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EFFECTS OF MACROECONOMIC POLICY SHOCK ON THE LABOUR MARKET DYNAMICS IN AUSTRALIA

Abstract:

Fiscal and monetary policy have played an important role in defending the economy from the ravages of global financial crisis (GFC) of 2007-08. Inspired by Australian fiscal and monetary policy performance during GFC, this study investigates the effects of macroeconomic policy shocks on the labour market dynamics in Australia using a vector auto-regression (VAR) method. It examines the dynamic response of output, unit labour cost, total hours worked and employment to changes in government spending and cash rate for 1985:3-2015:1. The results suggest that in response to positive cash rate shock total hours worked and employment react negatively, whereas unit labour cost reacts positively. On the other hand, in response to positive government spending shock, total hours worked and employment response positively, whereas, unit labour cost responds negatively.

Keywords:

Labour market, Vector Autoregression, Macroeconomic policy

JEL Classification: C32, E24, E69

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