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A CLOSER LOOK AT THE NAIRU

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ABSTRACT

This research will attempt to analyse the usefulness of the concept of the NAIRU (Non-Accelerating Inflation Rate of Unemployment, hereafter NAIRU). The history and development of the NAIRU will be analysed. There will be specific reference to the New Zealand economy and the policy implications of the NAIRU for New Zealand. The policy decisions in New Zealand such as the Reserve Bank Act and the Employment Contracts Act will be studied in an attempt to discern any implicit NAIRU goals. The aim is to find if the NAIRU is effective as a policy tool, and to understand the implications of the concept both if it is valid, and if it is invalid. The research will derive a NAIRU value empirically for the New Zealand economy. Comment will be made on the empirical techniques used by economists in their estimation of the NAIRU. In conclusion an understanding of the NAIRU, its validity, and its use to New Zealand policy makers, recommendations for further study will also be made.

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DEDICATION

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