

The Impact of Inflation Uncertainty on Output Growth and Inflation in Thailand*

Authors: Komain Jiranyakul and Timothy P. Opiela*

Abstract:

We explore the impact of inflation uncertainty on output growth in Thailand, an emerging market economy with moderate inflation. Inflation and output uncertainty are modeled in a bivariate constant conditional correlation generalized autoregressive conditional heteroskedastic (AR(p)-cccGARCH(1,1)) specification. We include the exchange rate in the mean equations, and use the headline and core inflation rates and industrial production to generate inflation and output uncertainty series. These series are then used in Granger causality tests to make inferences about the effect of monetary policy-induced inflation uncertainty. Causality tests show a positive relation from inflation to inflation uncertainty. Additionally, increased inflation uncertainty decreases output. These results are consistent with real costs associated with moderate inflation. Finally, we find no evidence that monetary policy reduced these costs.

Keywords: inflation uncertainty, output uncertainty, bivariate generalized autoregressive conditional heteroskedastic model (GARCH).

JEL classification codes: E52, C32

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*Jiranyakul: School of Development Economics, National Institute of Development Administration, Bangapi, Bangkok 10240, Thailand. Email: komain_j@hotmail.com. Opiela (corresponding author): Kellstadt Graduate School of Business and Department of Economics, DePaul University, Chicago, IL 60604, USA. Email: topiela@depaul.edu. We would like to thank the anonymous referee for suggestions that sharpened the focus and greatly improved the quality of this paper.

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