

ABSTRACT

The paper uses the Barro-Gordon model to find out if the UK's experience with Inflation, between 1965- 2014, can be explained through time inconsistency theory. For this purpose, the paper tests the restrictions imposed by Barro-Gordon model on bivariate time series model for output and inflation. The paper, however, modifies the restrictions derived by Ireland (1998) to incorporate output in place of unemployment. The results of the paper show that the time inconsistency theory can explain the initial rise of inflation till early 1980's and subsequent fall after that. In the long run, the two variables – Inflation and Output – are cointegrated which is in line with the expectations of the theory.