Karol Szomolányi
Martin Lukáčik
Adriana Lukáčiková

THE RELATION BETWEEN THE RATE OF CHANGE OF MONEY WAGE AND UNEMPLOYMENT RATES IN THE FRAME OF THE MICROECONOMIC DYNAMICS[1]

Abstract: *The Phillips curve is a basic tool to understand relations between the growth rate of money wage and unemployment rates. Economic dynamics literature contains numerous precious analyses of the Phillips curve. Authors mostly automatically assume that the Phillips curve defines money wage growth rate, or inflation rate as a decreasing and convex function of unemployment rate, or output gap and as an increasing function of expected money wage growth, or expected inflation rate. Basic models of the economic dynamics are the original market equilibrium models. If the subject of dynamic analyses is labour market – market commodity is labour and its price is money wage – we can derive the Phillips curve. Books and lectures on economic dynamics could be enriched with this approach. Such analyses could help to understand why the Phillips curve is decreasing or why it should be augmented by expectations.*

Keywords: *Phillips Curve, cobweb models, dynamic adjustment models*

JEL: C 02, C 62, J 20

Introduction

The Phillips curve [14] represents the relationship between the rate of inflation and the unemployment rate. We can differ between the original and augmented Phillips curve. The original Phillips Curve had been considered to be a basic definition of the relation between inflation and unemployment for long time. The close fit between the estimated curve and the data caused that many economists, following the lead of Samuelson and Solow [17]. Edmund Phelps [12] and [13] and Milton Friedman [3] independently challenged theoretical underpinnings of the Phillips Curve. They argued that well-informed, rational employers and workers should pay attention only to real wages – the inflation-adjusted purchasing power of money wages. These

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