

Heterogeneity in Price-Setting Patterns of Firms and Their Implications for Monetary Policy

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This paper summarizes the results of the Bank of Korea's "Survey on Price-setting Patterns of Firms in 2016" and carries out a simulation to analyze the implications for monetary policy.

The survey results can be summarized as follows. First, firms that regularly check and change prices (rigid pricing) account for a majority of all firms, but the number of firms that check and change prices (only) when there is a factor causing price changes (flexible pricing) has increased. Second, the frequency of price adjustments is found to differ from firm to firm, and to have increased. Third, firms cite the following as the top reasons for difficulties in changing prices: the value placed on long-term business relationships with customers, the decisions of competitors to keep prices unchanged, and strategic considerations. Fourth, firms are found to keep their product prices unchanged unless there are large changes in costs, demand or inflation. In addition, the share of firms that consider both overall economic conditions and the relevant industry-specific environment before setting prices is found to have grown since 2012. Last, firms set prices mainly in consideration of optimum margins, prices of competitors, and market supply and demand conditions.

This paper focuses on the heterogeneity in and the increase of the frequency of price adjustments of firms and analyzes their impacts on the effectiveness of monetary policy.

According to the analysis results, when the frequency of price adjustments differs from firm to firm (rather than being the same for all firms), monetary policy are found to have greater impacts on the real sector (the output gap), while having reduced impacts on inflation. When the frequency of price adjustments increases, the effects of monetary policy are analyzed to differ depending upon whether the frequency of price adjustments is the same or different across firms.

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| <ul style="list-style-type: none">■ The views expressed herein are those of the authors and do not necessarily reflect the official views of the Bank of Korea. When reporting or citing this paper, the authors names should always be explicitly stated. |
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