

Unemployment and inflation in Malaysia: evidence from error correction model

Abstract

The negative association between unemployment and inflation is known as the Phillips Curve because the trade-off relationship between these two variables was first pointed out by William Phillips in 1958. For several decades, the Phillips Curve has been an important tool for macroeconomic policy formulators in various countries. Considering the fact that the majority of the studies on the Phillips Curve have been done in the context of the developed economies, this study focuses on Malaysia and aims to empirically analyze the relationship between unemployment rate and inflation rate in a developing country. The main finding of the current inquiry is that there existed an equilibrium relationship between unemployment rate and inflation rate in Malaysia. In other words, the results of this study support the validity of the Phillips Curve hypothesis.