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# EXPLORING CONNECTIONS BETWEEN INFLATION AND UNEMPLOYMENT IN MALAYSIA

Abstract: this article outlines the relationship between inflation and unemployment in Malaysia. The relationship is often illustrated by the Phillips Curve which suggests and inverse correlation as unemployment decreases, inflation tends to increase and vice versa. This dynamic reflects how low unemployment can lead to inflation due to increased demand for labor, subsequently driving up overall prices.

Keywords: inflation, unemployment

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# ИЗУЧЕНИЕ СВЯЗИ МЕЖДУ ИНФЛЯЦИЕЙ И БЕЗРАБОТИЦОЙ

Аннотация: в этой статье описывается взаимосвязь между инфляцией и безработицей в Малайзии. Взаимосвязь часто иллюстрируется кривой Филлипса, которая предполагает обратную корреляцию: по мере снижения безработицы инфляция имеет тенденцию к росту, и наоборот. Эта динамика отражает то, как низкий уровень безработицы может привести к инфляции из-за увеличения спроса на рабочую силу, что впоследствии приведет к общему росту цен.

Ключевые слова: инфляция, безработица.

Inflation refers to rate at which general level of prices for goods and services to rise eroding purchasing power [1]. Unemployment is percentage of labor force that is jobless and actively seeking employment [2]. The Phillips Curve was introduced by A.W. Phillips in 1958 are used as measures to explain the inverse relationship between inflation and unemployment [3]. According to this theory, lower unemployment rates correlates with higher inflation rates, as increased demand for labor drives wages up, leading to higher costs for businesses, which are then passed to consumers in the form of higher prices.

Historically, the relationship described by Phillips Curve has held true in many events. For instance, during periods of economic expansion, low unemployment often coincides with rising inflation rates. Conversely, during recessions, high unemployment tends to accompany lower inflation or deflation [4]. However, this relationship has not always been consistent across different time periods and economic conditions.

Based on figure 1, on 2002 until 2007, unemployment rates slightly decreasing thus inflation rates also fluctuate. However, in 2009, Malaysia faces full impact of global crisis, as the deepening recession in the advanced economies causes high unemployment rates. Thus, there is inverse relationship that indicates data where lower unemployment rates in 2018 until 2019 that correspond with lower inflation rates (1.0% and 0.7%). In 2020 during pandemic, despite rising unemployment

(4.5%), inflation turned negative (-1.2%), suggesting that external shocks can disrupts typical patterns.

As Malaysia recovered from COVID-19 in 2021-2023, both inflation and unemployment rates showed signs of stabilization with inflation rising to 2.5% in 2021 and then peaking at 3.4% in 2022 while unemployment gradually decreased.

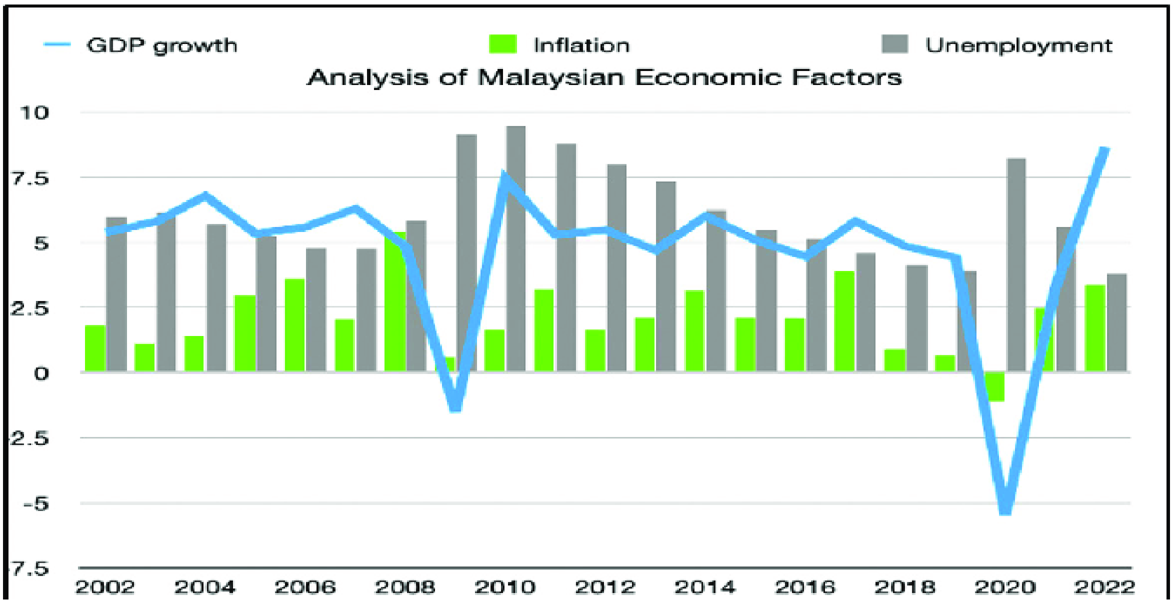


Figure1 – Malaysia’s unemployment, inflation and GDP growth rates from 2002 to 2022

Longitudinal studies reveal that while short-term fluctuations can deviate from the Phillips Curve predictions, over longer periods, a more stable relationship tends to emerge. For instance, research indicates that periods of sustained economic growth lead to both lower unemployment and rising wage inflation, further feeding into overall price inflation.

The dynamics between inflation and unemployment is critical for effective monetary policy formulation which is monetary policy and fiscal policy. Monetary policy is management of interest rates based on prevailing inflation and unemployment levels to maintain economic stability usually by central banks [6]. Fiscal policy is government spending that can be directed towards job creation initiatives during high unemployment periods to stimulate demand without exacerbating inflation.

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