

Do Prices Converge Among Indonesian Cities? An Empirical Analysis

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Abstrak

We investigate consumer price convergence for 82 Indonesian cities using monthly data from 2014 to 2019. To do so, we employ recent techniques of club convergence and weak sigma convergence. The results reveal, first, consumer price divergence, implying price rigidities across the cities. Second, we find four clubs, suggesting that Indonesian cities converge along four unique transition paths. Third, we find weak evidence of consumer price convergence, suggesting that prices among Indonesian cities adjust, but not freely. Policy should therefore consider unique convergence paths for each club to promote stronger consumer price convergence.