

Price Transmission and Industrial Linkage: A theoretical explanation of inter-sectoral price transmission based on input-output coefficients

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Price transmission is one of the key issues in both economic theories and policies, but most research of price transmission just depicts some features and phenomena rather than explores the deeper reason lying behind. By using time correlation and cointegration analysis methods, this paper tests the existence and strength of price transmission between 35 Chinese manufacturing sectors from 2007 to 2016. Moreover, this paper, for the first time, raises several theoretical propositions and constructs a possible theoretical explanation of inter-sectoral price transmission based on industrial linkage by using input-output coefficients. Results of empirical tests show that price transmission relations beyond regular upstream and downstream concepts between manufacturing sector exist and the existence, strength and time lag of transmission relations can be explained by input-output coefficients, that is, industrial linkage. Further results show that the type of price transmission between manufacturing sectors is supply-push, which holds true through the whole time period. Conclusions above have values on price prediction as well as policy making about supply-side reform.