The impact of energy resources price increase on inflation in Russia in 2000-2010

Topic: Analyzing the role of energy
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Monetary instruments don’t give sufficient and stable results in decreasing inflation in Russia. That’s why it is proposed that one of the reasons is a significant number of monopolistic and oligopolistic markets in Russian economy. Companies on such markets have the power to increase prices and transfer the increase of their costs to consumers. Price shock on one of the markets could result in growth of prices in a whole economy.

Energy resources extraction (oil, gas, coal) are such sectors. There are a few large companies in each of these sectors, they have market power and they use it. Also oil and gas price increase in 2000s could have impact on inflation in Russia. Giving Central Bank policy of stable ruble, export sales could resulted in increase of money supply and inflation.

The Input-Output Price Model is used to test this hypothesis. In the first, productions chains were identified using technical input coefficient matrix and price correlation matrix. In the second, the response to change in price in sectors of one chain was measured depending on technical input coefficients and the degree of concentrations on the markets of resources and products. So inflation effect of one sector was estimated. Finally, the overall impact of energy resources price increase was estimated.