

**INFLATION AND UNEMPLOYMENT IN UGANDA
(1990 – 2013)**

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DECLARATION


I, Kyarikunda Mebro, hereby declare that this piece of work is my original and has never been presented to any institution for any award.

Signature: 

Date: 19th / 08 / 2015

APPROVAL

This is to certify that this research has been conducted under my guidance and has never been submitted elsewhere for any similar award.

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Date: Wednesday August 19, 2015

DEDICATION

This work is dedicated to my mother who has tirelessly supported me in all aspects including my academic endeavors. May the Lord bless her abundantly.

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LIST OF ACRONOMYS

ANOVA	Analysis of Variance
GDP	Gross Domestic Product
IMF	International Monetary Finance
ILO	International Labour Organization
VAR	Vector Auto Regression
MFEP	Ministry of Finance and Economic Planning
SPSS	Statistical Package for Social Sciences
UBOS	Uganda Bureau of Statistics

ABSTRACT

This research based on examining the relationship between inflation and unemployment rates in Uganda from 1990 -2013 which was guided by three objectives that were establishing the level of inflation rate in Uganda, determination of unemployment rate in Uganda and investigating the relationship between inflation unemployment rates in Uganda between 1990-2013. The study based on quantitative research approach employing the correlation and regression designs. The findings indicated that inflation rates in the period of 1990 to 2013 had been majorly increasing with limited stagnations over some years. The prevalence especially from 2007 to 2011 portrays a worsening economic performance since normal inflation needs to be kept at a single digit.

The researcher found out that Unemployment rate in Uganda, the researcher will observe whether there was a reduction in Unemployment rate from 2000 to 2002. The rate of unemployment was further seen increasing with a final stagnation in 2009 to 2012. Results on the relationship between inflation rate and unemployment from 2002 to 2012 in Uganda presented a correlation value of 0.059 that is slightly higher than the levels of significance (0.05) which indicate that there was no significant relationship between inflation rate and unemployment rate. The ANOVA value of F, 4.416 is larger than the value of significance, 0.059. Therefore, the null hypothesis is accepted. This means that, there is no any correlation between inflation rate and unemployment rate in Uganda under the period of 1990 to 2013.

CHAPTER ONE

PROBLEM AND ITS SCOPE

In pursuit of the topic mentioned above, this chapter brings forth the introduction to the research paper as it tackles the background of the study, the statement of the problem, purpose of the study, study objectives, research questions, the scope of the study in terms of geography, content/variables and time, hypothesis, the significance of the study and eventually operational definitions of key terms.

1.1 Background of the Study

The word inflation rings a bell in the market economics of the world. It is a monster that threatens all economics because undesirable effects (imobile; 2012; Adenuga et al. 2012). Even though some evidence suggests that moderate inflation in economic growth, the overall weight of evidence so far clearly indicated that inflation is inimical to growth (Bawa and Abdullahi, 2012). The plan of inflation surely is not a new phenomenon. It has been a major problem in the country over the years". Inflation is household word in many market oriented economics. Although several people, producers, consumers, professionals, non-professionals, trade unionists, workers and the like, talk frequently about inflation particularly if the malady has assumed a chronic character, yet only selected few knows or even bother to know about the mechanics and consequences of inflation. In 1970s, countries with high inflation especially the Latin American countries begun to experience a decrease in growth rates and thus caused the emergence of the views stating that inflation has negative effects on the economic growth instead of the positive effects. Evidence showing relationship between inflation and economic growth from some of the Asian countries such as India showed that the growth rate of Gross Domestic Product (GDP) in India increased from 3.5 percent in the 1970s to 5.5 percent in the 1980s while the inflation rate accelerated steadily from an annual average of 1.7percent during the 1950s to 6.4 percent in the 1960s and further to 9.0 percent in the 1970s before easing marginally to 8.0 percent in the 1980s (Prasanna 2010). Likely, for the case of China, Xiao (2009) revealed that from 1961 to 1977, China's real GDP growth and real GDP per capita growth averaged at 4.84 percent and 2.68 percent respectively. Since 1978, China's economy grew steadily although growth rate fluctuated

among the years. From 1978 to 2007, the growth rate of China's real GDP and real GDP per capita were recorded at 9.992 percent and 8.69 percent respectively.

In a recent IMF World Economic Outlook, the authors announce a truism about current day Central Bank policy: "It is now widely accepted the primary role of monetary policy is to maintain price stability". (IMF, 2005b, chapter 4) Indeed, they were being too modest. For inflation targeting central banks, virtually the only role of monetary policy is to maintain price stability, and not just at any level, but in the low single digits. Thus, it is ironic that employment creation has dropped off the agenda of most central banks just as the problems of global unemployment, underemployment and poverty are taking center stage as critical world issues (Heintz, 2006a). The ILO estimates that in 2006, approximately 195.2 million people were jobless, the highest level ever recorded (ILO, 2007). The employment to population ratio a measure of unemployment has fallen in the last decade, from 62.6% to 61.4 per cent in 2006 (ILO, 2007). And as the quantity of jobs relative to need has fallen, there is also a significant global problem with respect to the quality of jobs.

Kinda (2011), and Davoodi et al. (2012) use the Structural VAR approach to examine inflation dynamics in Africa. The limitations of this approach are can be attributed to first of all difficulty of getting relevant data for most of African countries, since these models are very sensitive to degree of freedom. Furthermore, the SVAR used seldom examine both long - and short-run determinants of inflation, unless one combines long – and short-term restrictions in a Structural Vector Error Correction Model (SVECM). The single-equation ECM approach used in this study enables the identification of equilibrium relationship and short-term dynamics in inflation. It does not have a degree-of-freedom issue encountered in other studies.

Loening, J.L (2011) stressed that east Africa witnessed in October of 2011 a considerable surge in inflation reaching on average 20 percent. This rise in price has been an issue of concern for policymakers and the general public. In Ethiopia inflation rate reached 34 percent, and inflation attained its highest value of 18.9 percent in Kenya the very same month. Tanzania was not an exception to the rule. It witnessed a sharp rise in inflation with a maximum of 17.9 in October 2011. Uganda recorded the second highest level of inflation in the region hitting 30.5 percent

during the same period. As stressed by the IMF report of 2011, such an increase in inflation has negative implications for the countries at large and particularly for the poor. Given that the majority of the population lives in rural part of these countries, the consequences can be enormous. It erodes the standard of living of the population and hence it can lead to political unrest of the same magnitude to those that occurred in the Maghreb and the Middle East.

East Africa has experienced a period of increasing inflation attributed to both domestic and external factors. Particularly in Uganda, the IMF (2011) points to two principal causes of rise in inflation, higher food and fuel prices, unlikely is a third one supported by accommodative monetary policy. Rise in food prices is a result of supply and demand constraints coupled with an increase in world food prices. Inflation in Uganda plummets in September of 2009 as a result of the recent financial crisis, following a sharp decrease in food inflation. A year after food price inflation starts rising again after attaining a minimum of -10 percent. The increase in food price inflation puts an upward pressure on overall inflation, reaching a maximum of 27 percent in September of 2011. In addition, the region has experienced a period of food shortage due to adverse weather conditions. Inflation Rate in Uganda is averaged at 7.23 Percent from 1998 until 2014, reaching an all-time high of 30.48 Percent in October of 2011 and a record low of -5.36 Percent in November of 2001. In Uganda, the inflation rate measures a broad rise or fall in prices that consumers pay for a standard basket of goods.

Inflation is defined as a generalized increase in the level of price sustained over a long period in an economy (L and Chrystal, 1995), According to Umaru and Zubaine, (2012). The concept of inflation can be defined as a persistence rise in general price level of broad spectrum of goods and services in a country over a long period of time.

Unemployment (or joblessness) occurs when people are without work and actively seeking work. The unemployment rate is a measure of the prevalence of unemployment and it is calculated as a percentage by dividing the number of unemployed individuals by all individuals currently in the labor force. During periods of recession, an economy usually experiences a relatively high unemployment rate. According to International Labour Organization report, more than 197

million people globally are out of work or 6 percent of the world's workforce was without a job in 2012. Diouf, M.A. 2007.

Recent studies have identified several factors underpinning sudden rise in inflation in developing countries, namely, external factors, internal factors, and accommodative policy in the form of exaggerate rise in money supply. External factors refer to rise in world food prices and world energy prices. The fact that most of developing countries import a considerable amount of food, a rise in world food prices is translated directly to an increase in domestic food prices. As food account for large proportion of basket of an average household in these countries, an increase in domestic food prices leads in turn to a general increase in prices. Similarly, world energy price shock, such as oil price, affect domestic prices almost instantaneously. Internal factors generally refer to supply-side constraint, represented by agricultural shocks. Periods of drought, put upward pressure on food prices and hence on domestic price level. These shocks can also be captured by seasonal pattern in agricultural production. The dynamics mentioned automatically derives the country into unemployment (Davoodi et al, 2012)

The clockwise cycling of unemployment and inflation is believed to be due to the combination of expectations adjustments and policy changes. Unemployment falls and inflation rises when policymakers attempt to exploit the "trade-off." Then, as inflation expectations rise, unemployment tends to rise as wages adjust and inflation continues to increase. Contractionary policy designed to combat higher inflation causes unemployment to rise further but causes price increases to moderate. Finally, as contractionary policy comes to an end and unemployment begins to fall, inflation continues to fall as expectations adjust downward. One implication of the absence of any durable tradeoff is that fiscal and monetary policy is limited in their ability to reduce unemployment. If unemployment cannot be pushed below the natural rate for very long without generating continuing increases in the rate of inflation that suggests that policymakers might as well aim to keep inflation rates low and find ways to reduce the natural rate itself.

1.2 Problem Statement

Over the years the question of the existence and nature of the link between inflation and unemployment has been subject of considerable interest and debate (Erbaykal and Okuyan, 2008). Although the debate about the precise relations between these two variables is still open; the continuing research on this issue has uncovered some important results. In particular, it is generally accepted that inflation has a negative effect on medium and long-term growth (Bruno and Easter 1998). Inflation impedes efficient resource allocation by obscuring the signally role of relative price changes which leads to lying off workers. If inflation is inimical to growth, it obviously follows that policy makers should aim at a low rate of inflation. But how low should inflation be? Should it be 10 percent, 5 percent, or for that matter, zero percent or in other words, the problem is that most scholars do not recognize the contributory role of inflation to unemployment in Uganda. The empirical test of the impact of inflation on the unemployment in Uganda (1990 to 2013) which is the subject matter provided a precise answer to the relationship between inflation and unemployment and how the problem could be tackled by providing recommendations.

1.3 Purpose of the Study

The purpose of the study is about investigating the relationship between inflation and unemployment within a period of 23 years (1990 to 2013), to show the trend of inflation rate and unemployment in Uganda.

1.4 Objectives of the study

- i. To establish the level of inflation rate in Uganda from 1990 to 2013
- ii. To show the level of unemployment in Uganda from 1990 to 2013
- iii. To investigate the relationship between inflation rates unemployment rate in Uganda between 1990 to 2013

1.5 Research Questions

- i. What is the level of inflation rate in Uganda from 1990 to 2013?
- ii. What is the level of unemployment in Uganda from 1990 to 2013?
- iii. What is the relationship between inflation rate and unemployment in Uganda from 1990 to 2013?

1.6 Hypothesis of the Study

There is no significant relationship between inflation and unemployment in Uganda in 1990 to 2013.

1.7 Scope of the Study

The study will focus on the establishment of the trend of inflation in Uganda, the trend of unemployment in Uganda and to investigate the relationship between Inflation and unemployment in Uganda in the period of study, this shall be investigated empirically the data spanning over a period of study. The study is to be conducted in Uganda.

Theory of Employment, Interest and Money (1936) John Maynard Keynes in conjunction with the Phillips curve will be used. The Phillips curve is a historical inverse relationship between the rate of unemployment and the rate of inflation in an economy. Stated simply, lower unemployment in an economy is correlated with a higher rate of inflation. While there is a short run tradeoff between unemployment and inflation, it has not been observed in the long run. Accordingly, the Phillips curve is now seen as too simplistic, with the unemployment rate supplanted by more accurate predictors of inflation based on velocity of money supply.

1.8 Significance of the Study

The study will be significant in the following ways

The study will reveal the remote and immediate causes of inflation in Uganda with due consideration to theoretical function.

1.9 Operational definitions

Inflation

Inflation as measured by the consumer price index reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly. The Laspeyres formula is generally used

Unemployment

Unemployment rate is refers to the share of the labor force that is without work but available for and seeking employment.

- CHAPTER TWO LITERATURE REVIEW

This chapter is concerned with review of information that different authors have advanced on the topic in regard to study objectives, it therefore looks at the theoretical review, conceptual framework, related literature, related studies and gap identification.

2.1 Theoretical Review

Theory of Employment, Interest and Money (1936) John Maynard Keynes in conjunction with the Phillips curve will be used. The Phillips curve is a historical inverse relationship between the rate of unemployment and the rate of inflation in an economy. In his *General Theory of Employment, Interest and Money* (1936) John Maynard Keynes rejected this very foundation of Classical economics. He indicted the market order for breeding mass unemployment, and appealed to government for creating conditions of full employment. Demand may fall below supply, which calls for increased government spending, to make up for the lack of demand, or for lower taxes or increases in the stock of money, or a combination of all three.

Keynesian economics postulates a definite relationship between unemployment and inflation. Goods prices remain stable, according to Keynesian theory, as long as there is some unemployment. Inflation raises its head only beyond the full employment mark when demand exceeds supply and no idle resources are available to increase output (demand-pull inflation). The relationship is said to be illustrated by the Phillips curve named after A. W. Phillips, a British economist. As unemployment increases, the rate of inflation decreases; as unemployment decreases, the rate of inflation rises. Conversely, as the rate of inflation is made to fall, unemployment rises; as the rate of inflation rises, unemployment is said to fall. The relationship presents an unfortunate trade-off in which unemployment is the cost of price stability, and inflation the cost of full employment. Angelo and Sousa (2009).

In particular, the Phillips curve highlights why this is so. Generally there is a relationship between inflation and unemployment the lower the rate of unemployment, the higher the rate of inflation. While a variety of factors can alter the curve (including productivity gains), the

essential take-away is that neither a zero-unemployment or zero-inflation scenario is viable on a long-term basis.

In the 1970s, new theories, such as rational expectations and the NAIRU (non-accelerating inflation rate of unemployment) arose to explain how stagflation could occur. The latter theory, also known as the "natural rate of unemployment", distinguished between the "short-term" Phillips curve and the "long-term" one. The short-term Phillips Curve looked like a normal Phillips Curve, but shifted in the long run as expectations changed. In the long run, only a single rate of unemployment (the NAIRU or "natural" rate) was consistent with a stable inflation rate. The long-run Phillips Curve was thus vertical, so there was no trade-off between inflation and unemployment. Edmund Phelps won the Nobel Prize in Economics in 2006 for this.

There is also a tradeoff between employment and efficiency. Businesses maximize their profits when they produce the largest number of goods possible at the lowest price possible. In some cases, though, labor is more expensive (less efficient) than capital equipment. Consequently, there is always a trade-off between the cost and productivity of labor and that of labor-substituting capital equipment and that effectively reduces the number of jobs available. Likewise, structural unemployment is a recurrent problem as technology progresses workers find their skills no longer match the needs of the employers and must update their training as industries adopt new technologies.

Also, recent experience casts doubts on the existence of a Phillips-curve relationship. A chart drawn for the 1960s differs substantially from one for the 1970s, which again differs from one for the 1980s. The upward shift in the curves indicates that the "trade-off" varies greatly—that is, for a given inflation or unemployment rate the corresponding unemployment and inflation rate is much higher on later charts. In 1963, 1972, and 1974, the unemployment rate was nearly the same, but the inflation rates were 1.6 per cent, 3.4 per cent and 12.2 percent respectively. Which one is the Phillips relationship? The chartists cannot answer this question because there is no causal relationship between inflation and unemployment that can be charted in any way or form. There is no Phillips curve in real life. Barro, R. J. (1995)

But even if there were such a curve, it would not explain the relations between inflation and unemployment. The chartist who gathers the data and plots the curves would still need to explain the causal relationship. In particular, he would need to answer the question of why there is a trade-off and why it varies continuously, which contradicts the regularity of the relationship. He fails to provide an answer by adding a distinction between unemployment that is frictional, structural, and cyclical. Frictional unemployment is said to arise from voluntary worker movement between jobs. The unemployment that is called structural and cyclical is said to spring from a mismatch between the supply of and demand for labor, especially when total spending and output fall and the over-all demand for labor declines. The mis-match is to be corrected by governmental intervention of one form or another. Diouf, M.A. 2007

2.2 Review of related Literature

Inflation

Inflation is defined as a generalized increase in the level of price sustained over a long period in an economy (L and Chrystal, 1995), According to Umaru and Zubaine, (2012). The concept of inflation can be defined as a persistence rise in general price level of broad spectrum of goods and services in a country over a long period of time.

Types of Inflation. Inflation can be categorized by its causes or by the level of inflation rate. Categorized by causes, there are three aspects of inflation: demand-pull, cost-push and built-in inflation, which will be discussed later. Classified by the rate of inflation, there are four levels of inflation:

Low inflation

Inflation is considered as low when the inflation rate fluctuates from 1 percent to 5 percent when the rate is around zero, there is no inflation or so-called price stability. If the inflation rate falls below zero, the country faces deflation (Piana, 2011). Within the limit of this research, the deflation is not mentioned. The governments always attempt to maintain a low inflation, since it has positive effect on the economic growth (Nguyen T.B.L, 2011).

Moderate inflation

Because of differences in inflation history, there are various definitions of moderate inflation around the world. In general, one is considered as moderate inflation when its rate ranges from 5 to 25 percent. However, the higher part of this range could already be categorized as high inflation in some countries. (Piana, 2011)

High inflation

High inflation is regarded as inflation with high rate, from 30 to 50 percent. When the rate passes over 50 but below 100 percent, the extremely high inflation occurs. Since the stability of both kinds is unsure, the acceleration to hyperinflation could be expected. (Piana, 2011).

Hyper inflation

Hyper inflation is the most extreme type of inflation, with the annual prices increase to three-digit percentage points (Piana, 2011). For example, the price of a newspaper in Germany was 0.30 marks in January 1921. It increased to 70,000,000 marks in November 1922, less than a couple of years later. The prices of all other commodities in the market increased with approximately the same rate. (Mankiw 2011).

The inflation rate in Uganda was recorded at 7.10 percent in March of 2014. Inflation Rate in Uganda is reported by the Uganda Bureau of Statistics. Inflation Rate in Uganda averaged 7.23 Percent from 1998 until 2014, reaching an all time high of 30.48 Percent in October of 2011 and a record low of -5.36 Percent in November of 2001. In Uganda, the inflation rate measures a broad rise or fall in prices that consumers pay for a standard basket of goods.

Zaidi, S.A (2005) argued that one of the major drivers of inflation is increase in food prices of recent, food prices have been increasing due to reduced supplies to the market. Reduced supplies are mainly attributed to a spell of drought in the country that began late December 2010 to early March 2011, which affected production of main food commodities. Moreover, there was an increased demand for Uganda's food commodities by neighboring countries (mainly South Sudan, Kenya and Rwanda). In addition, rising fuel prices have filtered through to transport sector, which has in turn raised the cost of Food Crops' distribution to markets. There are three

reasons why fuel prices are rising. First, world crude oil prices are high and continue to increase. Since all of the fuel products on the market are imported, it turns out that the country is importing inflation. Second, there have been oil supply shortfalls in the face of Middle East Crisis and rising demand of fuel products due to the combined effects of increasing population and household income. Third, the shilling has been experiencing depreciation pressures from international currencies especially the US Dollar, which is the main unit of international transaction. This makes imports of fuels very costly.

Davoodi, H.R., Dixit, S., and Pintor, G. (2012) pointed out that since the structural adjustment days of the 1990s, targeting inflation to single digit rates has remained a predominant feature of Uganda's macroeconomic strategy towards creating and sustaining an enabling environment for poverty-reducing growth. One of the most commonly advanced arguments for this inflation targeting strategy is the minimization of the erosion of the purchasing power of the poor. Implicit in this argument is the concern that inflation hurts the poor the most. However, since different consumers purchase different bundles of goods and services depending on personal and location-specific socioeconomic characteristics, when inflation rises beyond the targeted range, it is not obvious which income group experiences a relatively higher rate of inflation. Even when group-specific inflation rates are known, the subpopulation with a higher relative rate of inflation may not necessarily be the one that bears the brunt of a surge in inflation.

Other than due to differences in consumption bundles, consumption expenditure structures may vary across individuals or groups of individuals as a result of several factors including differences in the shares of own production in one's consumption bundle, spatial price differences, and the possibility of individualized pricing. The resulting differences in consumption expenditure structure, in turn, yield different subgroup-specific inflation rates. Davoodi, H.R., Dixit, S., and Pintor, G. (2012)

The quest to appropriately estimate inflation differentials across subpopulations is what motivates this study. The study follows the work of Borat and Oosthuizen (2005), which analyzes relative inflation experiences of South African households for the period 1997 to 2002. The specific objective of our study, therefore, is to estimate inflation rates for different

subgroups of households, with emphasis on identification of the main items that drive inflation among poor households. To analyze subgroup-specific inflation levels and drivers, we use an appropriately constructed consumer price index (CPI).

Solomon, M. and Wet, A. (2004) pointed out that rising from economic contraction of the 1970s and early 1980s, by the mid 1990s Uganda had stabilized its macroeconomic environment, with annual inflation rate reduced to single digits from about 150 percent in 1985/86. Because of the country's resolve to ground its economic recovery and transformation on sound macroeconomic policy, it attracted massive overseas development assistance. The main potential source of inflation was, therefore, no longer gross economic mismanagement but expansionary fiscal strategies that aimed to absorb increasing foreign aid inflows. In this situation, the Bank of Uganda strategically transacted treasury bills, government bonds and foreign exchange, and adjusted rediscount rate and reserve requirement on deposits for purposes of macroeconomic management. All this reflected a monetary policy that aimed to ensure that liquidity conditions, foreign exchange market operations, and overall macroeconomic environment supported the level of general price stability that is necessary for sustainable economic growth.

Uganda's tight monetary policy stance has helped prevent slippage into large double-digit rates of inflation. During the period of our analytical focus (July 1998 to July 2007), the national average year-on-year headline inflation rate was 4.6 percent. This average, however, masks the volatile fluctuation from -5.1 percent in November 1998 to 12.6 percent in April 2005.

With the exception of December 2006, the Annual Headline Inflation rates maintained single digit figure (below 10 percent) between June 2006 and April 2008. In May 2008, the Headline Inflation rate rose to above 11.2 percent. The rising trend continued up to February 2009 when the Headline Inflation rate was 14.9 percent. Note that in between, in August 2008, there was a dramatic rise of Headline Inflation rate to 15.9 percent (the highest ever Headline inflation since July 2006) before easing to 15.2 percent in September 2008 and then to 14.2 percent in October 2008. Durevall, D. and Ndung'u, N. (2001)

The high inflation levels persisted, cascading between 14.7 percent and 14.1 percent until March 2009, before falling to 13.4 percent in April 2009. The declining trend continued, though still in double digits, until January 2010 when Headline inflation rate was recorded at 8.9 percent and reached the lowest level at 0.2 percent in October 2010. Subsequent months witnessed rising inflation trend. In November 2010, the Headline inflation rate rose to 1.4 percent and to 3.1 percent in December 2010 and kept accelerating to 6.4 percent in February 2011, and rose sharply to 11.1 percent in March 2011.

2.3 Unemployment in Uganda

Unemployment as defined by the International Labour Organization (ILO) occurs when people are without jobs and they have actively looked for work within the past four weeks. The unemployment rate is a measure of the prevalence of unemployment and it is calculated as a percentage by dividing the number of unemployed individuals by all individuals currently in the labour force. In the year 2010, Uganda registered a GDP growth of about 5.2% but this has not been rapid enough to create the jobs needed to keep pace with its population growth which according to the Population Reference Bureau, a Washington D.C based research and advocacy group, is way ahead of the world's, which is at 1.2 percent leading to a persistent high rate of unemployment. The policy conclusion drawn is that we need faster growth to increase the demand for workers and reduce unemployment which is one of the most pressing social economic challenges facing Government today.

Durevall, D. and Ndung'u, N. (2001) argued that there are several types of unemployment such as frictional unemployment results from imperfect information and the difficulties in matching qualified workers with jobs. A college graduate who is actively looking for work is one example. Frictional unemployment is almost impossible to avoid, as neither job-seekers nor employers can have perfect information or act instantaneously, and it is generally not seen as problematic to an economy.

Cyclical unemployment refers to unemployment that is a product of the business cycle. During recessions, for instance, there is often inadequate demand for labor and wages are typically slow

to fall to a point where the demand and supply of labor are back in balance. Mikkelsen, J. and Peiris J. S. (2005).

Structural employment refers to unemployment that occurs when workers are not qualified for the jobs that are available. Workers in this case are often out of work for much longer periods of time and often require retraining. Structural unemployment can be a serious problem within an economy, particularly in cases where entire sectors (manufacturing, for instance) become obsolete.

There are three primary causes of unemployment; structural causes (changes in market conditions often turn many skills obsolete); frictional causes (transaction cost of trying to find a new job); and cyclical unemployment (economic contraction). There are arguments that a large share of current high youth unemployment is “structural,” in a sense that most of the unemployed youth have skills which are not compatible with the jobs becoming available. It is further argued that many of the unemployed youth either possess inadequate skills or possess skills that have greatly deteriorated or are not applicable to the available industries.

According to the International Labour Organization, the number of unemployed youth worldwide increased by 10.2 million in 2009 compared to 2007, the largest hike since 1991. The 2009/2010 Uganda National Household Survey revealed that the unemployment rate was at 4.2 percent in 2009/2010 compared to 1.9 percent in 2005/2006. The survey also showed that the general proportion of youth (International definition, 15-24 years) rose from 27 percent in 2005/2006 to 28 percent in 2009/2010. On the other hand, the proportion of the youth (national definition, 18-30 years) rose from 44 percent in 2005/2006 to 48 percent in 2009/2010. According to a 2008 World Bank Report, Uganda is among the countries with the youngest population and the highest youth unemployment rate of 83 percent. To further lend credibility to these findings, in the 2011/2012 budget of Uganda, the Minister of Finance recognized that because of the high levels of unemployment, the Ugandan economy can only absorb 20% of its youth.

This same survey revealed that the labour force in the country was approximately at 11.5 million persons reflecting an increase of 2 million from 9.5 million in 2005/2006; an annual growth rate

of 4.7 percent. This is above the national population of 3.2 percent per year. According to the survey, the high growth rate of the labour force poses a challenge to the country since it requires that jobs should be secured to match the increasing labour force.

The survey also used the Labour Force Participation Rate to assess the employment situation in Uganda. Labour Force Participation Rate means the number of persons in the labour force expressed as a percentage of the working-age population. The labour force participation rate for youth (International definition, 15-24 years) rose from 44 percent in 2005/2006 to 60 percent in 2009/2010. The Labour Force Participation Rate for the youth as nationally defined, 18-30 years increased from 77 percent in 2005/06 to 86 percent in 2009/10. Consequently Uganda required about 15.6 million jobs for her active population aged 15-64 years by 2010. But due to the current unemployment rate of over 3.5 percent and whopping youth unemployment rate of over 32.2 percent then about 4.37 million people have remained jobless.

According to a 2011 statistical abstract, the total labour force in Uganda increased from 10.8 million persons in 2005/06 to 13.4 million persons in 2009/10, an increase of 23 percent; by industry, agriculture employed 66 percent of the working population, while by occupation, 60 percent of the working population were agriculture and fishery Workers; by employment status 79 percent were self employed in 2009/10.

Unemployment has social as well as economic consequences for young people. Unemployed young people are forced to find alternatives to generate income, including activities in the survival-type informal sector and, in extreme cases, criminal activity. Urban unemployment is further exacerbated by rural-urban migration. Rural migrants believe that more jobs and social opportunities are available in urban areas, but once in the cities they find themselves without a job and with limited social networks.

Youth joblessness also implies missed opportunities in the human resources to produce goods and services. In addition, smaller tax revenues result from a smaller tax base for income tax and indirect taxes such as the value added tax. A further implication is related to security. An increase of one percentage point in the ratio of people ages 15-29 to people ages 30-54 increases

the likelihood of conflict such as civil unrest or war by 7 per cent. Higher crime rates also have a direct economic cost in terms of loss of foreign direct investment. Musinguzi, P. (2005).

The 2011/2012 budget is one of the most recognizable strategies by the Government to deal with the problems youth face in the employment sector. The financial facilities proposed by the Government are pro youth and an indication that the Government is now looking at young people as important stakeholders in the development process. In this budget, the Minister of Finance mentioned some of the aspects that continue to constrain development in the country and these include poor business and entrepreneurial attitudes, the lack of good work ethic, integrity and patriotism in both the public and private sectors; negative perceptions in use and appreciation of natural resources; limited adoption of science technology and information and communication technology in business and social spheres and negative attitude towards work and entrepreneurship in favour of paid employment and poor time management.

2.4 Relationship between inflation rate and unemployment

Research studies documented significant facts about the phenomenal relationships between inflation and unemployment. The quantitative results about these variables were found that inflations and unemployment are positively associated to each other (Mocan, 1995). The association between inflation rates was found to have an increasingly steady state in relation to unemployment rate. It has been calculated that one seventh magnitude of the inflation rate raises the unemployment rate and the economy. The results of the study were based on time tested aspects for the period of 1959 to 1983. The experiential results concluded important considerations for the inflation, unemployment in this regard. It was found that both inflation and unemployment lead the GDP. The constructive solutions in these studies were built as an important initiative for these economic issues. It was found significantly helpful to develop supportive policies for the solutions of the inflationary periods and overcome the unemployment in the different periods of economic cycles (Blinder and Esaki, 1978; Blank and Blinder, 1986; Blank, 1993; Mocan, 1995). According to Slesnic (1993) inflation is the continuous raise in the price level of the economy that contribute significantly to the GDP. The unemployment level rises due to continues raise the in the production cost, selling costs, manufacturing and promotional costs, and others.

The correlation between inflation and unemployment could be just as equally negative or positive, depending on the source of the shocks and the length of adjustment lags. Since then, my specification of inflation dynamics, developed in 1977-80 and published in two papers in 1982, has become widely used. This paper, along with previous papers, attempts to maintain the 1982 specification intact and explore marginal changes that improve our understanding, rather than "reinventing the wheel" in each succeeding paper. In this paper the "original" 1982 specification is subjected to a close examination to examine the validity of its relatively long lag lengths, its treatment of productivity growth, and its sensitivity to splits in the sample period, as well as to produce that are implied by the original specification and numerous alternatives. Birru, Y.A. (2012).

Johansen, S. (1991) contends that the element in most inflation research but maintained here is the insistence that every alternative specification must be subjected to post sample dynamic simulations. In every equation explaining price or wage behavior, a dominant explanatory variable is lagged price and/or wage change. Accordingly, any paper in this literature runs the risk of concluding (without realizing it or saying so) that "inflation was low because inflation was low." In this paper, the test of each alternative version is its mean error when the sample period is truncated at 1995 and a dynamic simulation is created in which the

Third, in a point that dates back to Stock's discussion of Gordon (1998), a complementary question to be raised about the late 1990s, in addition to why inflation was so low, is why the unemployment rate fell by so much while the rate of capacity utilization did not rise. This is an additional question to untangle about the late 1990s that receives relatively little emphasis in the contemporary literature. Elliott, G., T.J. Rothenberg, and Stock, J. (1996)

Gokal, V. and S. Hanif (2004) contend that between 1994 and 2000 the unemployment rate declined by three times as much as between 1987 and 1990. In contrast, the rate of capacity utilization reveals a reduction in cyclical tightness in the more recent period 1994-2000, in contrast to no change in tightness during the earlier 1987-90 expansion. This sharp contrast between the extent of tightness indicated by the unemployment rate versus the rate of capacity utilization is a continuing theme of the current.

2.5 Related Studies and Opinion from other authorities

Barro (1995) finds a negative relationship between inflation and economic growth. He considers variables like fertility rate, education, etc. constant. He studied a large data sample of more than 100 economies for the period of 1960 to 1990 to assess the effects of inflation on growth. A system of regression equations was used in which many other determinants of growth were held constant. This framework is based on an expanded view of the neoclassical growth model as stated by Barro and Sala-i-Martin (1995). The study indicates that there exists a statistically negative relationship between inflation and economic growth. More specifically, an increase in the average annual inflation by 10 percentage points per year lowers the real GDP growth by 0.2 to 0.3 percentage points per year.

Bruno and Easterly (1995) address the issue of inflation and growth and find no evidence of any consistent relationship between these variables up to a certain level of inflation. They assess that the growth falls sharply during discrete high inflation crisis, above 40 percent, and recovers after inflation falls. Their experiential analysis shows that there exists a temporal negative relationship between these two variables beyond 40 percent threshold level. They conclude that there is no permanent damage to economic growth due to discrete high inflation crisis.

Khan and Qasim (1996) estimate the key determinants of inflation in Pakistan by using the annual time series data for the period 1971-1995. They divide inflation into food and non-food inflation and suggest a strong role of money supply in accelerating inflation in Pakistan. Other factors causing inflation, investigated by the researchers, are currency devaluation, value addition in agriculture sector, support price of wheat, import prices and the price of electricity.

The effect of fiscal deficit is found in association with high inflation rate while deficit to GDP ratio and the economic growth. This phenomenon is associated with unemployment and deficit economic spheres (Sousa, 2009). The economic growth, with the help of economic resource mobilization, supports corrective steps for the development and control of inflation and unemployment. The same is the case in the opposite side when economic factors are improperly managed; this stimulates inflation and unemployment which influences certain economic problems (Jamshaid, et al, 2010).

Blank (1993) provides an insight information about the stated phenomenon that low income workers gain income by increasing the work hours to perform for a specific task. The stated research study contributed more insight for low income employees and said that their income increases as they spend more work hours a work place.

Khan and Senhadji (2001) examine threshold effects of inflation on growth separately for industrial and developing countries. The data set covers 140 countries from both groups for which non-linear least squares (NLLS) and conditional least squares methods are used. The experiential results verify the existence of a threshold beyond which inflation exerts a negative effect on growth. Significant thresholds at 1-3 percent and 11-12 percent inflation levels for industrialized and developing countries have been found. The view of low inflation for sustainable growth is strongly supported by this study.

According to Cutler and Katz(1991)examined and proved that inflation and employment level are negatively correlated to each other. The influencing impact levels are also proved to be positive and significant in relation to each other. Therefore, there are other factors that affect the unemployment level, but inflation is one of the most influencing factors for the growth of unemployment level at the national level. The inflation levels from walking to running from high to higher inflation promotes step wise, in case, there are no or slow responsive initiatives. Therefore if inflation exists with control mechanism then controlled phenomenon towards the unemployment level would be recorded.

The research study of Mocan (1995) revealed very interested findings. It is observed that inflation happens continuously where the flexible wage rates are planned the unemployment and employment levels are controlled with it. Therefore, the inflation level happens, but with this strategy the unemployment is found in situation that produces limited effect on the economy. If inflation happens then immediate preplanned strategies are required to establish long lasting solutions and financial wellbeing.

Metin (1991) finds that unemployment is an influential phenomenon found in the economies that is negatively influenced by inflation. The research study proved important facts with the help of

multivariate co integration analysis. The scale budget deficit is also seen to significantly affect the inflation. Inflation also influences unemployment in the economic spheres. The economic prospect regarding unemployment can be measured as the product of the unemployment risk in the population and the amount to which people are protected from the income unemployment risk. We have taken alternative for the unemployment risk changes in the employment rate.

According to Catao and Terrones (2003), there is a strong relationship between fiscal deficit and changing inflation. The results were reached at experiential and provided quantitative responses in the form of positive relationship between fiscal deficit and inflation. The inflation is seen to influence economic problems in the form of unemployment and economic disruptions.

The research study of the Soloman and Wet (2004) identified the effect of budget deficit on inflation in Tanzania and found that economy experienced a high inflation rate accompanied by high fiscal deficit. While Benneth (2007) says that relationship between fiscal policy is associated with unemployment in Nigerian economy. This was carried out with the help of equilibrium model and the experiential results concluded that fiscal policy influences the inflation and unemployment. While the inflation further influences the impact of the unemployment adversely, therefore, the inflation influences unemployment. Finally the fiscal policy formulation should be considered when redistribution of income in society is implemented. Volker (2005) examined the role of unemployment in the economic development. It was found that unemployment is the indicator of the economic downfall or economic crisis. Therefore, the impact of unemployment is required to be controlled and managed. The unemployment examined by IMF investigatory programs known as structural adjustment programs that highlighted the initiatives for the reduction of unemployment and control of inflation. The inflation in the stipulated period of time showed less impact on the unemployment level and made a positive contribution to the economic welfare of Pakistan.

It has been proved that unemployment level and inflation levels are associated with each other positively. Inflation levels develop financial crunch condition and thus unemployment levels rise. Inflation has a central role here. The conclusive thoughts of these influencing phenomena have been found to control the unemployment in the economy; therefore, one must control the

inflation from higher position to lower. A strategy would help the economic experts to prove an opportunistic environment to the general public in the form of small changes in the price level that represents the inflation and provide job opportunities that represent the unemployment level and the control of both these represent the control of inflation factor (Danziger, S.H., and E Gottschalk 1986). The research study documented and found these conditions in the places where the people were facing cost factor associated to all general and special commodities. By using existing phenomenon of the inflation, there is the correlating association found between unemployment.

CHAPTER THREE

METHODOLOGY

This chapter explains and describes how the research was carried out. It focused on the research design, area of the study, study population, sample size, sampling techniques, and sampling procedures, methods of data collection, quality control mechanisms, data processing, data analysis and ethical consideration

3.1 Research design

The study used quantitative research approach which was adopted and used quantitative techniques to analyze secondary data scientifically and critical conclusions on the research objectives were made. Secondary data was collected from World Bank reports, Bank of Uganda, International Monetary Fund, UBOS and ministry of finance. The collected information was filled into the data sheets. The quantitative research design was employed to present statistical data generated from the gazetted sources. The study employed correlation and regression designs.

3.2 Research Population

The study concentrated on the rates of inflation and unemployment in Uganda over the years

3.3 Sample size

The research was conducted based on twenty three years prevalence on the rate of inflation and unemployment in Uganda from 1990 to 2013.

3.4 Instruments from Data collection

The record sheets were used to enter the time series data on inflation and unemployment rate in Uganda from 1990 to 2013.

Data Gathering Procedure and Source

After the proposal was approved, the researcher got an introductory letter from the Department of Economic and Applied Statistics of Kampala International University, which introduced her to

the respective data sources and they were informed by the researcher on area of interest of data to be collected.

The sources included IMF, International Financial Statistics and World Bank, bank of Uganda and ministry of finance. The data was entered into the record sheets. The data from the above different sources were collected and those that happen to be similar were considered for entry into the data sheets.

3.5 Data processing and analysis

After the researcher had obtained the necessary data, the researcher analyzed, and interpreted it in relation to the objectives of the study.

SPSS package was used to derive descriptive statistics and the regression line, descriptive analysis was conducted to describe the behaviors of the individual variables over the duration of the study by plotting each variable against time,

The analysis of the first questions include testing Rates of inflation in Uganda from 1990 to 2013, through use of a table and a line graph to show trend, use of a line graph to show the nature of inflation including regression equation derived from excel, linear regression analysis of inflation over time, descriptive statistics was conducted to further test for level of inflation rate through determination of mean, maximum, minimum, skewness, range, Kurtosis and standard deviations.

The second objective was analyzed through using table to display data for testing trend. line graph to indicate the nature of unemployment, regression analysis of unemployment over time and finally descriptive statistics was conducted to further test for level of unemployment in Uganda variables through determination of mean, maximum, minimum, skewness, range, Kurtosis and standard deviations

The third questions was tested using scatter plot the analysis of inflation and unemployment rates, correlation (Pearson correlation) and linear regression that included analysis of regression, ANOVA and coefficient of regression. Pearson correlation coefficient was used to test the null hypothesis at 0.05 level of significance.

Reject H_0 if $|t_c| \geq t_{\frac{\alpha}{2}}$ at 0.05 level of significance

The model for unemployment and inflation was tested using the relationship below.

Unemployment rate = $a + \beta_0$ (inflation)

$$Y = \hat{a} + \hat{a}_0 X_0 + e_i$$

Where

Y: unemployment rate

\hat{a} : The unemployment rate without inflation rate

\hat{a}_0 : The rate of change unemployment to inflation rate

x_0 : Inflation

3.6 Limitations of the study and solutions

In the processes of carrying out the research the following problems were encountered

Extraneous variables which were beyond the researcher's control such as respondents' honesty, personal biases and uncontrolled setting of the study.

The study concentrated on authenticated data published by reliable sources such as International monetary finance and International Labour organization (ILO).

There was difficulty into collecting data since the rates of inflation and unemployment Rates were not acquired with ease. The researcher attained data from the ILO and IMF websites upon consultation.

Scheduling challenges affected the researcher since secondary data is hard to attain. The researcher made consultations with different data sources and sought the assistance of the supervisor

3.7 Ethical Consideration

Upon the selection of research topic and supervisor from the department of economics and applied statistics. The researcher was guided to draft a research proposal by the supervisor. After approval of the proposal the researcher interfaced with data sources (IMF and ILO) to attain data for analysis. Sources were approached and legal authorities to use the libraries, reports, journals and publications. These were preceded with analyzing of data and final preparation of the research report for submission. The research also referenced all the data sources acquired for the use in the entire research including data collection.

CHAPTER FOUR
PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

This chapter presents, analyzes and shows how data was interpreted. The presentation, analysis and interpretation of the data are dependent on the objectives. The objectives of this study were: determination of the inflation rate in Uganda, restriction of the unemployment rates in Uganda and finally the establishment of the relationship between inflation rate and unemployment rate in Uganda. The data analysis was based on the information collected.

4.1 The Rate of Inflation in Uganda (1990- 2013)

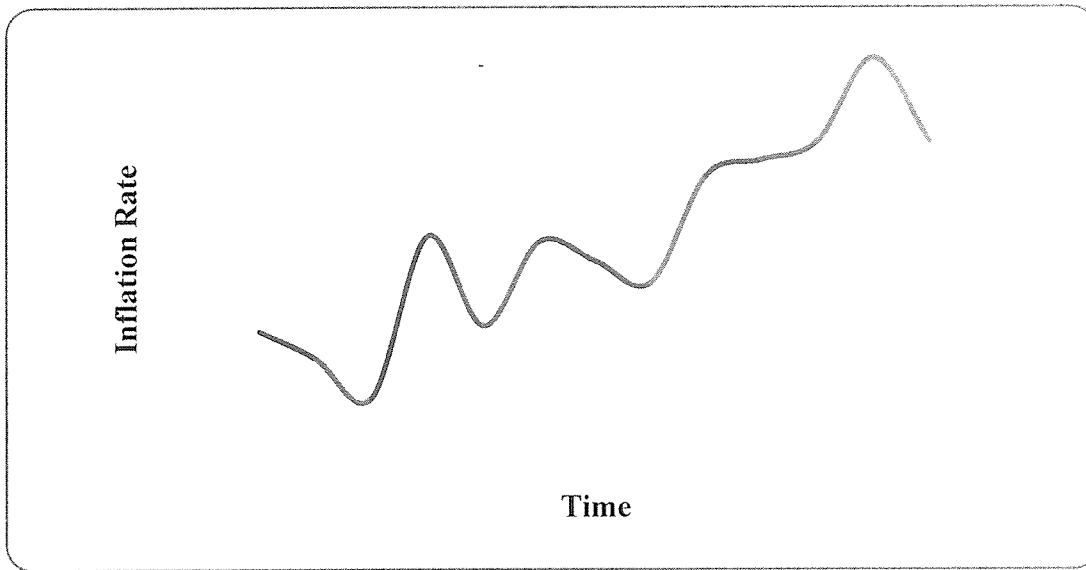
The first objective of the study was to determine the rate of inflation rate in Uganda (1990–2013). To achieve this objective, the researcher presented the data about inflation rates in Uganda for the period (1990- 2013) in tabular form and on a line graph. The data about inflation rates in Uganda are shown in the Table 4.1.

Table 4.1 showing the rate of inflation in Uganda from 1990-2013

YEAR	INFLATION RATE
1990- 1991	3.4
1992-1993	1.9
1994-1995	-0.3
1996-1997	8.7
1998-1999	3.7
2000-2001	8.4
2002-2003	7.3
2004-2005	6.1
2006-2007	12.1
2008-2009	13.0
2010-2011	14.0
2012-2013	18.7

Source: World Bank, IMF, ILO, Bank of Uganda, UBOs, MFEP (2013)

The trend of inflation in Uganda from 1990 to 2013 indicates that the inflation rate has generally increased in the period of 2008 to 2011 with more than a single digit value. The peak of inflation rate was in 2011 with 18.7% and lowest in 2002 with -0.3%. However from 2000 to 2002 there was a reduction in inflation rate followed by an increase in 2003 and 2005, a slight reduction inflation was registered from 2005 to 2007 and then a steady increase up to 2011, there was a slight decrease inflation in 2012 to a double digit but by 4% increase.



Source: Researcher, May 2015

Figure 1: A line graph Showing the trend of Inflation Rate in Uganda (1990- 2013)

A line graph shows that inflation rate in Uganda has been steadily increasing with some fluctuations or reductions. For the years, 2000 to 2006, the inflation rate has been increasing though to single digits. However from 2007 to 2011, there was a sporadic increase in inflation rate to double digit. There was increase in the level of inflation by 0.9 from 2008 to 2009 and 1% digit from 2009 to 2010 and then an increase by 4.7% to 2011 coupled with a reduction to 14% in 2012. The nature of the rate of inflation is generally that of increases and reductions with the double digit inflation realized from 2009 to 2012. The regression model is inflation rate = 1.275-2550 time. This implies that inflation is 1.275 percent when the time is zero and a unit change in time in a year lead to reduction in inflation by -2550.

4:1.1 Regression analysis results for inflation in Uganda from 1990 to 2013

Table 4.1.1 showing the regression analysis results for inflation in Uganda from 1990 to 2013

Coefficients				
Model		Unstandardized		Standardized
		Coefficients		Coefficients
		B	Std. Error	Beta
1	(Constant)	-2550.765	397.942	
	Time	1.276	.198	.889
a. Dependent Variable: Inflation Rate				

Source: Researcher, May 2015

Legend:

Inflation rate = Constant + β (Time)

Inflation rate = -2550.765 + 1.276(time)

The table 4.1.1 illustrates the regression analysis of inflation over time in Uganda (1990-2013). The regression analysis show that the rate of inflation does not depend on time is -2550.765. The rate of change of inflation rates over time ($\beta= 1.276$). This means that a change in time by one year’s leads to an increase in inflation by 1.276, including a positive relationship.

4.2 Rate of unemployment in Uganda (1990- 2013)

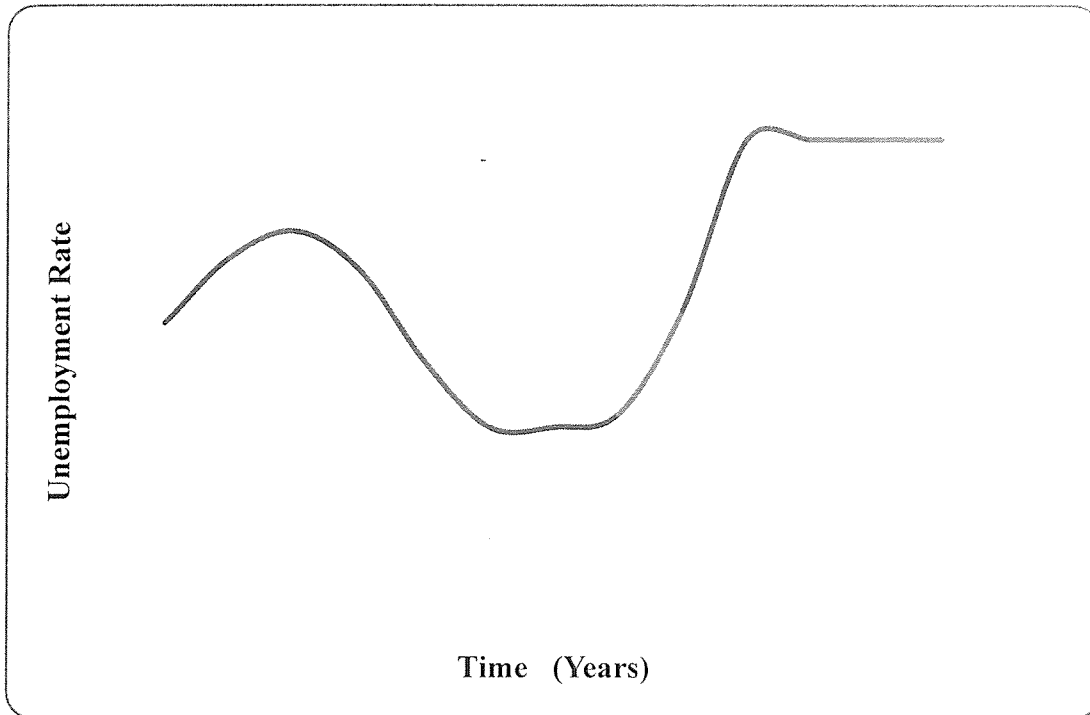
The second study objective was set to establish the trend of unemployment in Uganda for the period of 1990 to 2013. Data collected from (ILO) secondary data was analyzed using a scatter plot line graph to establish the regression equation.

Table 4.2 showing the data on Rates of Unemployment from 1990- 2013

YEAR	UNEMPLOYMENT RATE
1990	2.8
1991	3.3
1992	3.5
1993	3.2
1994	2.5
1995	2.0
1996	2.0
1997	2.1
1998	2.9
1999	4.2
2000	4.2
2001	4.2
2002	4.2

Source: World Bank, IMF, ILO, Bank of Uganda, UBOs, MFEP (2013)

The table 4.2 presents unemployment rate for the years 2000 to 2012. Results in table 2 indicate that there were increases and reductions in unemployment rate in Uganda over the period of study. The highest rate of unemployment was 4.2 registered from 2009 -2012 and the lowest in 2007 at 2.1%. The general prevalence of unemployment rate in Uganda shows a raising trend with 2000 to 2007 recording lower rates and 2009 to 2012 recording a sporadic increase and stagnation. The rates of unemployment depict a increasing trend of inflation in the years after 2012 unless adequate measures are instituted to reverse the trend.



Source: Researcher, May 2015

Figure 2: A line graph showing the trend of Unemployment Rate in Uganda over time (1990-2013)

The figure 2 portray data on the prevalence of unemployment rates in Uganda for the period of 1990 to 2013. It shows that the inflation rate has been increasing, though with some stagnations and fluctuations. The Table shows that rate of unemployment in Uganda has a linear trend with slight increases recorded from 2000 to 2003 and reduction from 2004 to 2008 and then a stagnant rate of unemployment recorded from 2009 to 2012. The regression equation was $0.107x-212.8$. This implies that unemployment rate is 1.10 percent when the time is zero and a unit change in time in a year lead to a reduction in unemployment rate by 212.8.

Regression analysis results for unemployment rate over time in Uganda from 1990 to 2013

Table 4.2.1 Regression analysis results for unemployment rate over time in Uganda from 1990 to 2013

Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	-212.869	116.911	
	Time	.108	.058	.487
a. Dependent Variable: Unemployment Rate				

$$\text{Unemployment rate} = \text{Constant} + \beta (\text{Time})$$

$$\text{Unemployment rate} = -212.869 + 0.108 (\text{time})$$

Table 4.2.1 illustrates the regression analysis of unemployment over time in Uganda (1990 to 2013). The regression analysis show that the rate of Unemployment does not depend on time is -212.869. The rate of change of unemployment rates over time ($\beta = 0.108$). This means that a change in time leads to an increase in unemployment by 0.108.

4.3 Relationship between inflation rate and unemployment in Uganda for the years (1990 – 2013)

The third and final objective of the study set in motion the need to establish the relationship between inflation rate and unemployment in Uganda in the years (1990 to 2013). To analyze this, the researcher used correlation, regression analysis and ANOVA. The scatter plot was used to illustrate diagrammatically the relationship between rate of inflation rate and unemployment in Uganda in the years (1990 to 2013).

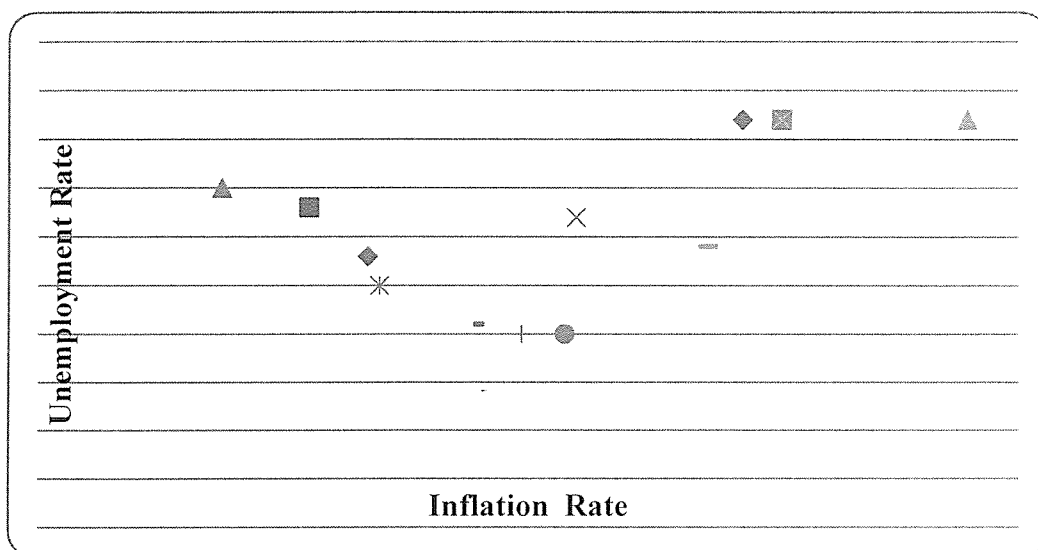
Further, the Pearson linear correlation coefficient was used in determining the exact strength between the rate of inflation and unemployment levels in Uganda for the period (1990 to 2013). This was also used to test the hypothesis which states that “There is no relationship between inflation rate and unemployment rate in Uganda for the period (1990 to 2013) at 0.05 level of significance. The regression analysis was used to predict the trend or line of regression between inflation rates for Uganda by the period (1990 to 2013).

Table 4.3 showing the trend of inflation and unemployment rates in Uganda (1990- 2013)

INFLATION RATE	UNEMPLOYMENT RATE
3.4	2.8
1.9	3.3
-0.3	3.5
8.7	3.2
3.7	2.5
8.4	2.0
7.3	2.0
6.1	2.1
12.1	2.9
13.0	4.2
14.0	4.2
18.7	4.2
14.0	4.2

Source: World Bank, IMF, ILO, Bank of Uganda, UBOs, MFEP (2015)

Table 4.3 shows the trends of inflation and unemployment in Uganda from 1990 to 2013. The table shows that the trend of inflation and unemployment rates in Uganda are not correlated. Inflation rate in Uganda changes with minimal or no change in the unemployment. There was an increase of inflation over a period of 2009 to 11 but with constant unemployment rates, this implies that unemployment rate in Uganda is not dependent on inflation therefore a sign of no relationship between the two variables subject to further investigations.



Source: Researcher, May 2015

Figure 3: A scatter Plot Showing the Relationship between inflation rate and unemployment rate in Uganda (1990 – 2013)

A scatter plot shows a scatter diagram illustrating the relationship between Inflation rate and unemployment in Uganda for a period (1990 – 2013). Inflation rate is slightly related to unemployment rate in Uganda, few of the points are closed to the fitted trend line. This relationship is as a result of high rates of inflation which contribute to increased unemployment as a result of failure by the organizations to sustain workers hence laying them off.

The increase in unemployment rate is as a result of reducing of inflation which calls for increased funding hence reducing the money for paying workers. Other factors which might have led to the increase in unemployment may be low level of technology and low levels of industrialization among others.

4.4 Coefficients of Regression Analysis between inflation rate and unemployment rate in Uganda in the Years.

Table 4.4: Showing the coefficients of Regression Analysis between inflation rate and unemployment rate in Uganda in the Years (1990 – 2013) (At 0.05 level of significance)

Coefficients				
Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	2.457	.396	
	Unemployment rate	.082	.039	.535
a. Dependent Variable: Unemployment rate				

Source: Researcher, May 2015

Regression model

$$\text{Unemployment rate} = \text{Constant} + \beta(\text{Inflation rate})$$

$$\text{Unemployment rate} = 2.457 + 0.082(\text{Inflation rate})$$

Table above illustrates the regression analysis between inflation rate and unemployment rate in Uganda for the period over 1990 to 2013. The regression analysis shows that the rate of unemployment that does not depend on inflation rate is 2.457. The rate of change of unemployment rates to inflation rates in Uganda is ($\beta = 0.082$). This means that a unit change in inflation leads to a reduction of unemployment rates by 0.082, including a positive relationship.

4.5 Pearson Linear Correlation Analysis between inflation rate and Unemployment in Uganda (1990 – 2013)

At 0.05 level of Significance

Table 4.5: Showing Pearson Linear Correlation Analysis between inflation rate and Unemployment in Uganda (1990 – 2013) at 0.05 level of significance

Correlations			
		Inflation Rate	Unemployment Rate
Inflation Rate	Pearson Correlation	1	.535
	Sig. (2-tailed)		.059
	N	13	13
Unemployment Rate	Pearson Correlation	.535	1
	Sig. (2-tailed)	.059	
	N	13	13

Source: Researcher May, 2015

A bivariate Pearson linear correlation analysis from Table 4.5 shows that there is a positive relationship between inflation rate and unemployment rate in Uganda from 1990 to 2013 ($r = 0.535$). This means that the rate of inflation has lot to do with the occurrence of unemployment.

4.6 Analysis of Variance (ANOVA)

Table 4.6: Showing the analysis of Variance (ANOVA) at 0.05 level of significance

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.552	1	2.552	4.416	.059
	Residual	6.358	11	.578		
	Total	8.911	12			
a. Predictors: (Constant), Inflation rate						
b. Dependent Variable: Unemployment rate						

Source: Researcher, May 2015

Table 4.6, shows that the Analysis of Variance (ANOVA) explains further the relationship between the independent variable “inflation rate” and the dependent variable (Unemployment rates). From the ANOVA representation in the table, the value of (F, $4.416 < F_{0.05, 1, 11} = 4.84$ and P-value = $0.059 > \alpha = 0.05$), thus; the null hypothesis is accepted. This means that, it is true that there is a correlation between inflation rate and unemployment rate in Uganda under the period of 1990 to 2013.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS, RECOMMENDATIONS AND AREAS OF FURTHER RESEARCH

This chapter presents the summary of the findings, the conclusion and recommendations of the study.

5.1 Summary of findings

This thesis was guided by three objectives, that is, to determine the trend of inflation rates in Uganda (1990– 2013), to establish the trend of unemployment in Uganda (1990 – 2013), and to establish the relationship between inflation rates and unemployment rate in Uganda (1990 – 2013). The summary finding of these objectives is explained below.

Trend of inflation rate in Uganda (1990 to 2013)

In regard to the first objective which sought to establish the level of inflation rate in Uganda. The results were there has been a steadily increasing inflation over the period of 1990 to 2013, with some fluctuations or reductions. Inflation rate has generally increased in the period of 2008 to 2011 with more than a single digit value. However from 1990 to 2013 there was a reduction in inflation rate followed by an increase in 2003 and 2005. The standard deviation a deviation away from the mean was 5.59040 and the variance was 31.253. Considering the mean that was 8.5385 the deviation from the mean was large. The range was at a rate 19.00, the Skewness was 0.147 and the kurtosis-.776. The increase in inflation rate might be due to uncertainties such as exchange rates, wars. The reduction in inflation rate is as a result of government fiscal policy to control money supply, price stability among others in the economy.

Trend of unemployment in Uganda (1990-2013)

Findings on objective two indicate that unemployment rate has been increasing, though with some stagnations and fluctuations. There was a slight increase in the level of inflation from 1990 to 2013; the increase could be attributed to the high rate graduates from institutions of higher learning plus poor macro- economic destabilizer.

There was a slight increase in the level of Unemployment from 1990 to 2013; the increase could be attributed to the high rate graduates from institutions of higher learning plus poor macro-economic destabilizers. There was a slight reduction in the level of unemployment from 2003 to 2007 and a sudden increase from 2008 to 2009 then stagnation from 2009 to 2012. The stagnation could be attributed to a steadily growing economy with fixed macroeconomic policies.

There was a slight reduction in the level of unemployment from 2003 to 2007 and a sudden increase from 2008 to 2009 then stagnation from 1990 to 2013. The deviation away from the mean was (Standard deviation= 0.86172) with variance 0.743, the mean was (3.1615). The range for unemployment rate was 2.20 while skewness was -.025 and kurtosis -1.480. There was a small deviation from the overall average.

Relationship between inflation rate and unemployment in Uganda in the years (1990- 2013)

The final objective of the study set in motion the need to establish the relationship between inflation rate and unemployment in Uganda in the years (1990–2013)

Pearson Linear correlation analysis shows that there is no relationship between inflation rate and unemployment rate in Uganda from 1990 to 2013 ($r = 0.535$).

The ANOVA representation in the table, the value of ($F, 4.416 < F_{0.05, 1, 11} = 4.84$ and $P\text{-value} = 0.059 > \alpha = 0.05$), thus; the null hypothesis is accepted. This means that, it is true that there is a correlation between inflation rate and unemployment rate in Uganda under the period of 1990 to 2013.

The regression analysis shows that the rate of unemployment that does not depend on inflation rate is 2.457. The rate of change of unemployment rates to inflation rates in Uganda is ($\beta = 0.082$). This means that a unit change in inflation leads to a reduction of unemployment rates by 0.082.

5.2 Conclusion

This chapter summarizes the findings concerning the study.

The prevalence of a single digit inflation rate in Uganda between 1990 to 2006 which indicate a fairly performing economy was a sign of government commitment towards economic stability or the prevalence of active production units at the time.

The findings indicate that inflation rate in the period of 1990 to 2013 has been majorly increasing with limited stagnations over some years. The prevalence especially from 2007 to 2011 portrays a worsening economic performance since normal inflation needs to be kept at a single digit. Therefore the prevalence of repeated double digit indicates a loss of value in the Ugandan currency at the time

Concerning the results on Unemployment rate in Uganda, the researcher observes that there was a reduction in Unemployment rate from 2000 to 2002. The rate of unemployment was further seen increasing with a final stagnation in 2009 to 2012.

Results on the relationship between inflation rate and unemployment in 2002 to 2012 in Uganda presented a correlation value of 0.059 that is slightly higher than the levels of significance (0.05) which indicate that there was no significant relationship between inflation rate and economic development over the period studied. The ANOVA value of F, 4.416 is larger than the value of significance, 0.059. Therefore, the null hypothesis is accepted. This means that, it is true that there is no any correlation between inflation rate and unemployment rate in Uganda under the period of 1990 to 2013.

The regression analysis on coefficient also shows that the rate of unemployment that does not depend on inflation rate is 2.457.

5.3 Recommendations

Given the findings, the researcher makes the following recommendations

Given these findings, the current study proposes a close monitoring of dynamics in world food and energy prices in order to curtail their secondary effects.

Policymakers should push for massive investment in agricultural sector, especially in rural areas. This policy will assist to mitigate effects of adverse climatic conditions which most of countries in the region have been subject to. Another benefit of such action is employment creation in rural parts of the country where unemployment is rampant.

The country should adopt policies which advocate for massive production in agriculture to avoid scarcity in periods of adverse weather conditions.

Finally, the independence monetary policy authority is crucial. The results clearly point to short and long-run effects of monetary aggregate on inflation. Hence, sound monetary and fiscal policies should strive for macroeconomic stability. In other words policymakers should be reluctant to pursue programs that are inflationary and/or can result in higher deficit; this will ensure macro-economic stability and reduce unemployment.

5.4 Areas of further study

The results presented in this report may not be conclusive and should be treated as being preliminary. Further analysis of the survey data on inflation rate and unemployment rate needs to be done to validate these findings and provide greater confidence in explaining the changes in inflation rate and unemployment rate. Furthermore, it was found out that the effect of inflation rate on unemployment rate is low hence provoking the fact that there are other factors that influence. Therefore based on these there is need for further study to be conducted on the following.

- Effect of inflation on economic growth of Uganda
- Impact of unemployment on economic growth of Uganda
- Fiscal policy and inflation rate

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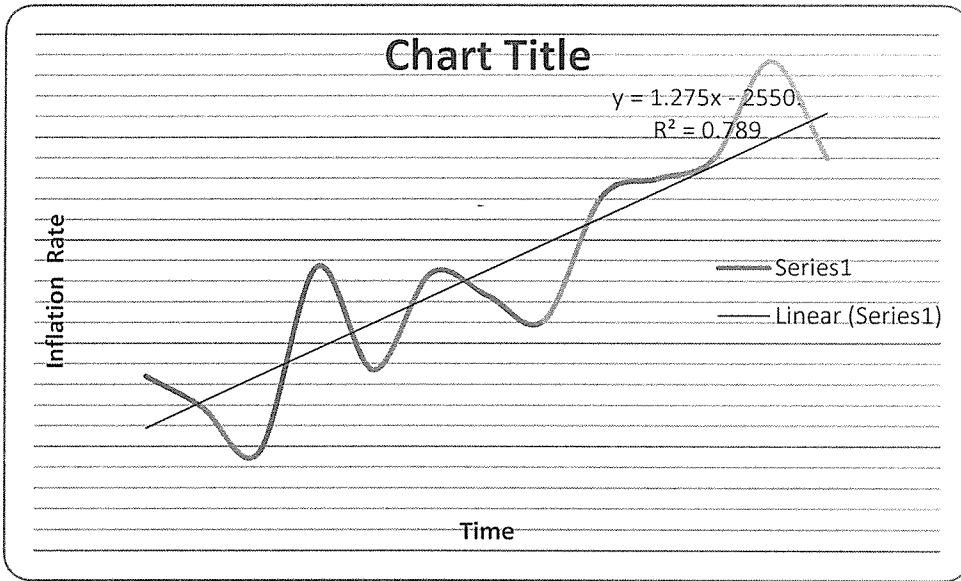
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Appendix I: Data Analysis

Appendix I: Inflation over time in Uganda 1990- 2013



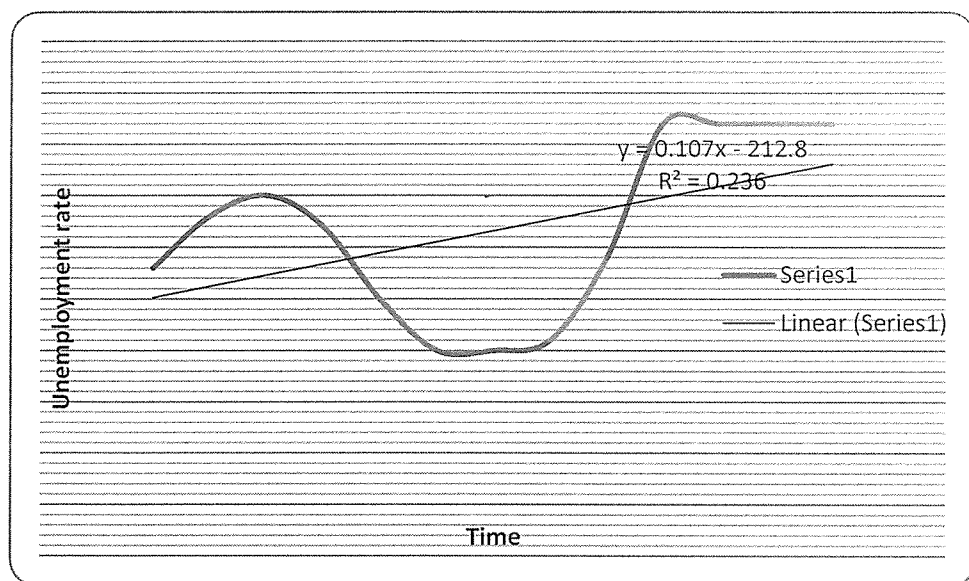
Regression analysis results for inflation in Uganda from 1990 to 2013

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	-2550.765	397.942	
	Time	1.276	.198	.889

a. Dependent Variable: Inflation Rate

Appendix I: Unemployment rate over time in Uganda 2000- 2012



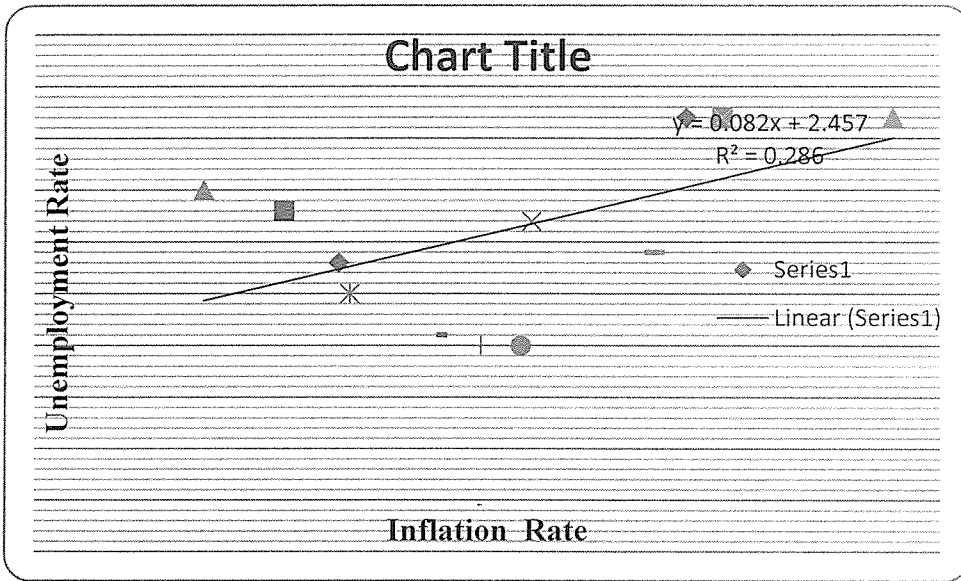
Regression analysis results for unemployment rate over time in Uganda from 2000 to 2012

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	-212.869	116.911	
	Time	.108	.058	.487

a. Dependent Variable: Unemployment Rate

Line graph showing relationship between inflation and unemployment



Appendix iv: Pearson correlation

Correlations

		VAR00001	Unemployment
Inflation rate	Pearson Correlation	1	.535
	Sig. (2-tailed)	.059	.059
	N	13	13
Unemployment rate	Pearson Correlation	.535	1
	Sig. (2-tailed)	.059	.059
	N	13	13

Regression Analysis between inflation rate and unemployment rate in Uganda in the Years (2000 – 2012)

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.535	.286	.222	.76028
a. Predictors: (Constant), Inflation rate				

Analysis of Variance (ANOVA) at 0.05 level of significance

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.552	1	2.552	4.416	.059
	Residual	6.358	11	.578		
	Total	8.911	12			
a. Predictors: (Constant), Inflation rate						
b. Dependent Variable: Unemployment rate						

Coefficients of Regression Analysis between inflation rate and unemployment rate in Uganda in the Years (2000 – 2012) (At 0.05 level of significance)

Coefficients				
Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	2.457	.396	
	Unemployment rate	.082	.039	.535
a. Dependent Variable: Unemployment rate				

Appendix ii: Sources of data

Unemployment, total (% of total labor force) (modeled ILO estimate)

Unemployment refers to the share of the labor force that is without work but available for and seeking employment.

International Labour Organization, Key Indicators of the Labour Market database.

Catalog Sources World Development Indicators

[View in WDI Tables](#)

- [Table](#)
- [Map](#)
- [Graph](#)

- [1980-1983](#)
- [1984-1988](#)
- [1989-1993](#)
- [1994-1998](#)
- [1999-2003](#)
- [2004-2008](#)
- [2009-2013](#)

Country name

2009

Country name	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Afghanistan	8.7	8.5	8.5	8.6
Albania	13.8	14.2	14.3	14.7
Algeria	10.2	10.0	9.9	9.8
American Samoa				
Andorra				
Angola	7.6	7.6	7.6	7.5
Antigua and Barbuda				
Argentina	8.6	7.7	7.2	7.2
Armenia	18.7	19.0	18.4	18.5
Aruba				
Australia	5.6	5.2	5.1	5.2
Austria	4.8	4.4	4.1	4.3
Azerbaijan	5.7	5.6	5.4	5.4

Country name	2004	2005	2006	2007	2008
Syrian Arab Republic	9.8	9.2	8.2	8.4	10.9
Tajikistan	11.9	11.7	11.7	11.8	11.8
Tanzania	2.9	2.5	4.3	2.0	2.5
Thailand	1.5	1.3	1.2	1.2	1.2
Timor-Leste	7.9	7.2	6.5	6.7	5.9
Togo	7.9	7.9	7.8	7.8	7.8
Tonga					
Trinidad and Tobago	8.3	8.0	6.3	5.5	4.6
Tunisia	13.9	12.9	12.5	12.4	12.4
Turkey	10.8	10.6	10.2	10.3	11.0
Turkmenistan	11.6	11.6	11.5	11.5	11.6
Turks and Caicos Islands					
Tuvalu					
Uganda	2.5	2.0	2.0	2.1	2.9
Ukraine	8.6	7.2	6.8	6.4	6.4
United Arab Emirates	2.9	3.1	3.3	3.4	4.0
United Kingdom	4.7	4.7	5.5	5.4	5.4
United States	5.6	5.2	4.7	4.7	5.9
Uruguay	9.2	8.9	10.6	9.2	7.6
Uzbekistan	11.4	11.4	11.4	11.5	11.5
Vanuatu					

Country name	1999	2000	2001	2002	2003
Syrian Arab Republic	7.6	9.5	11.6	11.7	10.3
Tajikistan	11.5	11.7	11.8	11.8	11.8
Tanzania	4.6	5.1	5.1	3.6	3.4
Thailand	3.0	2.4	2.6	1.8	1.5
Timor-Leste	6.4	6.2	9.9	9.2	8.5
Togo	7.9	8.0	8.0	7.9	7.8
Tonga					
Trinidad and Tobago	13.1	12.1	10.8	10.4	10.5
Tunisia	16.0	15.7	15.1	15.3	14.5
Turkey	7.7	6.5	8.4	10.4	10.5
Turkmenistan	11.7	11.7	11.8	11.6	11.7
Turks and Caicos Islands					
Tuvalu					
Uganda	2.4	2.8	3.3	3.5	3.2
Ukraine	11.6	11.6	10.9	9.6	9.1
United Arab Emirates	2.4	2.3	2.4	2.5	2.7
United Kingdom	6.1	5.6	4.8	5.1	4.9
United States	4.3	4.1	4.8	5.9	6.1
Uruguay	10.3	9.7	9.2	8.6	8.1
Uzbekistan	11.4	11.3	11.3	11.3	11.3
Vanuatu					

Uganda: Inflation, consumer prices (annual %)

The data set '[Inflation, consumer prices \(annual %\)](#)' for [Uganda](#) contains data from the year 1981 until 2013.

Information: *Definition:* Inflation as measured by the consumer price index reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly. The Laspeyres formula is generally used. (Source: Worldbank, CIA World Factbook)

Line Chart

Table

This section displays the historical data as line chart. On the right side you can see the values in a table.

Retrieving data. Please waitY-values

[Country comparison for Uganda](#)

[Uganda is #49 in the world ranking.](#)

Retrieving data. Please waitY-values

[The following relative data set \(% per capita etc.\), therefore the country comparisons are displayed as bar chart.](#)

Compare Uganda with another country:

[Uganda VS](#)

[More data for Uganda](#)

[In the database there are 2993 data sets for Uganda.](#)
[Here is a selection of some more data for Uganda.](#)

Inflation data

Data set	Rank	Value	Date	Drill Down	Source
<i>Selected data set</i>					
Inflation, consumer prices (annual %)	49	6,2	2013	Drill Down	CIA World Factbook
Inflation, GDP deflator (annual %)	5	23,2	2012	Drill Down	Worldbank

General data

Data set	Rank	Value	Date	Drill Down	Source
<u>Population, total</u>	37	33.987.213	2010	<u>Drill Down</u>	UN Data
<u>Area (sq. km)</u>	80	241.550,0	2011	<u>Drill Down</u>	Worldbank
<u>Gross domestic product in exchange rates (US \$)</u>	106	22.600.000.000	2013	<u>Drill Down</u>	CIA World Factbook
<u>Gross domestic product per capita (US \$)</u>	190	547	2012	<u>Drill Down</u>	Worldbank

Date	Value
2013	6,2 2
2012	14,0 1
2011	18,7 1
2010	4,0 1
2009	13,0 1
2008	12,1 1
2007	6,1 1
2006	7,3 1
2005	8,4 1
2004	3,7 1
2003	8,7 1
2002	-0,3 1
2001	1,9 1
2000	3,4 1
1999	5,8 1
1998	0,1 1
1997	8,2 1
1996	7,2 1
1995	6,6 1
1994	10,0 1
1993	0,2 1
1992	30,8 1
1991	28,1 1
1990	33,1 1
1989	61,4 1
1988	196,1 1
1987	200,0 1
1986	161,0 1