Abstract

Misery Index, which is first proposed by Arthur Okun, indicates the severity of current economic problems. This index can be calculated by summing an inflation rate with an unemployment rate. Therefore, the index indicates instability inherited in domestic economy, namely, price instability and production instability.

This index was resurfaced in Thai newspaper late last year, at the times global recession was imminent. Several Keynesian economists criticized the Bank of Thailand’s monetary policy conduct, which focuses mainly on controlling inflation, i.e., inflation targeting. They argued that the Bank of Thailand put more emphasis on the less-concerned problem, i.e., inflation, instead of the more serious problem, i.e., unemployment. Since they believe that the two goals cannot be achieved at the same time, according to the Phillips curve, the Keynesians think the Bank of Thailand made a wrong choice in handling the inflation-output trade-off.

This paper would like to give a more balanced views on the misery index, the Phillips curve, and the current monetary policy. We first investigate empirically the existence of the Phillips curve. If there is no long-run tradeoff between inflation and output, then the Bank of Thailand is able to achieve both goals of price stability and output stability simultaneously. Our econometrics findings lend support to the existence of the short-run Phillips curve but not to the stable long-run curve.

In addition, we will use additional analytical tools, namely Structural Vector Autoregressive Model (SVAR) and Dynamic Stochastic General Equilibrium model (DSGE) to study the effectiveness of monetary policy in an open economy model.