

INFLATION AND UNEMPLOYMENT : THE EVIDENCE FROM MALAYSIA

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ABSTRACT

One of the major issues in Macroeconomics theory concerns the possible role of reduced inflation and elimination of unemployment. This paper aims to examine the relationship between inflation and unemployment rates in Malaysia. For this purpose, cointegration test was used. The results show that there was no evidence of cointegration. This implied that inflation and unemployment rates was not moving together in the same direction in the long-run. Furthermore, a model of inflation was proposed which included the sources of inflation from money supply, excess demand for labour, and imported inflation. The model was estimated with the use of Ordinal Least Squares (OLS) method. The estimated result showed that the relationship between inflation and unemployment rates was inverse. This supports the earlier results obtained which used cointegration test. The inverse relationship implied that reducing the inflation rate will cause unemployment rate to increase or vice versa.

ABSTRAK

Salah satu isu utama di dalam teori Makroekonomi ialah berhubung dengan peranan yang mungkin di dalam mengurangkan inflasi dan menghapuskan pengangguran. Kertas ini bertujuan untuk menguji hubungan di antara kadar inflasi dengan kadar pengangguran di Malaysia. Untuk tujuan tersebut, ujian kointegrasi digunakan. Keputusan menunjukkan tidak terdapat bukti kointegrasi. Ini menunjukkan bahawa kadar inflasi dan kadar pengangguran adalah tidak bergerak dalam arah yang sama dalam jangka panjang. Selanjutnya, satu model inflasi telah dibentuk yang mengambil kira punca inflasi daripada penawaran wang, lebih permintaan untuk buruh, dan inflasi diimport. Model itu telah dianggarkan dengan menggunakan kaedah Kuasa Dua Terkecil Biasa (OLS). Keputusan penganggaran menunjukkan bahawa hubungan di antara kadar inflasi dengan kadar pengangguran adalah berbalik. Ini menyokong keputusan awal yang diperolehi dengan ujian kointegrasi. Hubungan berbalik menunjukkan pengurangan kadar inflasi akan menyebabkan kadar pengangguran meningkat dan sebaliknya.

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Key words: Inflation, Unemployment, Phillips Curve, Cointegration Test.

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