

The International Comparisons Program and the Country-Product-Dummy Method: An Application to the Asia-Pacific Region

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Abstract:

Basic heading (disaggregated) price indexes provide the building blocks from which international comparisons are made. Most errors arise at this disaggregated level and hence it is here that the most pressing research problems can be found. Perhaps the most striking result that emerged from the International Comparisons Program (ICP) results for 2005 was that China came out 40 percent smaller than previously thought. Using the raw price quote data from a sample of nine countries from the Asia-Pacific region we consider the extent to which this result can be explained by either an excessive focus in China on urban areas or on unrepresentative products in the data collection process. More generally, we consider whether the country-product-dummy (CPD) method used to construct the basic heading price indexes could be improved in future rounds of ICP by including representative dummies, correcting for heteroscedasticity and semilogarithmic coefficient bias, or by pooling the estimation of CPD equations across basic headings. We also explore the viability of estimating CPD-type regressions directly from the individual price quotes rather than country average prices as is currently done in ICP.

Keywords: International Comparisons Program; Country-Product-Dummy Model; Urban-Rural Price Differences; Representative and Unrepresentative Products; Product Specification

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