

Description for the general public

There are two main goals of the project.

First, we want to verify the impact of regional price indices on the results of regional wage determinants analyses. In this sense we will take into account 2 main approaches present in the literature: market potential model based on the New Economic Geography (NEG) theoretical provisions and the wage curve proposed first by Blanchflower and Oswald (1990). In the case of the former, the inclusion of regional price indices should allow for more precise estimation of market potential coefficient, as compared to the existing studies. In the case of the latter, the inclusion of regional price deflators should allow for verifying the hypothesis concerning possible overestimation of the relationship between regional wages and the local unemployment rate. Finally, following Fingleton and Palombi (2013, 2016) we will verify which of the above approaches is more adequate in terms of explaining regional real wage differentials. We assume the wage curve approach to be more adequate.

Second, we want to verify empirically one of the main assumptions present in the NEG models concerning the price index and develop a model that takes into account new empirical findings. Here, we focus on the supposition that the core regions should have a lower price index of manufacturing goods. We believe the above assumption is not correct. In order to verify the above, we will calculate regional price indices for manufacturing goods in the case of Poland. Next, if our research hypotheses are correct (the one concerning the wage curve approach and the one concerning the higher price level of manufacturing products in core regions) we will develop a new theoretical model that would include both features within the NEG framework.

The main reason behind the choice of the research topic is the lack of the studies that would include data related to regional price indices. As a result there exists a gap in the literature that can be, for the first time, at least partially filled due to the completion of proposed project.