

Frequency of Price Changes

Pascal Michailat

<https://www.pascalmichailat.org/t5.html>



Price rigidity: prices do not fully respond to underlying shocks
 Special case: fixed price

Price flexibility: prices fully respond/absorb shocks

Table 1 Frequency of price change in consumer prices

	Median		Mean	
	Frequency (per month)	Implied duration (months)	Frequency	Implied duration
Nakamura & Steinsson (2008)				
Regular prices (excluding substitutions 1988–1997)	11.9	7.9	18.9	10.8
Regular prices (excluding substitutions 1998–2005)	9.9	9.6	21.5	11.7
Regular prices (including substitutions 1988–1997)	13.0	7.2	20.7	9.0
Regular prices (including substitutions 1998–2005)	11.8	8.0	23.1	9.3
Posted prices (including substitutions 1998–2005)	20.5	4.4	27.7	7.7
Klenow & Kryvtsov (2008)				
Regular prices (including substitutions 1988–2005)	13.9	7.2	29.9	8.6
Posted prices (including substitutions 1988–2005)	27.3	3.7	36.2	6.8

Source: Nakamura and Steinsson (2013)

↑
 ~ 7-8 months of price stability
 ~ 9-11 months

A lot of heterogeneity in frequency of price changes.



Figure 3

The expenditure weighted distribution of the frequency of regular price change (percent per month) across product categories (entry-level items) in the US Consumer Price Index (CPI) for the period 1998–2005. Data taken from Nakamura & Steinsson (2008).

Source: Nakamura and Steinsson (2013)