The Discretionary Choice of Two Evils of “Inflation Rate” and “Unemployment Rate”

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Abstract

This paper proposes a theoretical model to analyze the relative hurt of the deteriorating social utility effect of unemployment rate vs. inflation rate and to derive their corresponding conditions. We utilize the actual data of the unemployment rate and the inflation rate of Mainland China in the period of 1985-2007 and Taiwan Area in the period of 1978-2007 to examine its empirical relevance.

We advocate that the deterioration effect of the unemployment rate outweighs the deterioration effect of the inflation rate because the latter just deflates people’s nominal income, but the former seriously pushes the people to the poverty and to the death. We derive the corresponding condition for the above argument, and examine which years of the actual data of Mainland China and Taiwan Area were mapping to our argument.

Keywords: Unemployment rate, Inflation rate, Social utility

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