Testing for Asymmetry in the Inflation-Unemployment Trade-off: Some Evidence for the USA

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Palavras-chave: Phillips curve, Kalman filter, state-space models, NAIRU

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Resumo: Two sources of asymmetry in the Phillips curve are considered: the "capacity constraint hypothesis" and downward rigidity on wages and/or prices. The short run trade-off between inflation changes and the unemployment gap is modeled in a state-space framework that allows for time variation in both the NAIRU and the trade-off parameter. Empirical evidence for the US using the Kalman filter favors convexity of the Phillips curve, the trade-off depending positively on the unemployment gap and on inflation changes. The two sources of asymmetry produce almost equivalent observational models, so it is not possible to distinguish one from the other.

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Inflation, interest and unemployment rates are important meters of an economy. Inflation is a situation in an economy where the demand of money is fewer than its supply. Inflation reduces the value of money and other monetary items. Inflation is a situation when due to high prices, power of common men to purchase something decreases with the lowering value of currency. Results obtained from Q-test provide evidence in the favor of null hypothesis we may conclude that residuals are independent (Table 4). Table 4: Q-test for Autocorrelation. The Inflation Unemployment, Trade-off and the Significance of the Interest Rate: Some Evidence from United Kingdom. Banks and Bank System, 5(1), 87-91. The concepts of inflation and unemployment are of the most important economic phenomena, which is facing any economy in the world. Therefore, the inflation and unemployment are of the basic economic issues, which direct government policies and programs, so the government conducts economic reform programs aimed to address these problems to keep on stable price level and low unemployment rate. In the following a review of some empirical studies of the relationship between unemployment and inflation: AMINU UMARU (2012) investigates the relationship between unemployment and inflation in the Nigerian economy between 1977 and 2009. This study eventually reveals the evidence of the inflation-unemployment trade-off relationship in Malaysia. 2 The inflation-output trade-off: a literature review 2.1 Evidence for the euro area. 3 Time-varying relationship between inflation and output in the euro area. 4 Simulations to show the inflation sensitivity to economic activity 4.1 Summary of macro models 4.2 Shocks and scenarios 4.3 Sharp but diminishing versus subdued but protracted shock 4.4 Comparing foreign, domestic and investment specific shocks. changing NAIRU improves the inflation forecasts obtained through a Phillips curve, thus reinforcing the view of a structural link between inflation and unemployment. This conclusion has been recently corroborated by Dickens (2008).