

# **The Relationship between the Markup and Inflation in the G7 Economies and Australia**

Anindya Banerjee

Bill Russell

## **Abstract**

An I(2) analysis of inflation and the markup is undertaken for the G7 economies and Australia. We find that the levels of prices and costs are best described as I(2) processes and that except for Japan a linear combination of the log levels of prices and costs cointegrate to the markup that is integrated of order 1. It is also shown that the markup in each case cointegrates with inflation and that higher inflation is associated with a lower markup in the long-run.

Keywords: Inflation, Wages, Prices, Markup, I(2), Polynomial Cointegration.

JEL Classification: C32, C52, E24, E31