GROWTH AND VOLATILITY IN
INTRA- AND INTER-NATIONAL DATA

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ABSTRACT

Growth and economic fluctuations are negatively correlated at the country level. Least developed countries measures of output volatility are almost double the size of the developed countries counterpart. This paper provides an explanation for this stylized fact.

I construct a measure of output volatility for all the states belonging to the United States for the period 1960 – 2004. For the state sample, the correlation estimate of output growth and output volatility is zero. This suggests that the factor linking output growth and volatility is not present at the state level.

This research suggests that governments that design policies that increase uncertainty create an asymmetric information problem for firms operating in that country. Firm's inability to observe the size of the transfer to be paid to the government choose production and investment plans that exhibit higher variance than when information is perfect.

This approach suggest that governments of least developed countries can reduce excessive output volatility by designing more steady and sound policies.