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Price Puzzle in a Small Open New Keynesian Model

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Highlights

- Using a DSGE model, we examine the issue of the price puzzle.
- We show that, even if exchange rate pass-through was not present, other factors can resolve the puzzle.
- These factors include the degree of openness of the economy, interest rate elasticity of demand, and cost of price adjustment.
- We also examine the role of nexus of monetary policy regime and anticipated monetary shocks.

Abstract

Some recent studies have highlighted the role of exchange rate pass-through in resolving the price puzzle. In this paper, based on both closed form solution and calibration of a dynamic

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