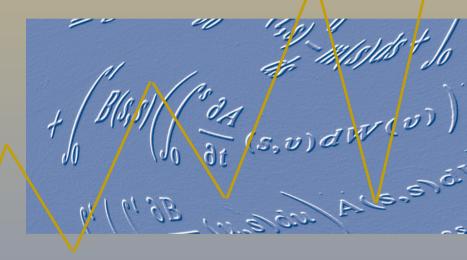
MACROECONOMIC DYNAMICS



EDITOR: WILLIAM A. BARNETT

CAMBRIDGEUNIVERSITY PRESS

MACROECONOMIC DYNAMICS

Editor: William A. Barnett, University of Kansas, Department of Economics, 356 Snow Hall, 1460 Jayhawk Boulevard, Lawrence, KS 66045–7523, USA, and The Center for Financial Stability, 1120 Avenue of the Americas, 4th Floor, New York, NY 10036, USA.

Book Review Editors: Michele Boldrin, Department of Economics, Washington University, One Brookings Drive, St. Louis, MO 63130, and Universidad Carlos III, Madrid; Gregory D. Hess, President's Office, Wabash College, W. Wabash Avenue, Crawfordsville, IN 47933.

Special Issues Editors: Stephen Turnovsky, Department of Economics, Box 353330, University of Washington, Seattle, WA 98195; Lee Ohanian, Department of Economics, UCLA, 2261 Bunche Hall, 405 Hilgard Avenue, Los Angeles, CA 90024.

Editorial Information System Manager: Stephen E. Spear, Graduate School of Industrial Administration, Carnegie Mellon University, Pittsburgh, PA 15213.

Local Area Network Manager: Nathan Haley, Lawrence, Kansas.

Editorial Associate: Melinda Barnett, University of Kansas.

Advisory Editors:

Jean-Pascal Bénassy (CEPREMAP, Paris), Willem Buiter (London School of Economics and Political Science, London), Francis X. Diebold (University of Pennsylvania), Steven Durlauf (University of Wisconsin), Douglas Gale (New York University), Giancarlo Gandolfo (Accademia Nazionale dei Lincei, Rome), Roger Guesnerie (DELTA, Paris), Takatoshi Ito (University of Tokyo), Timothy Kehoe (University of Minnesota), Finn Kydland (Carnegie Mellon University), Lung-Fei Lee (Ohio State University), Adrian Pagan (Sydney University, Australia), Robert Townsend (Massachusetts Institute of Technology), Mark Watson (Princeton University), Kenneth West (University of Wisconsin), Michael Woodford (Columbia University), Randall Wright (University of Wisconsin, Madison)

Associate Editors:

Stefania Albanesi (Federal Reserve Bank of New York), Gaetano Antinolfi (Washington University), Jasmina Arifovic (Simon Fraser University), Pierpaolo Benigno (LUISS Guido Carli, Rome), Joydeep Bhattacharya (Iowa State University), Volker Böhm (University of Bielefeld, Germany), Hafedh Bouakez (HEC Montreal, Canada), Raouf Boucekkine (Universite Catholique de Louvain, Belgium), Jeffrey Campbell (Federal Reserve Bank of Chicago), Shankha Chakraborty (University of Oregon), Marcelle Chauvet (University of California at Riverside), Christophe Deissenberg (University d'Aix-Marseille II), Juan Dolado (European University Institute, Italy), Huberto Ennis (Federal Reserve Bank of Richmond), Alvaro Escribano (Universidad Carlos III de Madrid, Spain), Emilio Espino (Universidad Torcuato di Tella, Argentina), George Evans (University of Oregon), Burcu Eyigungor (Federal Reserve Bank of Philadelphia, USA), Ester Faia (Goethe University of Frankfurt), Roger Farmer (UCLA), Alessandra Fogli (Federal Reserve Bank of Minneapolis), Luisa Fuster (Universidad Carlos III de Madrid, Spain), Oded Galor (Brown University and Hebrew University of Jerusalem), Liam Graham (University College, London), Antonio Guarino (University College, London), Thorvaldur Gylfason (University of Iceland), Niels Haldrup (Aarhus University, Denmark), John Hassler (Stockholm University), Moshe Hazan (Tel-Aviv University), Cars Hommes (University of Amsterdam, The Netherlands), Kevin Huang (Vanderbilt University), Fredj Jawadi (Université d'Evry, France), Leo Kaas (University of Konstanz, Germany), Takashi Kamihigashi (Kobe University, Japan), Todd Keister (Rutgers University), Keith Kuester (University of Bonn, Germany), David Lagakos (University of California, San Diego), Blake LeBaron (Brandeis University), Iourii Manovskii (University of Pennsylvania), David Marshall (Federal Reserve Bank of Chicago), Alfredo Medio (University of Udine, Italy), Qinglai Meng (Oregon State University), Karel Mertens (Cornell University), Jianjun Miao (Boston University), Kaushik Mitra (University of Birmingham, UK), Omer Moav (The Hebrew University of Jerusalem), Cyril Monnet (University of Bern, Switzerland), Gernot Müller (University of Tübingen, Germany), Lee Ohanian (UCLA), Patrick Pintus (Université de la Méditerranée & GREQAM, France), Julien Prat (CNRS, CREST, France), Bruce Preston (Monash University, Australia), Francisco Ruge-Murcia (McGill University, Canada), Gilles Saint-Paul (CEPREMAP, France), Argia M. Sbordone (Federal Reserve Bank of New York), Apostolos Serletis (University of Calgary, Canada), Tony Smith (Yale University), Stephen Spear (Carnegie Mellon University), Stephen Turnovsky (University of Washington), Farshid Vahid (Monash University, Australia), François R. Velde (Federal Reserve Bank of Chicago), Nicolaas Vriend (Queen Mary, University of London), Neng Wang (Columbia University), Ronald Wendner (*University of Graz, Austria*), Francesco Zanetti (*University of Oxford*)

MACROECONOMIC DYNAMICS

Volume 19, Number 5, July 2015 Contents

4	R'	TI	C	T.	ES

Spatial Comparisons of Prices and Expenditure in a Heterogeneous Country: Methodology with Applications to India	
Amita Majumder, Ranjan Ray, and Kompal Sinha	931
Business Cycle Accounting for Chile Ina Simonovska and Ludvig Söderling	990
Consumption and Expected Asset Returns: An Unobserved-Component Approach	
Narayan K. Kishor and Swati Kumari	1023
The Taylor Principle and (In-)Determinacy with Hiring Frictions and Skill Loss	
Ansgar Rannenberg	1045
Endogenous Enforcement of Intellectual Property, North–South Trade, and Growth	
Andreas Schäfer and Maik T. Schneider	1074
Rethinking Optimal Exchange Rate Regimes with Frictional Labor Alessia Campolmi and Ester Faia	1116
NOTES	
A Note on Comparing Deep and Aggregate Habit Formation in an Estimated New Keynesian Model	
Gregory E. Givens	1148

SUBSCRIPTION INFORMATION: Macroeconomic Dynamics (ISSN 1365-1005) is published eight times a year in January, March, April, June, July, September, October, and December. Annual subscription rates for Volume 19, 2015: Institutional rate is (print and electronic) \$1140.00 in the USA, Canada, and Mexico, £688.00 + VAT elsewhere. Institutional rate (electronic only) \$832.00 in the USA, Canada, and Mexico, £508.00 + VAT elsewhere. Institutional rate (print only) \$1057.00 in the USA, Canada, and Mexico, £627.00 + VAT elsewhere. Individual rate is (print and electronic) \$248.00 in the USA, Canada, and Mexico, £141.00 + VAT elsewhere. Individual rate (print only) \$240.00 in the USA, Canada, and Mexico, £138.00 + VAT elsewhere. Students (print only) \$122.00 in the USA, Canada, and Mexico, £46.00 + VAT elsewhere. For members of the Econometric Society, the Society for the Advancement of Economic Theory, the Society for Nonlinear Dynamics and Econometrics, the Society for Computational Economics, and the Society for the Promotion of Economic Theory the rate is \$100.00 in the USA, Canada, and Mexico, £62.00 + VAT elsewhere. Institutional access is via IP address range(s) or domain name(s); individual subscriber access is via a username and password. Prices include postage; airmail is extra. Write to Cambridge University Press, 32 Avenue of the Americas, New York, NY 10013-2473, or outside the USA, Canada, and Mexico to Cambridge University Press, The Edinburgh Building, Shaftesbury Road, Cambridge CB2 8RU, England. Claims for missing issues should be made immediately after receipt of the next issue.

Periodicals postage at NewYork, NY and additional mailing offices. Postmaster: send address changes in the USA, Canada, and Mexico to: *Macroeconomic Dynamics*, Cambridge University Press, 100 Brook Hill Drive, West Nyack, NY 10994-2133. Send address changes elsewhere to: *Macroeconomic Dynamics*, Journals Dept., Cambridge University Press, The Edinburgh Building, Shaftesbury Road, Cambridge, CB2 8RU, U.K.

© 2015 Cambridge University Press. Photocopying information for users in the USA: The Item-Fee Code for this publication indicates that copying for internal or personal use beyond that permitted by Section 107 or 108 of the US Copyright Law is authorized for users duly registered with the Copyright Clearance Center (CCC) Transactional Reporting Service, provided that the appropriate remittance of \$18.00 per article is paid directly to: CCC, 222 Rosewood Drive, Danvers, MA 01923. Specific written permission must be obtained from the publisher for all other copying. The Item-Fee Code for this journal is 1365-1005/15 \$18.00.

ISI Tearsheet Service, 3501 Market Street, Philadelphia, PA 19104, USA is authorized to supply single copies of separate article for private use only. Article reprints are available from the authors. For orders of 50 or more reprints, contact Cambridge University Press.

Macroeconomic Dynamics is indexed in EconLit; The Journal of Economic Literature (e-JEL and JEL on CD); ISI: Current Contents/Social & Behavioral Sciences; Social Sciences Citation Index; Research Alert; Mathematical Reviews: MathSciNet: Zentralblatt fur Mathematik.

EDITORIAL POLICY

Macroeconomic Dynamics publishes research of the highest theoretical, empirical or quantitative sophistication. Papers of high quality are welcomed from all areas of advanced macroeconomics and allied fields, so long as the research is founded in a rigorous scientific approach. Major advances in macroeconomics without immediate policy applications also are accepted, if they show potential for application in the future. Occasional book reviews, software reviews, announcements, conference proceedings and interviews are published.

An **electronic version of the journal** is published just prior to the paper version at **journals.cambridge.org/mdy**. Access to the full-text articles of the electronic version will be limited to institutional subscribers of the hard copy version of the journal, with access available to all online users at that institution's registered domain. Tables of Contents, abstracts, searching and alerting services will remain free of charge. To view the full text of *Macroeconomic Dynamics*, you will need to use the Adobe Acrobat Reader software. If you do not have a copy already, you can get it free of charge. Just follow the link from our Cambridge Journals Online home page, download it, and install it as a plug-in helper application for your browser.