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SPATIAL APPROACH TO HETEROGENEITY OF INFLATION EXPECTATIONS IN THE EURO AREA

Abstract:

In this article, we examine the spatial heterogeneities in inflation expectations of the euro area consumers. We expect to find them heterogeneous in our research period of 2001-2016. Contrary to standard examination of heterogeneity, a spatial correlation analysis is applied by referring to global and local correlation measures. It is performed with the economic distance-based weights (the difference in HICP rates). Application of spatial analysis is the main contribution of our examination. Standard examinations ignore spatial relations and might be misleading. Our findings suggest that expectations are heterogeneous once the differences of inflation rates represent economic distance between the countries that we cover by our examination.

Keywords:

inflation expectations, expectations heterogeneity, euro area, spatial analysis

JEL Classification: E52, E61, C31