

5. Conclusion

The major objective of this study is to examine an important but still issuable question about inflation-growth nexus in China. The main finding of this paper is that inflation threshold effect on economic growth really exists in China. The annual threshold rate is 2.5% for China, very similar to the finding, 2.5% in a cross-country study, by Ghosh and Phillips (1998). An increase in inflation rate by 1% can be detrimental to the economic growth by 0.61% (at 1% significance level) in high inflation stage (above the threshold) but stimulates the growth by 0.53% (at 1% significance level as well) in moderate inflation stage. This conclusion is reasonable, robust, and consistent with other empirical researches on this issue.

There are two major features of this paper. On the one hand, we construct our regression on growth accounting equation, which makes inflation-growth analysis clearer and more systematic. On the other hand, this paper distinguishes itself from earlier studies by applying nonlinear inflation-growth nexus to research on regional growth. It demonstrates that such nonlinear nexus is supported in China, even though provincial data are used to analyze.

The policy implication includes: for the government authorities, to keep inflation rate within the considerable range; for foreign and local investors, to take adequate hedge against inflation fluctuation and financial contraction and possible industrial restriction following the price uncertainty.

For further extension of this issue, if possible, try to substitute other social welfare indexes for output growth. Other than growth, does inflation influence income distribution or anything else? Besides, sacrifice ratio is an alternative dimension to observe inflation nonlinear effect on the economy. Such questions, beyond the scope of this paper, are interesting but seldom developed. It had better be left for following

studies, however.

