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# Inflation variability and the relationship between inflation and growth

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## Abstract

We examine the effect of inflation variability and economic growth using annual historical data on both developing and developed countries. The data cover 182 developing countries and 31 developed countries for the period 1961–2009. Proxying inflation variability by the five-year coefficient of variation of inflation, we obtain the following results: (1) For developing countries, there is significant evidence to suggest that when the rate of inflation exceeds 10% inflation variability has a negative effect on economic growth. (2) For developed countries, there is no significant evidence that inflation variability is detrimental to growth.

Keywords:

inflation

growth

threshold

variability

## Notes

1. A comprehensive literature review on this topic can obtained from Li (2006).
2. Which is based on Hansen (1999).

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