A Study of the Factorization of Price Changes Using a Structural VAR Model: The case example of Heilongjiang Province (Summary)

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This study examines the factors in the transition of the provincial price index for each industry, and in addition suggests effective macroeconomic policy for Heilongjiang Province in China. The time-series for the provincial price index makes a similar transition to that of the whole country, yet the degree of similarity depends on the industry. According to the characteristics of the transition of the provincial price index, for the time-series processes of these indices it could be assumed that while the provincial prices follow the whole country price trend, the values are affected by province-specific shocks. Supply and demand are considered for the province-specific shocks, based on the standard theory of prices and output. When the government controls price levels or the economic growth rate, fiscal policy, which stimulates the aggregate demand of the targeted economy, is enacted. To identify industries which depend more on the demand shock than on the supply shock, a structural vector auto-regressive (VAR) model is estimated. This paper concludes that residential and clothing industries are specified as the price index which is affected by the demand shocks, and therefore in order to control the price changes fiscal policies on the clothing and residential industries are more effective.