Modelling a Regime-Shifting New Zealand Beveridge Curve

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Abstract
This paper offers new insights into Beveridge curve analysis by modelling the unemployment-vacancy rate relationship within a Markov regime-switching environment in which the probabilities of curve-shifting are determined endogenously by shift factors. This approach, in sharp contrast to existing Beveridge curve literature, enables regime-specific parameters to be estimated. In addition, a novel feature of our analysis is an assessment of the role played by several factors in influencing the transition probabilities of switching between regimes. These shift factors include the labour force participation rate, GDP growth, net migration and the real interest rate. Using New Zealand data, our evidence suggests that these variables have been responsible, in varying degrees, for shifts in and movements along the Beveridge curve.

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