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Price Mobility of Locations

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Abstract

This paper applies the concept of mobility to cross-location price dynamics. Exploiting data on prices across Russian regions over 1994-2000, a contribution of relative and absolute mobility of regions to price convergence among them is analyzed.

Keywords: Price dispersion; Price convergence; Mobility; Russian regions

JEL classification: P22, R12.

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NON-TECHNICAL SUMMARY

An analogy can be drawn between income inequality and income convergence and dynamics of prices across locations (cities, regions within a country, countries, etc.). Interpreting price differences between locations as their "price inequality," the analogy becomes fairly obvious. Benefiting from it, methodologies developed in the economic growth and income inequality literature can be used for spatial price analysis to reveal new aspects of price behavior. In this paper, the concept of mobility is applied to distribution of prices across locations, focusing on the role played by price mobility of locations in price convergence.

There are two main concepts of mobility in the literature. The first one is relative mobility which concerns changes in ranking of, in our case, locations by price level, i.e., the concern here is only with shifts of locations relative to one another. The second concept is absolute mobility concerning changes in locations' price levels themselves. That is, the interest here is with shifts of locations along the price axis irrespective of their relative positions.

In this study, the locations are regions of Russia. The price representative for the analysis is the cost of basket of 25 basic food goods across 75 (of all the 89) Russian regions. The data cover 1994-2000 with a monthly frequency.

Price convergence among Russian regions in 1994-2000 is found to be not so much due to regions' "interchange of positions" on the price axis, as to approach of regional prices to one another. High absolute price mobility of regions was accompanied by low relative mobility. "Cheap" and "expensive" regions remained, for the most part, such, while price gaps between regions were sufficiently diminishing during 1994-2000.

1. Introduction

An analogy can be drawn between income inequality and income convergence and dynamics of prices across locations (cities, regions within a country, countries, etc.). Interpreting price differences between locations as their “price inequality,” the analogy becomes fairly obvious. Benefiting from it, methodologies developed in the economic growth and income inequality literature can be used for spatial price analysis to reveal new aspects of price behavior.

In this paper, the concept of mobility is applied to distribution of prices across locations. To my knowledge, such an aspect of price dynamics, namely, the movement of locations “within” price distribution, has not been as yet considered in the literature. The paper focuses on the role played by price mobility of locations in price convergence.

As Fields and Ok (2001) note in their survey, the very notion of mobility is not well-defined; the mobility literature does not provide a unified discourse of analysis (nor is there a unified terminology). Nonetheless, there is agreement regarding two main concepts of mobility in the economical and sociological literature. The first one is relative (or rank) mobility which concerns changes in ranking of, in our case, locations by price level. In other words, the concern here is only with shifts of locations relative to one another. The second concept is absolute (or quantity) mobility concerning changes in locations’ price levels themselves. That is, the interest here is with shifts of locations along the price axis irrespective of their relative positions. Both concepts are used in the below analysis, exploiting the approach proposed by Yitzhaki and Wodon (2004) and Wodon and Yitzhaki (2005).

2. Data and methodology

In this study, the locations are regions of Russia. The price representative for the analysis is the cost of basket of 25 basic food goods across 75 (of all the 89) Russian regions. The data cover 1994-2000 with a monthly frequency; see Gluschenko (2003) for a description of this data set. The time span is motivated as follows: as Gluschenko (2003) found, after a period of growing fragmentation of Russian regional markets, improvements in market integration started in 1994; 2000 is the last year for which data on the 25-item basket are available (a new staples basket was introduced in 2000).

Let p'_{rt} be the cost of the staples basket – hereafter, simply price – in region r ($r = 1,\ldots,R$)

at time t. The variable to be used is the relative price, $p_{rt} = p'_{rt} / p'_{0t}$, where p'_{0t} is the price in Russia as a whole. The latter is a weighted average of local prices (a regional weight is the proportion of the country's population) rather than their arithmetic average; hence, generally $\bar{p}_t \neq 1$.

To blend prices in with the context of inequality, price dispersion ("price inequality" of regions) is measured by the Gini coefficient:

$$G_t = \frac{2\operatorname{cov}(p_t, g(p_t))}{R\bar{p}_t}, \tag{1}$$

where $g(p_t)$ is ranks of regions in ascending prices, i.e. $g(p_{rt}) \equiv g_{rt}$ is region's number in the sequence of regions sorted by ascending p_{rt}. The Gini coefficient is an unusual measure of price dispersion. However, it behaves practically just as the standard deviation of log prices, the most popular measure of price dispersion. Fig. 1 compares these two measures for Russian regions over the time span under consideration. Being rescaled, the two trajectories of price dispersion almost coincide.

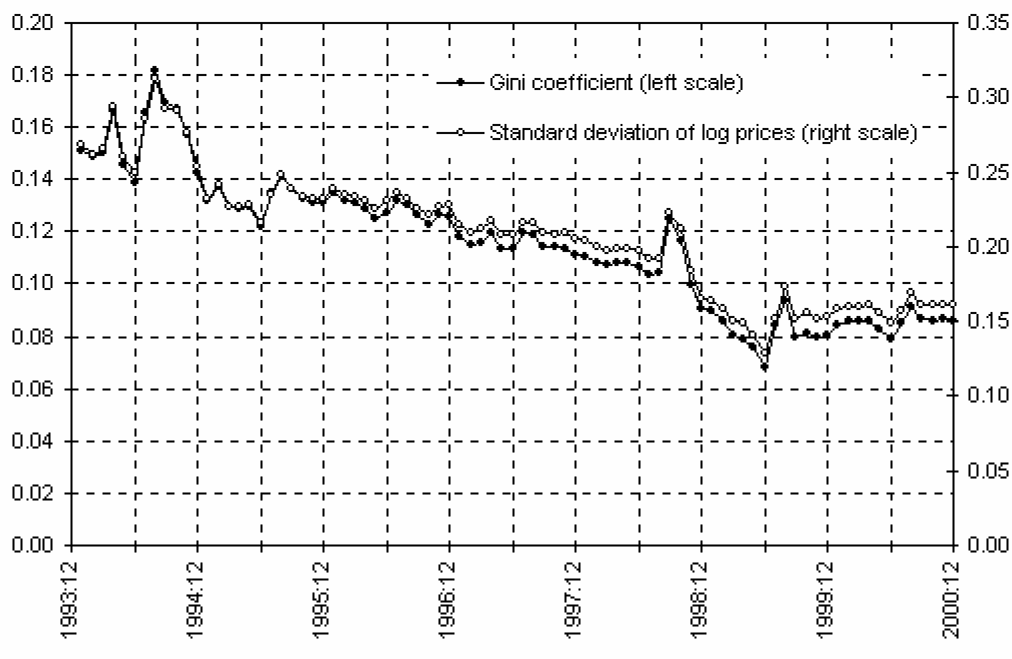


Fig. 1. "Price inequality" of Russian regions

Yitzhaki and Wodon (2004) propose a number of interrelated indexes of relative mobility. The Gini symmetric index of mobility is defined as:

$$S_t = \frac{G_{t-\tau} M_{t,t-\tau} + G_t M_{t-\tau,t}}{G_{t-\tau} + G_t}. \quad (2)$$

It is a weighted average of asymmetric mobility indexes quantifying mobility in forward (from $t - \tau$ to t) and backward (from t to $t - \tau$) directions in time:

$$M_{t-\tau,t} = (1 - \Gamma_{t-\tau,t})/2, \; M_{t,t-\tau} = (1 - \Gamma_{t,t-\tau})/2. \quad (3)$$

In turn, Γs are the Gini correlation coefficients:

$$\Gamma_{t-\tau,t} = \frac{\mathrm{cov}(p_{t-\tau}, g(p_t))}{\mathrm{cov}(p_{t-\tau}, g(p_{t-\tau}))}, \; \Gamma_{t,t-\tau} = \frac{\mathrm{cov}(p_t, g(p_{t-\tau}))}{\mathrm{cov}(p_t, g(p_t))}. \quad (4)$$

Indexes S_t and $M_{t_1 t_2}$ can vary from 0 and 1,[1] while the correlation coefficients $\Gamma_{t_1 t_2}$ have the range of –1 to 1. If $\Gamma_{t-\tau,t} = \Gamma_{t,t-\tau} = 1$, which gives $S_{t-\tau,t} = M_{t-\tau,t} = M_{t,t-\tau} = 0$, then there is no relative mobility. With $\Gamma_{t-\tau,t} = \Gamma_{t,t-\tau} = -1$, hence, $S_{t-\tau,t} = M_{t-\tau,t} = M_{t,t-\tau} = 1$, relative mobility is "perfect", i.e., there is a total reversal in the ranks. When $p_{t-\tau}$ and p_t are statistically independent, there is no Gini correlation: $\Gamma_{t-\tau,t} = \Gamma_{t,t-\tau} = 0$; in that case, $S_{t-\tau,t} = M_{t-\tau,t} = M_{t,t-\tau} = 0.5$, implying random mobility. The lower (in the algebraic sense) the Gini correlations between $p_{t-\tau}$ and p_t, the higher the relative mobility. Thus, greater S_t and $M_{t_1 t_2}$ correspond to greater mobility.

Indexes $\Gamma_{t_1 t_2}$, hence, S_t and $M_{t_1 t_2}$ that are generated by them, are not sensitive to monotonic transformations mapping the price distribution at $t - \tau$ into that at t. It is this property that allows to measure only relative mobility. The transformations mentioned can be, e.g., a shift of the median or a change in the variance, the latter suggesting price convergence or divergence. The lack of relative mobility indicates only the fact that the order of regions along the price axis has remained unchanged. But given this, the absolute positions of regions on this axis could have changed, e.g. distances between regions have decreased. Such changes are characterized by absolute mobility.

One measure of absolute mobility that has a rather wide use in the mobility literature (e.g., Jarvis and Jenkins, 1998, and Beenstock, 2004) is an estimate of β in regression $p_{rt} = \alpha + \beta p_{r,t-\tau} + \varepsilon_r$ (across r with fixed t and $t - \tau$). If $\beta = 1$, there is no absolute mobility. The case $0 < \beta < 1$ implies mean reversion in prices (downward absolute mobility among regions where prices are higher than the national average, and upward mobility among regions with prices below the

[1] The original Yitzhaki and Wodon (2004) indexes are bounded between 0 and 2; for easier interpretation, this range is transformed to [0, 1] in (3) by division by 2.

average). When $\beta > 1$, there is mean diversion in prices: prices lower further in “cheap” regions and rise in “expensive” regions.[2] Thus, the greater $|\beta - 1|$, the higher absolute mobility.

Estimating β from a Gini regression (Olkin and Yitzhaki, 1992) rather than from the above one, the absolute and relative mobilities can be related to each other. The Gini regression estimate, let it be denoted by β^G, may be regarded as an instrumental variable estimate with $p_{r,t-\tau}$ being instrumented by rank $g_{r,t-\tau}$. Then, as shown by Wodon and Yitzhaki (2005), the following relationship between the relative and absolute mobility measures holds:

$$\frac{G_t}{G_{t-\tau}} = \frac{\beta^G \bar{p}_{t-\tau}}{\Gamma_{t,t-\tau} \bar{p}_t}. \tag{5}$$

Although, as mentioned above, $\bar{p}_t$ and $\bar{p}_{t-\tau}$ do not equal unity, they are close to it, the more so for their ratio. Therefore, for clearer interpretation, the ratio of price averages in (5) may be replaced with unity. Then it is seen that price convergence ($G_t/G_{t-\tau} < 1$) occurs if $\beta^G < \Gamma_{t,t-\tau}$, i.e., if the Gini correlation which characterizes relative mobility (in the reverse direction in time) exceeds the index of absolute mobility. The equality of indexes, $\beta^G = \Gamma_{t,t-\tau}$, keeps the Gini coefficient unchanged. When $\beta^G > \Gamma_{t,t-\tau}$, price dispersion rises, that is, price divergence occurs. It takes place in any case with $\beta^G > 1$, since $\Gamma_{t,t-\tau} \leq 1$.[3]

Benefiting from the Wodon-Yitzhaki relationship (5), β^G is simply calculated from it in this paper rather than estimated from a Gini regression.

3. Empirical results

Fig. 2 plots price dispersion measured by the Gini coefficient, G_t, as compared to relative mobility measured by the Gini symmetric index of mobility, S_t. There are five difficult-to-access regions in Russia. These are remote regions with poor communications with the rest of the country, therefore, they hardly can participate in goods arbitrage. To control for effect of these regions, the analysis is also performed with the use of a subsample of Russian regions excluding difficult-to-access ones.

[2] Theoretically, the case of $\beta < 0$ is also possible, implying all prices having been below average at $t - \tau$ to become above average at t, while all above-average prices to become below average. In practice, such a case is hardly probable.

[3] Were $\beta^G < 0$, $G_t/G_{t-\tau}$ would not appear negative, nonetheless, since the Gini correlation is negative in that case due to a reversal in ranks (see the previous footnote).

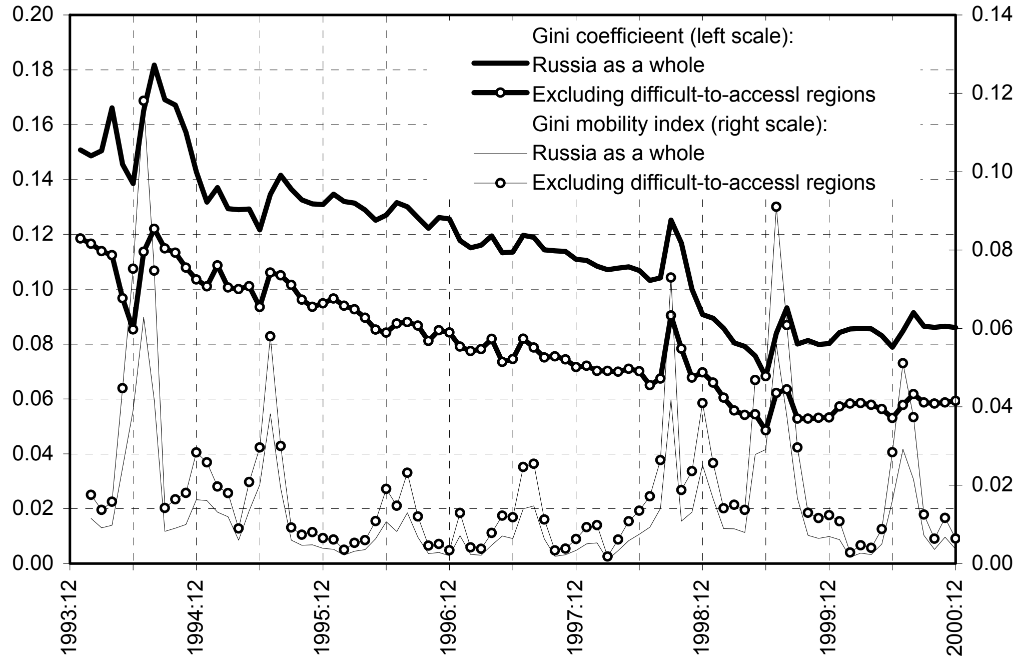


Fig. 2. Price dispersion and relative price mobility of Russian regions

As seen from the figure, difficult-to-access regions do not affect the qualitative pattern. Quantitatively, price dispersion is less, of course, when they are eliminated, and relative mobility is somehow higher (the latter implying that the ranks of difficult-to-access regions are rather stable, as might be expected as well). However, the behavior of both G_t and S_t computed over two spatial samples is very similar. The asymmetric (time-directional) mobility indices, $M_{t-\tau,t}$ and $M_{t,t-\tau}$, appear very close to S_t, for the most part practically coinciding with it. For this reason, they are not plotted in the figure.

As Fig. 2 suggests, relative mobility affects only local properties of price dispersion dynamics; it does not have any pronounced effect on the global price-convergence trend. Upsurges of relative mobility correlate only with transitory rises in price dispersion. (Surprisingly, relative mobility seems not to act at all in favor of decrease of "price inequality.") Except for these upsurges, relative mobility remains very low, not exceeding 0.015.

As for the upsurges themselves, they occur at regular intervals, having peaks, as a rule, in July – or near it – of each year. They are thus seem to be a seasonal phenomenon. In summer, the rate of rise in prices for many items covered by the staples basket decreases dramatically, not infrequently to negative values. This process is non-synchronous across regions, depending on natural conditions in a given region and its agricultural specialization. As a consequence, sufficient changes in the region ranks happen; and then the ranking returns to its original (or close to original) state within a few months. There are only two deviations from this regularity. In 1998, the summer upsurge was continued further (peaking in September of that year) by the financial crisis. Inflation induced by the crisis was chaotic across regions, as their delays in responding to the crisis were different. The same is valid for December 1998, when a new burst of inflation occurred.

A possible reason for low relative mobility might be the fact that transitions for very short run are considered. Usually, the distribution of prices changes gradually, and so, monthly changes could be rather small. An indirect indication of this slowness is the proximity of forward and backward mobility indices $M_{t-\tau,t}$ and $M_{t,t-\tau}$ to each other, which means that the shapes of the price distribution at $t - \tau$ and t are fairly similar (up to a monotonic transformation). However, mobility over a longer period could be sufficient.

To verify this, the indexes of relative mobility are computed for longer time spans, one to six years. The results are presented in Table 1. The basket costs averaged over each year are used for these calculations.

Table 1
Relative price mobility of Russian regions over different time horizons

τ (years)	$t-\tau$	t	Gini coefficient			Gini mobility indexes		
			$G_{t-\tau}$	G_t	$G_t/G_{t-\tau}$	$M_{t-\tau,t}$	$M_{t,t-\tau}$	S_t
Russia as a whole								
1	1994	1995	0.152	0.128	0.845	0.014	0.016	0.015
	1995	1996	0.128	0.127	0.987	0.017	0.014	0.016
	1996	1997	0.127	0.114	0.901	0.019	0.016	0.018
	1997	1998	0.114	0.105	0.917	0.015	0.015	0.015
	1998	1999	0.105	0.078	0.750	0.020	0.021	0.020
	1999	2000	0.078	0.084	1.069	0.014	0.016	0.015
2	1994	1996	0.152	0.127	0.834	0.025	0.022	0.023
	1995	1997	0.128	0.114	0.889	0.041	0.032	0.037
	1996	1998	0.127	0.105	0.826	0.028	0.031	0.029
	1997	1999	0.114	0.078	0.688	0.043	0.046	0.044
	1998	2000	0.105	0.084	0.802	0.025	0.026	0.025
3	1994	1997	0.152	0.114	0.751	0.052	0.041	0.047
	1995	1998	0.128	0.105	0.815	0.035	0.036	0.035
	1996	1999	0.127	0.078	0.620	0.047	0.054	0.049
	1997	2000	0.114	0.084	0.736	0.046	0.052	0.049
4	1994	1998	0.152	0.105	0.689	0.047	0.047	0.047
	1995	1999	0.128	0.078	0.612	0.050	0.052	0.050
	1996	2000	0.127	0.084	0.663	0.042	0.048	0.044
5	1994	1999	0.152	0.078	0.517	0.057	0.063	0.059
	1995	2000	0.128	0.084	0.654	0.038	0.036	0.037
6	1994	2000	0.152	0.084	0.553	0.046	0.048	0.047

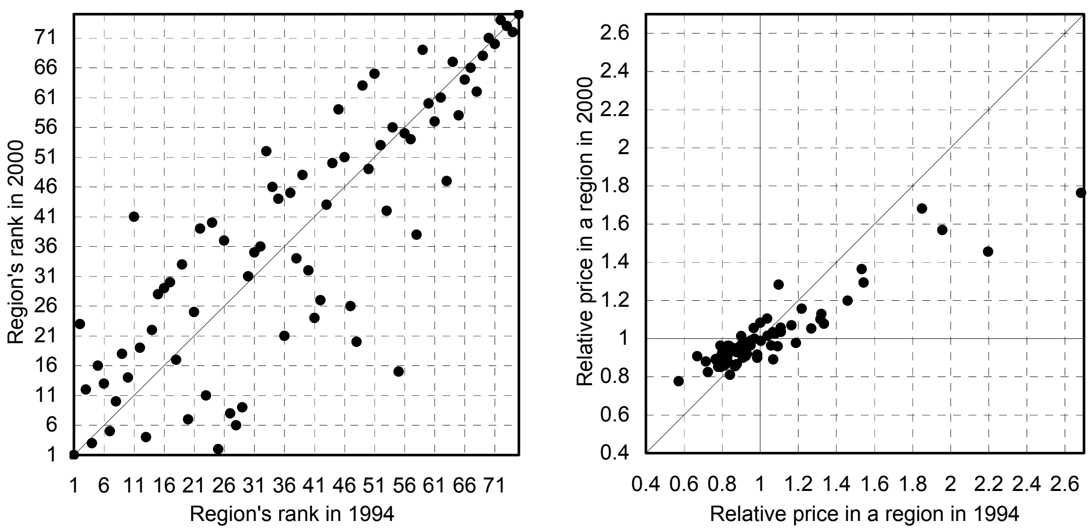
τ (years)	$t-\tau$	t	Gini coefficient			Gini mobility indexes		
			$G_{t-\tau}$	G_t	$G_t/G_{t-\tau}$	$M_{t-\tau,t}$	$M_{t,t-\tau}$	S_t
Excluding difficult-to-access regions								
1	1994	1995	0.104	0.096	0.924	0.024	0.025	0.024
	1995	1996	0.096	0.086	0.896	0.028	0.025	0.026
	1996	1997	0.086	0.075	0.875	0.034	0.030	0.032
	1997	1998	0.075	0.068	0.911	0.027	0.026	0.027
	1998	1999	0.068	0.053	0.774	0.036	0.037	0.036
	1999	2000	0.053	0.056	1.063	0.025	0.026	0.026
2	1994	1996	0.104	0.086	0.829	0.039	0.036	0.038
	1995	1997	0.096	0.075	0.784	0.066	0.058	0.063
	1996	1998	0.086	0.068	0.797	0.049	0.055	0.052
	1997	1999	0.075	0.053	0.705	0.079	0.079	0.079
	1998	2000	0.068	0.056	0.822	0.046	0.045	0.046
3	1994	1997	0.104	0.075	0.725	0.089	0.073	0.082
	1995	1998	0.096	0.068	0.715	0.056	0.065	0.060
	1996	1999	0.086	0.053	0.617	0.083	0.094	0.087
	1997	2000	0.075	0.056	0.749	0.085	0.091	0.087
4	1994	1998	0.105	0.069	0.658	0.082	0.085	0.083
	1995	1999	0.096	0.053	0.553	0.079	0.090	0.083
	1996	2000	0.086	0.056	0.656	0.074	0.083	0.078
5	1994	1999	0.104	0.053	0.511	0.099	0.109	0.102
	1995	2000	0.096	0.056	0.588	0.062	0.063	0.062
6	1994	2000	0.104	0.056	0.543	0.083	0.084	0.083

Like Fig. 2, the data in Table 1 evidence low relative mobility of Russian regions. The mobility indexes S_t are small, not exceeding 0.06 over Russia as a whole (the maximum is 0.059, for 1994-1999). Average S_t over one-year transitions equals 0.017, and that over two-year transitions is equal to 0.032. For longer transitions, the averages of the mobility index are very close to one another, equaling 0.045 to 0.048, and to S_t for the 1994-2000 transition. As can be expected, the elimination of difficult-to-access regions increases relative mobility. Nonetheless, it remains fairly low: the maximum (it is, again, for the 1994-1999 transition) becomes as small as 0.102. The one-year transition average of S_t now equals 0.029, the two-year one equals 0.056. For transitions over three to six years, the averages of S_t are almost equal, rising from 0.079 to 0.083. It is clearly seen that the financial crisis of 1998 has sufficiently contributed to the increase in relative mobility: it is higher for transitions that include 1998 and 1999.

Thus, regions' positions relative to one another on the price axis remain rather stable. Indeed, over 1994 through 2000, 52% of regions changed their ranks by no more than 8; a change by 1 accounts for 14.6% of all rank changes (the maximal frequency); and 6.7% of regions did not change their ranks. The overwhelming majority of regions that had been "cheap" (with prices below the Russian average) in 1994 remained such in 2000; for the most part, the situation did not change for "expensive" regions as well.

At the same time, absolute positions of regions on the price axis changed sufficiently. While a difference in ranks by 1 had been equivalent to a difference in the relative cost of the staples basket by, on average, 0.029 in 1994, it became equivalent to 0.013 in 2000. That is, the average distance between regions was more than halved. (Along with this, the average of relative prices changed slightly, by only 1,5%: $\bar{p}_{1994} = 1.020$, $\bar{p}_{2000} = 1.004$, and $\bar{p}_{1994} / \bar{p}_{2000} = 1{,}015$.)

It can be concluded herefrom that price convergence in 1994-2000 was not so much due to regions' "interchange of positions," as to their approach to one another. Scatter plots in Fig. 3 corroborate this conclusion.



(*a*) (*b*)

Fig. 3. Scatter plots of (a) ranks and (b) prices

Diagonals in Fig. 3 are immobility lines. The scatter plot of ranks, Fig. 3a, suggests that the tendency is that to stability of ranks (which determines small values of the relative mobility indexes). The ranks are concentrated in a band around the immobility line; the band borders can be crudely deemed as parallel to this line. The prices themselves (Fig. 3b) behave in quite different manner. Here, the tendency is mean reversion: relative prices having been below 1 in 1994 rise by 2000, while prices above 1 in 1994 come down by 2000.

However, as Formula (5) states, the total result, a "change in inequality", is determined by interaction between relative and absolute mobilities. In Table 2, a change in the Gini coefficient is confronted with the Gini correlation coefficient, $\Gamma_{t,t-\tau}$, characterizing relative mobility and index β^G characterizing absolute mobility (recall that lesser values of both correspond to higher mobility). Again, the yearly averaged basket costs are used for calculations. As mentioned in Section 2, β^G are computed by Formula (5) rather than estimated through a Gini regression. (A few Gini regressions were estimated for checking; the estimated β^G appeared close to calculated.)

Table 2
Interaction between relative and absolute price mobility

$t-\tau$	t	Russia as a whole			Excluding difficult-to-access regions		
		$G_t/G_{t-\tau}$	$\Gamma_{t,t-\tau}$	β^G	$G_t/G_{t-\tau}$	$\Gamma_{t,t-\tau}$	β^G
1994	1995	0.845	0.968	0.812	0.924	0.951	0.890
1995	1996	0.987	0.971	0.968	0.896	0.951	0.854
1996	1997	0.901	0.968	0.877	0.875	0.940	0.832
1997	1998	0.917	0.970	0.880	0.911	0.947	0.858
1998	1999	0.750	0.958	0.709	0.774	0.926	0.718
1999	2000	1.069	0.969	1.038	1.063	0.947	1.006
1994	2000	0.553	0.903	0.492	0.543	0.832	0.461

Table 2 suggests that absolute mobility "prevails" over relative mobility, as $\beta^G < \Gamma_{t,t-\tau}$ (recall that, given $\beta^G < 1$, the smaller both indexes, the higher mobility), so causing price convergence. The exception is the 1999-2000 transition, where β^G, exceeding unity, indicates slight divergence of prices. As a result, price dispersion rises in 2000 as compared to 1999. The most pronounced pattern is provided by the 1994-2000 transition. Here, the mobility indexes differ almost twice, which results in almost halving price dispersion over this period.

The same pattern takes place for month-to-month transitions, however, being, of course, much less pronounced than for year-to-year ones. Fig. 4 illustrates such a pattern for Russia as a whole. An interesting feature which is not evident in longer transitions is seen in this figure. In episodes of mean diversion ($\beta^G > 1$), relative mobility sufficiently increases, so enhancing rise in "price inequality". But low relative mobility takes place in episodes of dramatic change in absolute mobility directed to mean reversion.

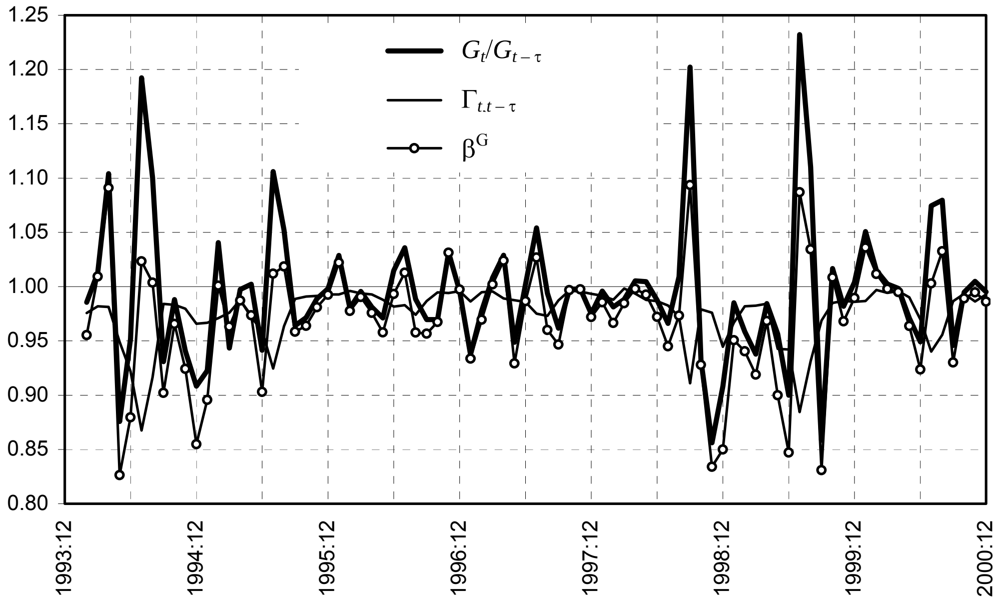


Fig. 4. Relative vs. absolute price mobility of Russian regions

4. Conclusions

In this paper, the concepts of relative and absolute mobility from the fields of income inequality and economic growth have been applied to cross-section price dynamics. Such an analysis has revealed new and interesting features of price convergence among Russian regions, supplementing results on price distribution dynamics in Gluschenko (2004). High absolute price mobility of regions was accompanied by low relative mobility. “Cheap” and “expensive” regions remained, for the most part, such, while price gaps between regions were sufficiently diminishing during 1994-2000.

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