

Abstract

This paper investigates a crucial but still open issue about the nonlinear effect of inflation on economic growth in China. We adopt official provincial data set of gross provincial product, consumer price index, as well as other explanatory variables from 1986 to 2006, and regression of panel data is used for analysis. The main finding is that the inflation threshold effect is highly significant and robust in China. Above the 2.5% inflation threshold, every increase of inflation rate by 1% impedes economic growth by 0.61%; below the threshold, such degree of increase stimulates the growth by 0.53%. We suggest China shall keep inflation rate moderate for long-run growth.

Keywords: Growth, Inflation, Threshold Effect

