CPI’s Effects on Employment Rate - A Literature Review

Team

Debabrata Kabiraj  
Joseph Simone  
Rajwant Mishra

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The purpose of this paper is to determine if a connection between Consumer Price Index, CPI, and Employment Rate exists. Furthermore, if that is the case which industries or sectors have the most effect on the Employment Rate. Concurrently, there has be some historical evidence highlighting that labor costs can be a key predictor of inflation. The Consumer Price Index, evaluates and determines the rate of change in the prices paid for within market bins of goods and services (“CPI” 1). Whereas, by gaging the fluctuations of those prices, inflation reflects the rise in prices of the goods and services that all consumers buy. Characteristically, the price of goods and services grow over-time, however, there are times where the price can decrease, creating a situation called deflation.

The Consumer Price index is considered to be the one of the best indications of inflation (“Inflation” 1). Additionally, Regis Matthes and Christian Barnichon state that, “the natural rate of unemployment, or u-star, is the hypothetical unemployment rate that is consistent with stable inflation and aggregate production being at its long-run level (Matthes and Barnichon 1).” In this literature review, the information gathered regarding the effect between CPI and the Employment Rate pertains to inflation’s relationship with labor costs and the change in inflation over a thirty-year span in Nigeria.

**Historical Attributes Pertaining to Inflation’s Impact on the Global Economy**

Another key indicator of inflation is commonly believed to be labor costs. This is due to the fact that labor costs characterize approximately two-thirds of entire costs to independent U.S. businesses. From this point of view suggests a Cost-Push Model of inflation, the theory that the main cause of higher prices are higher costs. Alternatively, some economists suggest that any change the market will tolerate, regardless of their real costs (Idris and Bakar 1). The degree of inflation has substantially risen in Nigeria, over the span of the past three decades in Nigeria.

The significance of this change in inflation could be attributed to the rapid growth of money supply motivated by the expansionary fiscal policies of the public sector. Making this a crucial finding due to the fact that detecting the probable relationship between inflation and economic growth might advance the progression of a comprehensive overhaul of realist policy options to be implemented towards accomplishing wide-ranging macroeconomic stability in Nigeria (Banerji 1).

**Conclusion**

According to the Literature explored, the possible of finding a connection between the Consumer Price Index and the Employment Rate is feasible by comparing the Data culminated by the US Labor Bureau. Furthermore, a regression model created in congruence with a Support Vector Machine, SVD, can be executed while building a Financial Conditions Index, FCI. The idea behind this is to explore the connection between compound index of financial indicators and impending inflation (Wang et al. 1). “Compared with the traditional econometric method, our model takes the advantage of the machine learning method to give a more accurate forecast of future CPI in small dataset (Wang et al. 1).”

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