Comments on “Defining Price Stability in Japan: A View from America” by C. Broda and D. E. Weinstein

June 25, 2007
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Revision from the Previous Version

• Some Improvements:
  – Less factual errors
  – Less misrepresentation of my work
    but, still missing references (mainly my work)

• Unresolved Fundamental Problems:
  – Too narrow scope to discuss “defining P-
    stability”
  – Terrible “guesstimations”
Definition of P-Stability

From the Viewpoint of Monetary Policy Making

Sustainable P-stability ↔ Measured P-stability

Broader issues to be covered in discussing how to define P-stability

Implication of upward bias in CPI?

Measurement Errors in Price Indexes + Safety Margin against Deflationary Spiral
Implications of Upward Biases

Upward biases in price indexes

Overestimation of inflation rates
Underestimation of growth rates
(Underestimation of real interest rates as well)

Better price measurement
Correct both overestimated inflation and underestimated growth

Lower numerical target
(Higher real i-rates → Smaller safety margin)
## Estimates of Measurement Errors

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>USA</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Shiratsuka</td>
<td>Shiratsuka</td>
<td>B-W (2007)</td>
</tr>
<tr>
<td>U-level sub.</td>
<td>0.00%</td>
<td>$\uparrow$</td>
<td>0.2</td>
</tr>
<tr>
<td>L-level sub.</td>
<td>0.10</td>
<td>$\uparrow$</td>
<td>0.4</td>
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<tr>
<td>Quality</td>
<td>0.70</td>
<td>$\downarrow$</td>
<td>0.8+0.2</td>
</tr>
<tr>
<td>Outlet sub.</td>
<td>0.10</td>
<td>$\uparrow$</td>
<td>0.2</td>
</tr>
<tr>
<td>Weighting</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Total</td>
<td>0.90</td>
<td>$\downarrow$</td>
<td>1.8</td>
</tr>
</tbody>
</table>

- USA: 0.05, 0.55, 0.37, 0.8
- Total: 1.10, 0.80, 0.87, 1.0
Terrible Guesstimations

(US Economy)

Sources of M.E.

US Economic Structure + US Compilation Methods of CPI

Magnitude of U-Biases

(JPN Economy)

Sources of M.E.

JPN Economic Structure + JPN Compilation Methods of CPI

Naïve application of US results

Magnitude of U-Biases