

90 Views | 17 CrossRef citations to date | 0 Altmetric

Original Articles

# Sacrifice ratio dispersion within the Euro Zone: what can be learned about implementing a single monetary policy?

Jean-Jacques Durand, Marilyne Huchet-Bourdon & Julien Licheron

Pages 601-621 | Published online: 07 Aug 2008

Cite this article <https://doi.org/10.1080/02692170802287672>

Sample our  
Economics, Finance,  
Business & Industry Journals

>> [Sign in here](#) to start your access to the latest two volumes for 14 days

Full Article | Figures & data | References | Citations | Metrics

Reprints & Permissions

[Read this article](#)

## Abstract

This article  
dispersion  
ratio, de  
are obta  
10-year-  
disp  
simul  
the initia  
the choi  
rather th  
cannot p  
would sug

### We Care About Your Privacy

We and our 848 partners store and/or access information on a device, such as unique IDs in cookies to process personal data. You may accept or manage your choices by clicking below, including your right to object where legitimate interest is used, or at any time in the privacy policy page. These choices will be signaled to our partners and will not affect browsing data. [Privacy Policy](#)

We and our partners process data to provide:

Use precise geolocation data. Actively scan device characteristics for identification. Store and/or access information on a device. Personalised advertising and content, advertising and content measurement, audience research and services development.

List of Partners (vendors)

I Accept

Essential Only

Show Purposeful evidence

structural  
the sacrifice  
in reduction,  
as well as  
evidence  
to the  
ship between  
fication for  
nk (ECB)  
cond, we  
sion, which  
did not



involve a true reduction of structural differences. It is likely to be a problem in the stance of a single monetary policy, because structural differences imply asymmetric responses of real national economies to the same monetary impulse.

Keywords: sacrifice ratio monetary policy convergence Economic and Monetary Union (EMU)

JEL classifications: C22 E32 E52 E58

## Acknowledgement

We are indebted to two anonymous referees for insightful comments. We also wish to thank the participants at seminars at the 22nd Symposium on Banking and Monetary Economics (France, Strasbourg, June 2005) for helpful comments on a earlier version of this paper.

## Notes

1. Two key comments need to be made regarding the definition of a sacrifice ratio. First, this ratio is not a measure of the net cost of disinflation: it does not take into account the long-term benefits associated with lower inflation. Second, the output cost is only one cost among others resulting from disinflation, as Filardo ([1998](#)) notes. Recessions associated with large inflation reductions not only lower GDP but also induce other

costs that  
unempl

2. As Filardo and King's ([1982](#)), a

that is g  
linea  
unlike  
exogen

3. Ball (1  
using an  
countries



4. See, for example, Jordan ([1997](#)), Neely and Waller ([1997](#)) or Zhang ([2005](#)).
5. As emphasized by an anonymous referee, assuming the demand disturbance to be a monetary shock for the considered period is a strong assumption. However, preliminary attempts using a three-variable model (including the short-term nominal interest rate) have reached the same conclusions as with our bivariate model. Besides, Cecchetti and Rich ([2001](#)) however show that the imprecision in sacrifice ratio estimates increases with the number of endogenous variables. For these reasons, we concentrate solely on a two-variable system, and associate shifts in monetary policy with the aggregate demand shock.
6. Demand shocks, especially monetary policy shocks, should distort the path of potential output and thus have an impact on the Nairu (Non-Accelerating Inflation Rate of Unemployment). In the case of EMU countries, Logeay and Tober ([2006](#)) stress the dependence of the Nairu on actual unemployment, which entails the existence of 'hysteresis effects'. This hysteresis phenomenon implies the possibility of a long-run non-neutrality of monetary policy, as described in Ball ([1999](#)), Ball and Mankiw ([2002](#)) and Zhang ([2005](#)).
7. This assumption is also questionable since we have quarterly data: several recent empirical studies suggest that monetary impulses would affect the inflation rate with a lag of two to three months in the euro area.
8. We should note however that the hypothesis of five optimal lags has proved relevant in some cases, which is why the VAR models have also been estimated using five lags. Results a...ur lags, which at...tion are available...put to the supply s...sed by Blan...to the demand...would entail the exist...etary policy, i.e. equi...e negative
9. Impul...tion are available...put to the supply s...sed by Blan...to the demand...would entail the exist...etary policy, i.e. equi...e negative
10. Prov...etary policy, i.e. equi...e negative



effects of restrictive monetary policy. This questionable assumption represents one of the limitations inherent in the VAR modelling approach.

11. If we employ the short-run constraint described above, we get higher estimates of the average sacrifice ratio as well as higher values for their standard deviation. However, the evolution of the average sacrifice ratio and the dynamics of the standard deviation of rolling estimates over the period 1972:1-2003:4 are very similar to the conclusions reached with the long-run constraint.

12. We have also used other indicators to evaluate the degree of dispersion within euro area sacrifice ratios: the simple spread (which measures the difference between the highest and lowest estimates of the sacrifice ratio at each date), or the spread between the average of the three countries with the highest and lowest sacrifice ratios (in order to adjust for the sensitiveness of the simple spread to outliers). Results are not reported herein, but these two alternative dispersion indicators broadly exhibit the same behaviour as the unweighted standard deviation: there is no clear evidence of a decrease in the dispersion of sacrifice ratios.

13. Many theoretical and empirical studies, such as Akerlof, Dickens, and Perry ([1996](#), [2000](#)), show that a moderate level of inflation could provide some 'grease' to the price and wage setting process.

14. Of course, our findings say nothing about the optimal rate of inflation, because we only analyse the short-term output costs of fighting inflation. Further empirical analysis should try to balance more precisely the relative costs and benefits of a zero inflation target vs

Relate



Information for

- Authors
- R&D professionals
- Editors
- Librarians
- Societies

Opportunities

- Reprints and e-prints
- Advertising solutions
- Accelerated publication
- Corporate access solutions

Open access

- Overview
- Open journals
- Open Select
- Dove Medical Press
- F1000Research

Help and information

- Help and contact
- Newsroom
- All journals
- Books

Keep up to date

Register to receive personalised research and resources by email

 Sign me up



✕