

THE LINKAGE BETWEEN INFLATION AND UNEMPLOYMENT: A VECM STUDY

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Abstract: *It has been a controversial study area whether there is a relationship between inflation and unemployment or not since Okun's (1971) and Friedman's (1977) ideas about them. From this aspect, this paper tries to analyze the mentioned topic with respect to short term and long term base. To do that Turkey's CPI and unemployment rate has been handled for the time period between 2005 and 2017, monthly. After finding the variables stationary in their first difference, it has been found that co-integration exists between the series. As a result of VECM estimation, it's understood that there is actually a long term effect of unemployment to inflation. However, the opposite relationship could not be found. Apart from that, there is no short term relationship among the variables.*

Key words: *inflation, unemployment, VECM, co-integration*

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