

Analyzing relationship
between inflation rate
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There have been different theories for explicating important relationship between rising prices and per capita GDP growing. In this paper we will see the neoclassical theoretical account and pay equation. This attack is really utile in footings of flexibleness to understand implicit in premises behind the theory. Along with this, this theoretical account does include the accommodations in existent rewards, which is really of import while finding relationship between unemployment.

rising prices and growing. To turn out that this theory holds in pattern we will analyze a state based illustration. For this intent we will analyse some macroeconomic informations of Azerbaijan and seek to associate them to see how the theory works in world. In the first portion we will hold a expression at some theoretical issues and depict the relationship between rising prices and unemployment, and so rising prices and per capita GDP growing.

The 2nd portion trades with economic procedures that have been going on in Azerbaijan during last few old ages. Obviously, to understand the kernel of macroeconomic statistics and some correlativities and divergences from theory it is really of import to cognize some cardinal facts about economic system. And eventually,

in the 3rd portion, we will look through some statistics and figures and seek to detect theoretical issues in pattern. NEOCLASSICAL WAGE EQUATION. PHILIPS CURVE AND OKUN'S Law The undermentioned equation is called neoclassical pay equation: (1) Where, left manus indicates pay rising prices.

and right manus holds two variables: expected monetary value rising prices and difference between natural and existent unemployment rates.

If we consider expected monetary value rising prices invariable (because. it is normally difficult to mensurate) . from this equation. we can see that pay rising prices is negatively related to unemployment _ (Farmer. 2002) . _ We will come back to this issue when we start analysing informations from Azerbaijan.

This thought is the basic premise behind Philips curve. which implies negative relationship between rising prices and unemployment. Now. let's have a expression at other jurisprudence. called Okun's jurisprudence.

Harmonizing to this jurisprudence. divergences between possible and existent GDP are relative to difference between natural and existent unemployment (Gartner. 2003) : $Y^*-Y = A (U^*-U) (2)$ So. Philips curve shows negative relationship between rising prices and unemployment and Okun's jurisprudence describes relationship between unemployment and GDP. Therefore.

if we consider equations (1) and (2) together. we can see a correlativity between GDP growing and rising prices rate. i. e.

. both rising prices and GDP growing is negatively correlated to unemployment. So. there is a positive relationship between rising prices and GDP growing. For now. it is adequate with theoretical portion.

Now, let's see what is traveling on in pattern. Azerbaijan: Cardinal FACTS ABOUT GROWING ECONOMY Due to immense oil gross. country's GDP growing rate was tremendous in last few old ages.

Azerbaijan held 1st topographic point in the universe economic system for its GDP growing rate from 2006 to 2009. In 2007 GDP growing rate was 34.50% . Baku-Tbilisi-Ceyhan grapevine that started operational stage in 2006 is expected to convey the state \$ 160 billion during following 30 old ages. Huge gross brought about execution of immense undertakings in Azerbaijan.

This in bend resulted in more governmental disbursement and therefore more aggregative demand. The latest factor pushed force per unit area on rising prices rate. Therefore, rising prices was upward in Azerbaijan analogue to increasing oil gross. Along with this.

governmental plan aimed to development of non-oil sector is being implemented successfully. New workss and mills have been built during last decennary to diminish economy's dependance on oil. As a consequence, unemployment rate is downward slopping.

Country's currency was re-denominated in 2006. This was really important factor for the fiscal sector. Increased assurance in New Azerbaijan manat (AZN) resulted in grasp of this currency against USD. National Bank of Azerbaijan is still seeking to restrict this grasp to excite exports. Theory IN PRACTICE Now we have a general thought what we are speaking about. We can set together the theory and look into it on macroeconomic informations of Azerbaijan.

We will get down deducing Philips curve for this state. And so see whether Okun's jurisprudence holds in Azerbaijan. Finally we will happen relationship between these two theories and derive relationship between rising prices and per capita GDP growing. _Figure 1. Unemployment rate in Azerbaijan__Source: State Statistical Committee of Azerbaijan Republic (World Wide Web.

azstat. _org_) __Figure 2. Inflation rate measured by CPI. __Source: National Bank of Azerbaijan (World Wide Web.

nba. AZ) _Figure 1 shows downward aslant unemployment line. As it was emphasized. this is due to creative activity of new work topographic points. particularly in non-oil sectors.

Figure 2 represents the degree of rising prices in Azerbaijan. measured by CPI. Merely in 2006 the incline is negative. but so it is positive once more.

We will come back to the ground of diminishing rising prices in 2006 subsequently. Now. if we put these figures together we can deduce Philips curve for Azerbaijan. _Figure 3. Prince philips curve_ On the Y axis we have rising prices rate and on the ten axis we have the degree of unemployment. From this graph we can see that there is a negative relationship between these two indexes.

If we recall neoclassical pay equation. it implies the negative relationship every bit good (if expected monetary value rising prices is considered changeless) . As we emphasized supra. the lone divergence in this graph happens in 2006. What is the chief ground for this? Actually.

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immense oil gross flowed into the state in 2006 and GDP growing rate was tremendous (34 %) . So. rising prices rate should even increase more. The issue is that.

to contend lifting rising prices in the form of turning oil monetary values and immense gross authorities of Azerbaijan decided to re-denominate its currency by 5000 times. So. AZN exchange rate was truly close to taking World currencies (1 AZN? 1. 25 USD) . The National Bank of Azerbaijan and private Bankss set higher involvement rates for refinancing and sedimentations in AZN instead than USD. This resulted in addition of sedimentations in general.

The growing rate of sedimentations and nest eggs was 58 % in 2006. while it was 22 % in 2005 (_National Bank of Azerbaijan. Deposits and Savings for currencies in 2006_) . Increase of sedimentations in AZN was 37 % in 2006.

while it was 20 % in 2005. These factors show that Government could accomplish its end to lower rising prices for 2006. That is the chief ground why there is such a divergence when we analyze Philips curve. Let's now try to happen relationship between GDP growing and unemployment rate.

Figure 4.

Per Capita GDP in Azerbaijan. USD. _Source: State Statistical Committee of Azerbaijan Republic_ If we consider this graph together with unemployment graph we can see the negative relationship between per capita GDP and rising prices rate in Azerbaijan. Let's put these two indexes together in one graph. _Figure 5.

Okun's saw_ On the ten axis we have the rate of unemployment and on the Y axis we have the per capita GDP from 2003 boulder clay 2008. From this graph we can see that this jurisprudence holds in real properties of Azerbaijan. Now. we have seen that per capita GDP growing is negatively related to unemployment. and on the other manus.

rising prices is besides negatively related to unemployment. This means that. rising prices and GDP growing (i. e. per capita GDP growing) is correlated. they have positive relationship.

This positive relationship can be observed if we put these two indexes together. _Figure 6. Positive relationship between per capita GDP and rising prices rate_ To reason our analysis about how neoclassical theoretical account of rising prices. growing and unemployment plants in pattern let's analyze following chart. If we recall neoclassical pay equation (1) we can see that left manus holds difference between pay growing and productiveness growing (pay rising prices) . In the chart below.

we see that mean monthly salary growing rate exceeds both non-oil labour productiveness growing rate and non-oil sector GDP growing rate. So. it means that $\pi > 0$. Then the right manus of the equation should be besides positive. in other words. monetary value rising prices must be positive.

From here we come to conclusion that neoclassical theory is appropriate while discoursing these relationships. _Figure 7. _We have observed that. both Philips curve and Okun's jurisprudence clasp in existent figures of Azerbaijan.

After analysing these relationships we came into decision that so. there is a correlativity between rising prices and per capita GDP. For this intent we have used neoclassical pay equation. Of class. each theory has its deductions.

advantages and disadvantages. Obviously. this relationship could be proved utilizing other attacks and other theoretical accounts. In any instance.

there is a positive relationship between per capita GDP growing and rising prices. Bibliographies: Roger E. A. .

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