



# Risk Matters: The Real Effects of Volatility Shocks

Jesús Fernández-Villaverde

Pablo Guerrón-Quintana

Juan F. Rubio-Ramírez

Martin Uribe

AMERICAN ECONOMIC REVIEW  
VOL. 101, NO. 6, OCTOBER 2011  
(pp. 2530-61)

[Download Full Text PDF](#)

## Article Information

### Abstract

We show how changes in the volatility of the real interest rate at which small open emerging economies borrow have an important effect on variables like output, consumption, investment, and hours. We start by documenting the strong evidence of time-varying volatility in the real interest rates faced by four emerging economies: Argentina, Brazil, Ecuador, and Venezuela. We estimate a stochastic volatility process for real interest rates. Then, we feed this process in a standard small open economy business cycle model. We find that an increase in real interest rate volatility triggers a fall in output, consumption, investment, hours, and debt. (JEL E13, E20, E32, E43, F32, F43, 011)

### This website uses cookies.

By clicking the "Accept" button or continuing to browse our site, you agree to first-party and session-only cookies being stored on your device to enhance site navigation and analyze site performance and traffic. For more information on our use of cookies, please see our [Privacy Policy](#).

Accept

Ol: 101257/aer.101.6.2530

Choose Format:



---

## Additional Materials

[Replication Package \(77.40 KB\)](#)

[Online Appendix \(234.50 KB\)](#)

---

## JEL Classification

**E13** General Aggregative Models: Neoclassical

**E20** Macroeconomics: Consumption, Saving, Production, Employment, and Investment: General (includes Measurement and Data)

**E32** Business Fluctuations; Cycles

**E43** Interest Rates: Determination, Term Structure, and Effects

**F32** Current Account Adjustment; Short-term Capital Movements

**F43** Economic Growth of Open Economies

**O11** Macroeconomic Analyses of Economic Development

Find us on Facebook and X (formerly Twitter).



@AEAJournals



@AEAJournals



@AEAInformation



@ASSAMeeting



@JOE\_listings

Copyright 2024 American Economic Association. All rights reserved.

[Terms of Use & Privacy Policy](#)

### This website uses cookies.

By clicking the "Accept" button or continuing to browse our site, you agree to first-party and session-only cookies being stored on your device to enhance site navigation and analyze site performance and traffic. For more information on our use of cookies, please see our [Privacy Policy](#).

Accept