European Inflation Dynamics: A Correction *

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Our paper on European inflation dynamics published in volume 45 of this journal (Galí, Gertler and López-Salido (2001)) contained an error in the formula used to calibrate the elasticity of output with respect to capital in a Cobb-Douglas production function (the parameter denoted by α in the original paper), as well the description of that calibration in the note to Table 1. Below we report the corrected estimates corresponding to the panels of Tables 1, 2, and 3 that were affected by the error. None of the qualitative results are significantly altered, though the implied estimates of average price durations are somewhat higher, especially in the Euro area.

References

Galí, J., M. Gertler, and D. López-Salido (2001): "European Inflation Dynamics," *European Economic Review* 45, 1237-1270.

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Table 1

Structural Estimates

	Parameters				*Test*
	θ	β	λ	D	J
Euro Area					
$\mu = 1.1$, $\alpha = 0.175$					
(1)	0.777	0.843	0.099	4.5	8.843
	(0.021)	(0.046)	(0.025)	(0.09)	(0.452)
(2)	0.834	0.915	0.047	6.0	8.214
	(0.032)	(0.040)	(0.022)	(0.19)	(0.513)
United States					
$\mu = 1.1$, $\alpha = 0.270$					
(1)	0.603	0.872	0.311	2.5	7.022
	(0.051)	(0.041)	(0.106)	(0.13)	(0.534)
(2)	0.698	0.923	0.154	3.3	5.760
	(0.058)	(0.029)	(0.070)	(0.19)	(0.674)

Note: Parameter α is calibrated so that (1-α) equals the average labor income share times the chosen markup (μ). The average labor income shares are taken to be equal to 2/3 for the US and 3/4 for the Euro Area. Sample Period: 1970-1998. Column D reports the implied average price duration. J is the Hansen test statistic for the overidentifying restrictions (p-value in brackets). Instruments for Euro area estimation: inflation t-1 to t-5, output gap, labor income share and wage inflation: t-1 to t-2. Instruments for US estimation: the same excepts inflation from t-1 to t-4.

Table 2

Hybrid Model

	Parameters							*Test*
	ω	θ	β	γ_b	γ_f	λ	D	J
Euro Area								
$\mu = 1.1$, $\alpha = 0.175$								
(1)	0.028	0.778	0.846	0.035	0.820	0.091	4.5	8.767
	(0.099)	(0.024)	(0.053)	(0.120)	(0.046)	(0.041)	(0.11)	(0.362)
(2)	0.307	0.843	0.923	0.272	0.689	0.021	6.4	7.484
	(0.128)	(0.066)	(0.071)	(0.072)	(0.047)	(0.026)	(0.42)	(0.380)
United States								
$\mu = 1.1$, $\alpha = 0.270$								
(1)	0.299	0.591	0.870	0.345	0.593	0.161	2.4	4.726
	(0.059)	(0.065)	(0.053)	(0.045)	(0.047)	(0.077)	(0.16)	(0.693)
(2)	0.355	0.640	0.912	0.364	0.599	0.100	2.8	4.216
	(0.067)	(0.073)	(0.044)	(0.042)	(0.038)	(0.057)	(0.20)	(0.755)

Note: see note to Table 1 for details.

Table 3

Hybrid Model: Further Inflation Lags

	Parameters								*Test*
	ω	θ	β	γ_b	γ_f	λ	ψ	D	J
Euro Area									
(1)	0.113	0.782	0.847	0.128	0.751	0.074	-0.01	4.6	6.350
	(0.085)	(0.074)	(0.059)	(0.086)	(0.044)	(0.047)	(0.089)	(0.34)	(0.096)
(2)	0.195	0.867	0.861	0.188	0.719	0.026	0.049	7.1	5.925
	(0.105)	(0.107)	(0.069)	(0.083)	(0.043)	(0.062)	(0.077)	(0.76)	(0.115)
United States									
(1)	0.300	0.646	0.870	0.326	0.610	0.117	0.044	2.8	1.863
	(0.106)	(0.106)	(0.128)	(0.089)	(0.062)	(0.080)	(0.067)	(0.30)	(0.761)
(2)	0.323	0.669	0.895	0.333	0.617	0.093	0.036	3.0	1.566
	(0.112)	(0.114)	(0.131)	(0.088)	(0.057)	(0.071)	(0.065)	(0.34)	(0.815)

Note: all the estimates correspond to the model under decreasing returns to labor.