

Monetary Policy and Swedish Unemployment Fluctuations

Annika Alexius and Bertil Holmlund

Uppsala University

Abstract:

A widely spread belief among economists is that monetary policy has relatively short-lived effects on real variables such as unemployment. Previous studies indicate that monetary policy affects the output gap only at business cycle frequencies, but the effects on unemployment may well be more persistent in countries with highly regulated labor markets. We study the Swedish experience of unemployment and monetary policy. Using a structural VAR we find that around 30 percent of the fluctuations in unemployment are caused by shocks to monetary policy. The effects are also quite persistent. In the preferred model, almost 30 percent of the maximum effect of a shock still remains after ten years.

JEL: J60, E24

Keywords: Unemployment; monetary policy; structural VARs

Correspondence: Department of Economics, Uppsala University, Box 513, SE-751 20 Uppsala, Sweden. Annika.Alexius@nek.uu.se and Bertil.Holmlund@nek.uu.se

Paper prepared for the Symposium on “The Phillips curve and the Natural Rate of Unemployment”, Kiel Institute for the World Economy, 3-4 June 2007. Financial support from IFAU (The Institute for Labour Market Policy Evaluation) is gratefully acknowledged.