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Price Setting during Inflation Slow-Down Period

Abstract. This paper examines the online platform price dynamics for the Core CPI related products in Ukraine during a special period in which inflation is actively decelerated. We extracted daily prices from 7 prevailing online shopping platforms serving 27 Ukrainian major cities and regional centres from December 2015 to October 2017. This unique dataset contains 111985 varieties of related goods, providing a rich variety match with the broad categories used in the Core CPI basket. Our preliminary results document that, in contrast to the price dynamics of other broad categories shown in the online price literature, food and beverage products tend to exhibit more frequent but smaller steps of price adjustments. On the other hand, consistent the recent findings in the literature, most good price adjustments lack responses to the aggregate inflation indicated by the core CPI indices. Several factors contribute to the stylised price dynamics in the sample. First, under the inflationary trend pressure, the upward price revisions weight out the negative ones both in terms of frequency and average size for most shops. Second, shop-specific factors, inflationary expectation, and exchange rate volatility contribute to different layers of the extensive margin of price adjustments (i.e. fraction of goods with price changes). Third, geographical location significantly contribute to the price dispersion and the dissynchronisation of price adjustments within a shop and across shops. Larger cities are served by more platforms with richer varieties of goods. Fourth, shop-specific factors, geographical location, and origination country of product are associated with the sensitivity of the good-specific price adjustment to general inflation.