The Link between Output Growth and Output Volatility in Five Crisis-Affected Asian Countries

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Abstract:
This article tests the Black's hypothesis in five crisis-affected Asian countries (India, Japan, Malaysia, South Korea, and Thailand). The hypothesis posits that economies face a positive relationship between output growth and output volatility. Using monthly data of the industrial production indices in the five economies and applying the ARCH/GARCH models to generate a measure of output volatility to conduct the two-step approach, the results show that output volatility positively Granger causes output growth in two economies, Japan, and South Korea. The results indicate that countries with specialized technology are compensated for associated risk. In addition, the impact of the 1997 Asian financial crisis is minimal such that it will not alter the volatility and growth relationship.

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