

Inflation and Output Growth Uncertainty and Their Relationship with Inflation and Output Growth: Evidence from Cameroon

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Abstract: This paper examines the relationship between inflation and inflation uncertainty, inflation uncertainty and output growth, and inflation uncertainty and output growth uncertainty in Cameroon. It attempts to test whether the Friedman's hypothesis, that a rise in the average inflation rate leads to more uncertainty about future inflation rate. The quarterly inflation data spanning the period 1999:1 to 2019:4 was used. Inflation and output growth uncertainties were modelled as time-varying processes using a GARCH-in-Mean framework. The fitted GARCH-M model found a significant positive effect of inflation uncertainty on the inflation rate in favour of the Cuikerman–Meltzer (1986) view that higher output growth uncertainty raises output and inflation uncertainty, and is therefore detrimental to output growth; this supports Friedman's (1977) hypothesis.

Keywords: Inflation, Uncertainty, GARCH-M, Friedman Hypothesis, Taylor Effect

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