



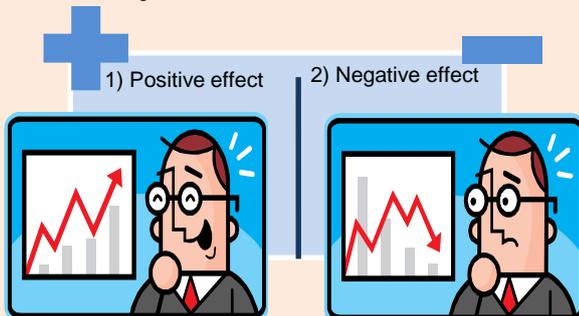
Why study Inflation and economic growth?

- Inflation defined as a sustained increase in general price level of goods and services in an economy over a period of time.
- Economic growth is an increase in the real production of an economy over period of time.



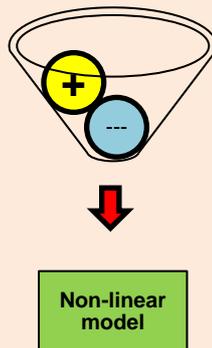
Problem:

- Policy objective is to attain high and sustainable output growth rates coupled with low and stable inflation rates.
- However, there exists controversial debate about how inflation affect economic growth.



Proposed Solution:

- We integrate both positive and negative effect in one model (Non-linear Model).
- Therefore, we introduce threshold model which considered as regime switching models.
- This means, there may exist a threshold level of inflation which divide inflation impact on economic growth in to two regimes or more.



Reasons to study countries from Middle East region

- Financial and goods market in developing countries are exposed to government intervention.
- They suffer from high volatile inflation rate affecting behaviour of consumption, investment and production.

Methodology:

- This study estimate threshold level of inflation and examine how inflation affect economic growth below and above this threshold level.
- Furthermore, we will estimate degree of smoothness of transition between regimes.
- Panel data analysis is followed using yearly data for 8 selected countries from Middle East region from 1960 to 2012.
- Data are obtained from world development indicators (World Bank).
- New Econometric techniques used to determine threshold level of inflation.

Results:

- Our results reveal that threshold level of inflation for 8 countries within Middle East region is 9.11%.
- Inflation has a detrimental effect on economic growth above threshold level, while below this level inflation affect economic growth positively.

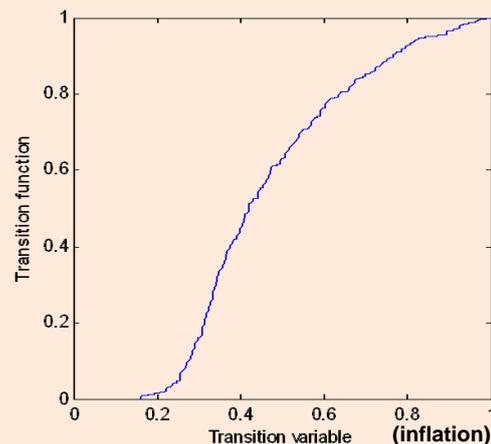


Figure 1. Estimated threshold level of inflation for 8 countries from Middle East during period 1960 till 2010.

Conclusion:

- This study provide a new evidence on the non-linear impact of inflation on economic growth.
- Our results reveal that smoothness of transition between regimes (from positive to negative) is very slow.



Policy implications:

- Central banks in these countries should keep inflation rates below this threshold level
- Determining a threshold level will be a good guidance for policy makers to select the optimal target for inflation.



Acknowledgement:

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Reference: Seleteng, M. et al., (2013). Non-linearities in inflation-growth nexus in the SADC region: A panel smooth transition regression approach. Economic Modelling. Vol(30), pp. 149-156.

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