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Authors: Said Zamin Shah, Ahmad Zubaidi Baharumshah, Law Siong Hook, Muzafar Shah Habibullah

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Nominal uncertainty, real uncertainty and macroeconomic performance in a time-varying asymmetric framework: Implications for monetary policy

Said Zamin Shah[a,b], Ahmad Zubaidi Baharumshah[a], Law Siong Hook[a] & Muzafar Shah Habibullah[a]

[a] Faculty of Economics and Management, University Putra Malaysia, 43400, UPM, Serdang, Selangor, Malaysia

[b] Lecturer at Department of Economics, Islamia College University, Peshawar, Pakistan

E-mail : s.zaminshah@gmail.com

Highlights

- Examines the asymmetric causal links and volatility spillovers between macroeconomic uncertainty and macroeconomic performance.
- There is an overwhelming support for Friedman-Ball hypothesis that inflationary shocks increase inflation uncertainty in most of the countries.
- The positive influence of output uncertainty on inflation (Devereux (1989) hypothesis) is supported by all countries excluding Bangladesh.
- There is significant negative relationship between inflation and output growth while Output growth is reducing real uncertainty in all countries excluding Sri Lanka.
- In general, there is asymmetric effect and persistence of the GARCH parameters for all countries.

Abstract: *This study examines the dynamic causal links and volatility spillovers of inflation, output growth and their uncertainties in four South Asian countries, namely, Pakistan, India, Bangladesh and Sri Lanka by utilizing asymmetric GARCH family models. Our empirical evidence supports a number of important conclusions. There is an overwhelming support for Friedman-Ball hypothesis of positive inflation-uncertainty trade-off for all countries excluding India and Sri Lanka. The Cukierman-Meltzer's idea that inflation uncertainty generates inflation, hold for Bangladesh and Sri Lanka only and the Holland's hypothesis of negative influence of inflation uncertainty on level inflation is supported by India only. The positive influence of output uncertainty on inflation (Devereux (1989) hypothesis) is*