ANALYSES OF OIL SHOCKS ASYMMETRY ON INFLATION: NEW EMPIRICAL EVIDENCE FROM OPEC MEMBER COUNTRIES

Mohammad Jafari\textsuperscript{1} and Akbar Khodabakhshi\textsuperscript{2}

\textsuperscript{1}Lorestan University, Iran. mohjafari@gmail.com
\textsuperscript{2}Asst. Prof., Department of Economics, Bu-Ali Sina University, Hamedan, I.R. of Iran akbarkh2006@gmail.com

Abstract

This paper tries to investigate the asymmetric effects of oil shocks on inflation in OPEC member countries during the period 1980-2011 by using hidden panel cointegration approach (proposed via Hatemi-J (2011)). To achieve the purpose, firstly, the crude oil prices and consumer price index variables are decomposed for these countries to cumulative positive and negative components. Accordingly, the cross-sectional dependence in models, used the Pesaran unit root test (2007) and Westerlund cointegration test (2007) and shown that does not exist long-run relationship between crude oil prices and the consumer price index (not support linear cointegration); but there is a long-term relationship between this variables and between positive components of the consumer price index and negative components of the oil prices (support hidden cointegration). Finally, these long-term relationships calculated by using the continuously-updated and fully-modified (Cup-FM) (proposed via Bai et al (2009)). The results indicate that both positive and negative oil price shock increase the inflation in the OPEC member countries, so that the impact of negative shocks is more than positive shocks (support asymmetry).

Keywords: Inflation, Oil Price, Cross-Sectional, Dependence, Hidden Panel Cointegration, Continuously-Updated, Fully-Modified.