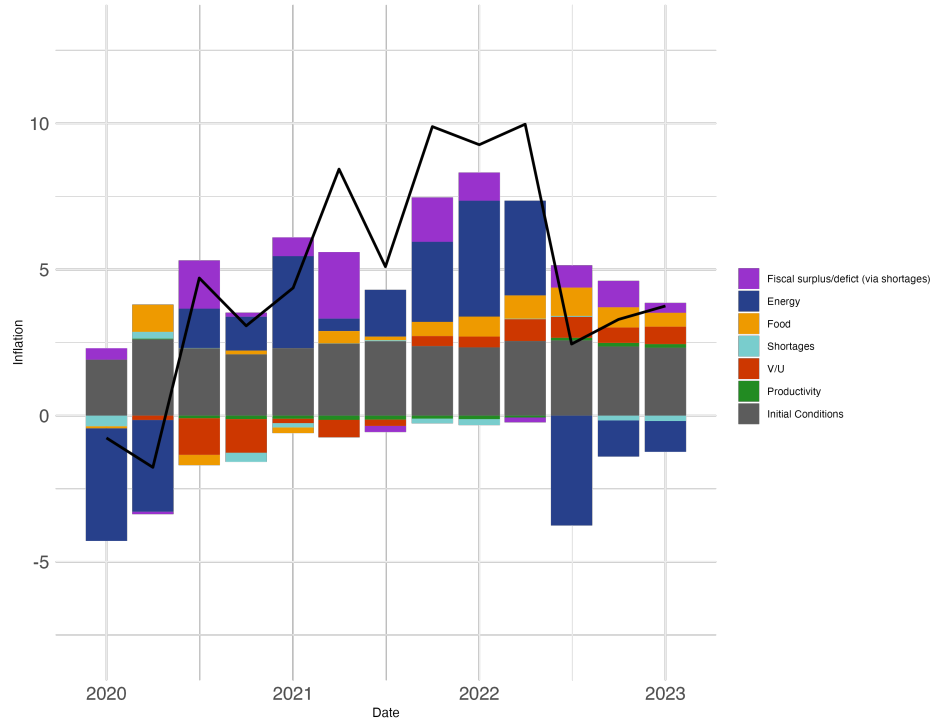


(A) Price inflation



(B) Wage inflation

FIGURE 1: Historical decomposition of price inflation: replication of Bernanke and Blanchard (2023) (panel A) and model with the fiscal extension I propose (panel B). I extend Bernanke and Blanchard (2023) endogeneizing the shortages variable with the inclusion of a fiscal proxy. This permits to estimate a fiscal (via shortages) component of inflation. Each bar represents the fully dynamic- both direct and indirect -contribution of each component to price and wage inflation. The black line represents the actual path of inflation. The difference between the bars and the actual values line represents model residuals.