Using Investment Data to Assess the Importance of Price Mismeasurement

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Abstract

This paper presents a new approach to assess the role of price mismeasurement in the productivity slowdown. I invert the firm's investment decision to identify the embodied and disembodied components of productivity growth. With a Cobb-Douglas production function, output price mismeasurement only should affect the latter. Contrary to the mismeasurement hypothesis, I find that in the Post-War period, disembodied productivity grew faster in the hard-to-measure than in the non-manufacturing easy-to-measure sectors, and that disembodied productivity slowed down less in the hard-to-measure than in the easy-to-measure sectors since the 70's. These results hold *a fortiori* when capital and labor are complements.

JEL classification: C6, D9, E2.

Key words: Investment, price mismeasurement, productivity slowdown, total factor productivity, embodied and disembodied productivity.

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