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## sing Engel curves to estimate CPI bias in a small, open, inflation-targeting economy

John Gibson 🔀 & Grant Scobie

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## **Abstract**

The Consumer Price Index (CPI) bias for New Zealand is calculated by estimating the

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- <sup>1</sup> Examples include Australia (Edwards, <u>1997</u>), France (Lequiller, <u>1997</u>) and the United Kingdom (Fenwick, <u>1997</u>). Similarly, the New Zealand Government Statistician claimed that 'The CPI in the United States is not updated as frequently as in New Zealand. ... I do not believe that the level of bias estimated in the Boskin report for the US. CPI is relevant to New Zealand' (Morris, <u>1997</u>, p. 50). Similarly, the Reserve Bank of New Zealand note 'Statistics New Zealand appears to be more thorough than many foreign statistical bureaus in trying to account for these biases' (Ebert, <u>1994</u>, p. 25).
- $^2$  A chronology of New Zealand's financial market reforms is given by Boyle and Eckhold (1997).
- <sup>3</sup> The Boskin Commission estimated commodity substitution bias of 0.15 percentage points out of a total annual bias of 1.1 points. This was comparable to the outlet bias of 0.1 points and smaller than the formula bias of 0.25 points and the bias due to quality change and new products of 0.6 points.
- <sup>4</sup> Here the CPI failed to capture rising costs of housing services in a credit-financed house price boom.
- <sup>5</sup> This provides the basis of the Almost Ideal Demand System (AIDS) of Deaton and Muellbauer (<u>1980</u>). Results when a quadratic in log income is used are also described in the following.
- <sup>6</sup> New Zealand does not have a spatial price index, so a model which relies on crosssectional variation in relative food prices could not be utilized.



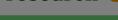
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