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Improving the CPI's Age-Bias Adjustment: Leverage, Disaggregation and Model Averaging

By Joshua Gallin

Bibliogov, United States, 2012. Paperback. Book Condition: New. 239 x 188 mm. Language: English . Brand New Book ***** Print on Demand *****.As a rental unit ages, its quality typically falls; a failure to correct for this would result in downward bias in the CPI. We investigate the BLS age bias imputation and explore two potential categories of error: approximations related to the construction of the age bias factor, and model misspecification. We find that, as long as one stays within the context of the current official regression specification, the approximation errors are innocuous. On the other hand, we find that the official regression specification - which is more or less of the form commonly used in the hedonic rent literature - is severely deficient in its ability to match the conditional log-rent vs. age relationship in the data, and performs poorly in out-of-sample tests. It is straightforward to improve the specification in order to address these deficiencies. However, basing estimates upon a single regression model is risky. Age-bias adjustment inherently suffers from a general problem facing some types of hedonic-based adjustments, which is related to model uncertainty. In particular, age-bias adjustment relies upon specific coefficient estimates, but there is...



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