

Abstract

We analyse the impact of product market competition on the responsiveness of inflation to macroeconomic imbalances. Results based on a 20-country OECD panel estimated for the period 1961-2006 show that if product market competition is high the response of inflation to lagged inflation and unemployment is reduced, while inflation is more responsive to changes in productivity growth in countries in which competition is above the OECD average. When product market competition is measured by barriers to firms' entry, we also find that low entry barriers dampen the effect on inflation of movements in import prices. These results are attributed to temporary mark-up changes after demand- and supply-side shocks.

Keywords: Inflation dynamics; Product market competition; Labour market coordination; Trade union density.

JEL Classification: E02; E31; J51.