INTRODUCTION
Price and wage markup shocks explain inflation in an estimated DSGE model such as Smets and Wouters (2007). Chari, Kehoe and McGrattan (2009) question the true nature of these shocks. Structural reforms are deflationary and can have adverse effects in low interest rate environment: Eggertsson, Ferrero and Rafie (2014) problems can be mitigated.

CONTRIBUTIONS
1. Firm entry cost shocks can explain inflation in the short run.
2. Policies promoting firm creation can be inflationary in the short run even if in the long run an increase in the number of firms may result in lower price level, Eggertsson, Ferrero and Rafie (2014) problems can be mitigated.

MODEL
Main components: Standard utility with consumption and leisure, a budget and a cash-in-advance constraint, linear production technology in labour, Rotemberg pricing, staggered wages, labor-ty rule. Close to Uhlig (2009) and Billi et al. (2012).

Aggregation:
\[ y_t = \int_0^{F_t} y_{t,j} dj \]
y - aggregate output, y_{t,j} - firm j output, F_t - number of intermediate firms.

Law of motion for the number of firms:
\[ F_t = (1 - \delta) F_t^{new} + F_{t-1} F_t^{exit} \]
\[ F_t^{new} - number of new firms, \delta - exit rate, u_t \] - exog. survival shock.

Net present value (npv) and entry costs:
\[ npv_{new} = \frac{1}{\gamma} \left[ \frac{c_{new} \times (1 + \xi_t)}{\gamma - \delta} \right] \]
\[ = (1 - \delta) \left[ \frac{c_{new} \times (1 + \xi_t)}{\gamma} \right] \]
\[ \Psi - share of npv in entry costs, c_{new} - entry cost in labour units, c_{new} - entry cost shock, \frac{c_{new}}{\gamma} - marginal costs w/o CTA, \xi - CTA for firms, \delta - the interest rate, \frac{1}{\gamma} - stoch. disc. factor, v_t - profits.

REFERENCES

RESULTS
FORECAST ERROR VARIANCE DECOMPOSITIONS (in percent)

IMPULSE RESPONSES AND IN SAMPLE VARIANCE DECOMPOSITIONS (in percent)

MECHANISM
1. Entry data matters.
2. A drop in the cost of entry leads to more new firms and results in an increase in the demand for labor, pushing up marginal costs and inflation.
3. When the number of firms peaks, entry rate starts to drop, labor demand falls and inflation declines.
4. Low estimate of the wage stickiness: real wages are flexible of new hires.

ESTIMATION
Bayesian full likelihood estimation for the US economy 1983Q1-1998Q3 with consumption, hours, the GDP deflator inflation rate, the Federal Funds Rate, the number of new firms.

CONCLUSIONS
Structural shocks that reduce entry costs and increase firm entry are inflationary.
Inflation is persistent because of entry costs.