

1 Does Internet Reduce Inflation?

With the end of the so called "Great Inflation" in the early 80s, increases in the Consumer Price Index (CPI) have been steadily getting smaller and smaller. Compared to the wild swings of the rest of the 20th century, this trend represents a dramatic change. This new trend coincides with at least one major technological change: the accessibility of web browsing and internet to businesses and consumers.

It has been argued that internet could provide several deflationary effects. First, the transparency on prices could imply a stronger competitive pressure on the products distributed through e-commerce than for the physical retail trade, and therefore lower margins. Second, by supporting international trade of goods and services, internet could have a positive impact on the globalization trend, which in turn has well established disinflationary effects. Third, the development of the internet could also reduced production costs and increased productivity.

In this paper you are asked to investigate whether internet reduces inflation. In other words, you are asked to study whether you find empirical evidence that supports the negative relationship between internet and inflation.

To this end, you are given a dataset that includes a set of variables observed for 20 countries during the period 1995 to 2014. Note that not all variables might be available for all countries and time periods. The variables are:

NAME	DESCRIPTION	SOURCE
country	a numeric variable indicating each country	
countryname	a string variable that indicates the name of the country	
year	the variable indicating time	
hwvi	the HWWI Commodity Price Index is a comprehensive, weekly calculated indicator of price developments in world commodity markets, which includes the major internationally traded commodities.	hwvi-rohindex.de
gdpgap	the output gap, i.e. deviations of actual GDP from potential GDP, as a per cent of potential GDP.	https://stats.oecd.org
internet	fixed-broadband subscriptions per capita (subscriptions/total population).	www.itu.int/pub/D-IND-WTID.0L-2015
fx	the real effective exchange rate index (base year 2005)	data.worldbank.org/indicator/PX.REX.REER
tradeopen	trade openness, measured as merchandise trade as percent of GDP	data.worldbank.org/indicator/TG.VAL.TOTL.GD.ZS
unemp	the unemployment rate	data.worldbank.org/indicator/FP.CPI.TOTL.ZG
cpi	inflation, consumer prices (annual %)	data.worldbank.org/indicator/FP.CPI.TOTL.ZG
phone	fixed-telephone subscriptions per capita (subscriptions/total population)	https://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx
oilprice	price of one barrel of oil, in dollars	www.opec.org/opec_web/en/data_graphs/40.htm

You are expected to apply an appropriate range of methods among those learned in the course,

but it is up to you to decide and justify how to address this research question.

2 Additional Instructions

You should submit your paper in a **single PDF file by May 14, at 11:00 in Inspira. Please copy your do-file at the end of your paper.**

You can submit your work in groups of up to 4 students.

You have no limit on the length of the paper, but, as a rough guide, it is likely you will need around 3,000 words to complete the assignment. Shorter assignments could still receive full marks. In other words, you should not worry about the length of your paper, and rather focus on the **clarity of your writing, appropriateness of the empirical methods chosen and critical assessment of your arguments.**

Your paper is expected to follow the standard structure of an empirical analysis discussed at length in the course. Examples are available on Blackboard.

The paper will be graded in accordance to the grading matrix posted on Blackbord.