

## IMPACT OF ECONOMIC GROWTH AND INFLATION ON UNEMPLOYMENT IN SRI LANKA

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### ***Abstract***

It is crucial to study the effect of inflation and economic growth on unemployment because unemployment is an important economic indicator in both developed and developing countries. The secondary data was collected from Central Bank Annual reports for 1960-2019, Sri Lanka. The collected data on Gross Domestic Product growth (GDP-annual %), inflation (consumer price, annual %) and unemployment rate (annual %) were analyzed using E-views 10. The descriptive analysis and the correlation analysis were used to check the basic behavior of the selected variables. According to the results of correlation, unemployment rate was negatively correlated with both inflation and economic growth. Furthermore, the stationary property or the unit root of the selected variables was checked using the Augmented Dickey-Fuller test. The unit root test results revealed that the GDP growth, inflation, and unemployment rate were stationary at level. The ordinary least square method (OLS) was implied to estimate the unknown parameters in the linear regression model. Agreeing to the results of regression analysis, the coefficients of inflation and GDP growth were negative, thus both had shown a significant negative influence on unemployment. Consequently, Granger Causality test was performed to check the causality among the selected variables and found there was only unidirectional causality exists between inflation and unemployment rate in Sri Lanka. The model validity and stability were checked and found the coefficients of model parameter are unstable. Therefore, the study concluded that inflation and economic growth reduce unemployment but the influence on unemployment seems to be insignificant.

***Key words: Economic Growth, Granger Causality test, Gross Domestic Product, Inflation, Rate of Unemployment, Sri Lanka.***