52
51
50
%
Old GDP series
New GDP series
80Q1
82Q1
84Q1
86Q1
88Q1
90Q1
92Q1
94Q1
96Q1
98Q1
00Q1
02Q1
04Q1
06Q1

$$\text{Share of Wage Income to Nominal GDP} = \frac{\text{Compensation of Employee}}{\text{Nominal GDP}}$$

$$= \frac{\left(\dfrac{\text{Conpensation of Employee}}{\text{GDP Deflator} \cdot \text{Employee}} \right)}{\text{Hour Worked}}$$

$$= \frac{\left(\dfrac{\text{Real GDP} / \text{Employee}}{\text{Hour Worked}} \right)}{}$$

$$= \frac{\text{Real Wage Rate}}{\text{Labor Productivity}}$$

Fig.6 Labor Productivity and Time Trend
(1994Q1=100)

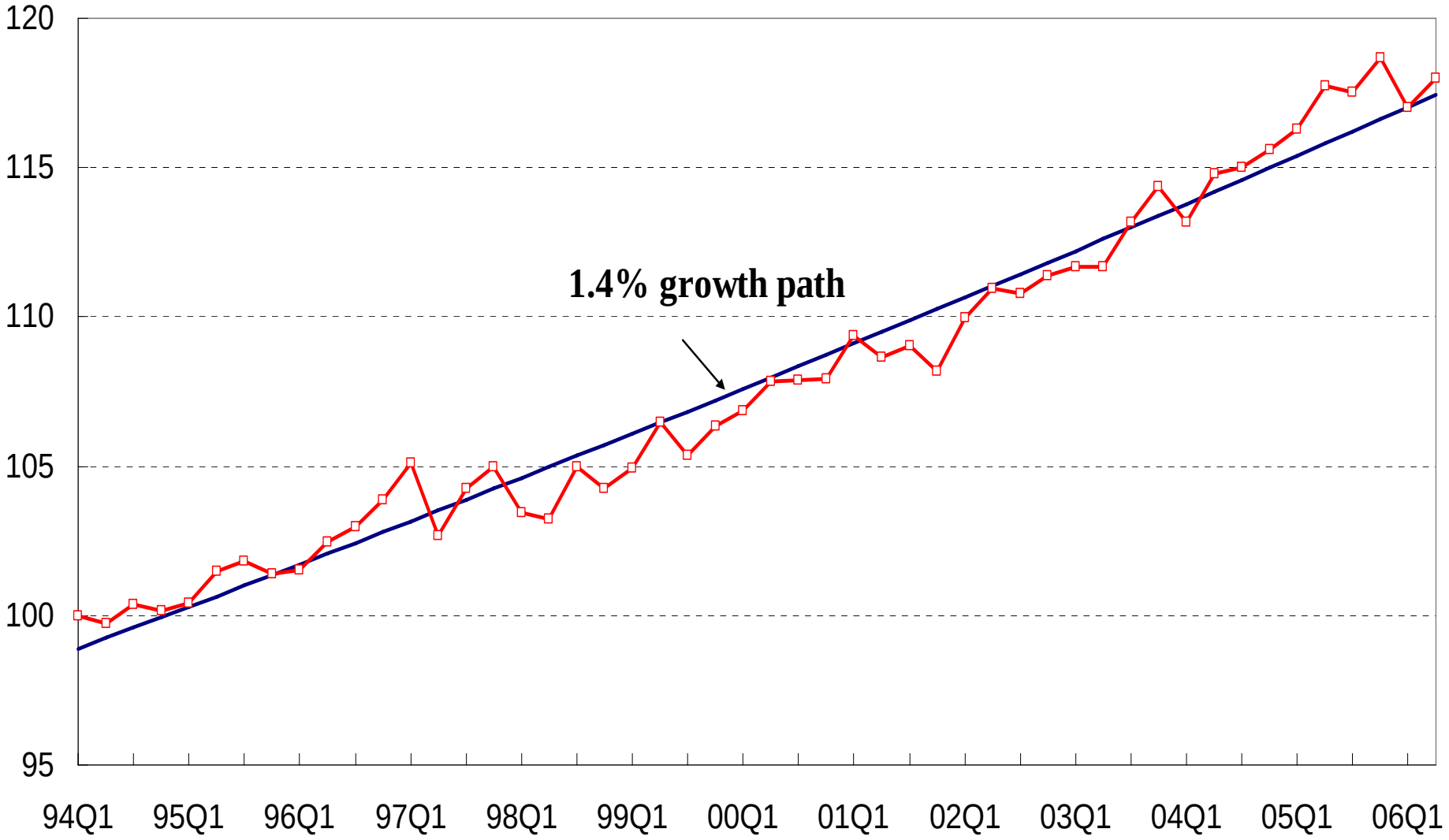


Fig.7 Nominal and Real Wage Rate
(1994Q1=100)

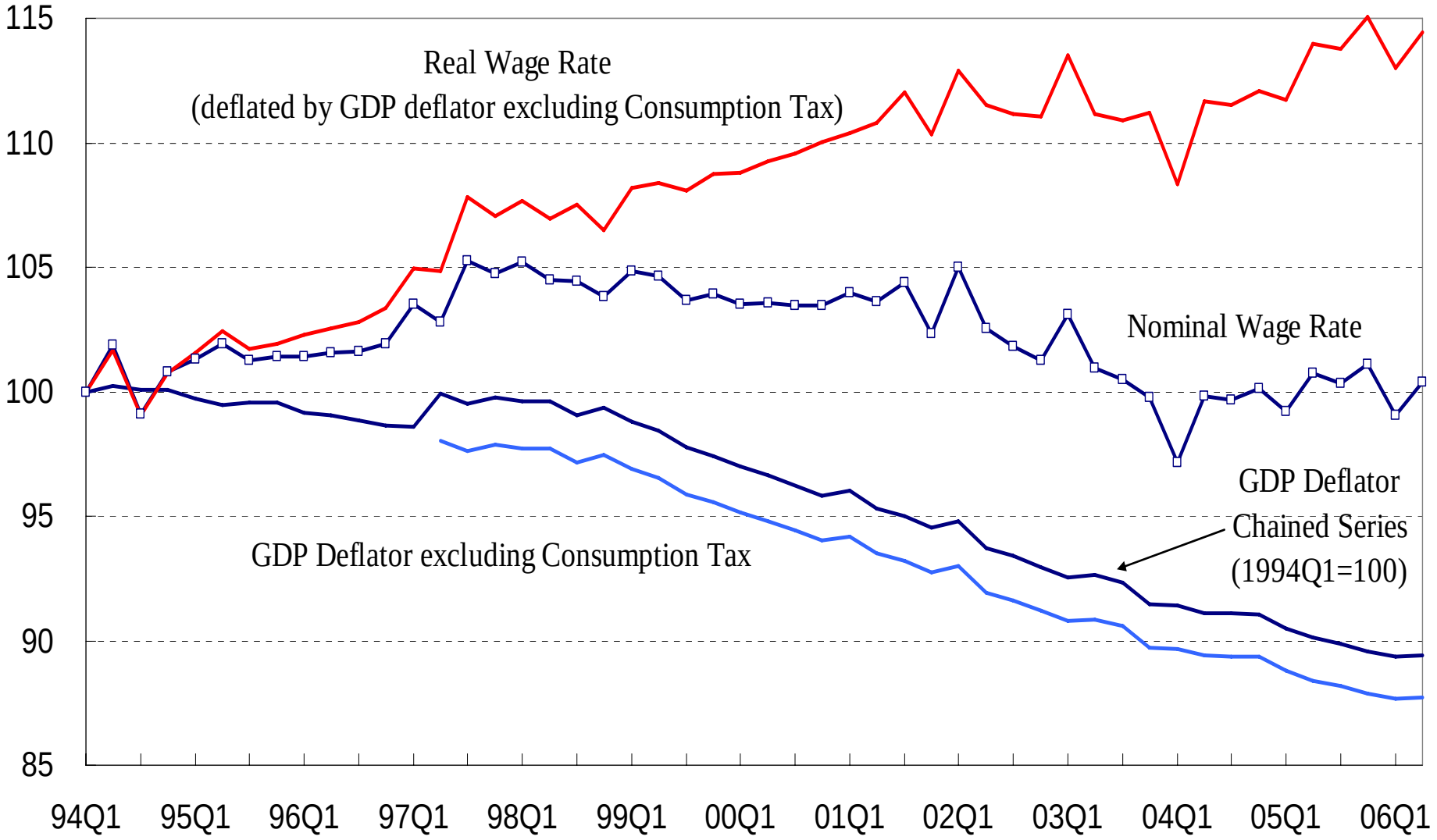


Fig.8 Labor Productivity and The Real Wage Rate
(1994Q1=100)