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Title	Inflation and Output Growth Uncertainty and their Relationship with Inflation and Output Growth
Author(s)	Fountas, Stilianos
Publication Date	2001
Publication Information	Fountas, S., Karanasos M. & Kim J. (2001) "Inflation and Output Growth Uncertainty and their Relationship with Inflation and Output Growth" (Working Paper No. 0053) Department of Economics, National University of Ireland, Galway.
Publisher	National University of Ireland, Galway
Item record	http://hdl.handle.net/10379/1194

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Inflation and Output Growth Uncertainty and their Relationship with Inflation and Output Growth*

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Working Paper No. 53

May 2001

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Abstract

Using a bivariate GARCH model of inflation and output growth we find evidence that higher inflation and more inflation uncertainty lead to lower output growth in the Japanese economy. These results support the argument of a price stability objective for the monetary authority.

Keywords: Inflation, Output Growth, Uncertainty, Granger-causality, Bivariate GARCH.

JEL Classification: C22, C51, C52, E0.