



The NAIRU, Unemployment and Monetary Policy

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JOURNAL OF ECONOMIC PERSPECTIVES

VOL. 11, NO. 1, WINTER 1997

(pp. 33-49)

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Article Information

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Abstract

This paper examines the precision of conventional estimates of the NAIRU and the role of the NAIRU and unemployment in forecasting inflation. The authors find that, although there is a clear empirical Phillips relation, the NAIRU is imprecisely estimated, forecasts of inflation are insensitive to the NAIRU, and there are other leading indicators of inflation that are at least as good as unemployment. This suggests deemphasizing the NAIRU in public discourse about monetary policy and instead drawing on a richer variety of leading indicators of inflation.

Citation

Staiger, Douglas, James H. Stock, and Mark W. Watson. 1997. "The NAIRU

Unemployment and Monetary Policy." *Journal of Economic Perspectives*, 11 (1): 33-49.

DOI: 10.1257/jep.11.1.33

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