ABSTRACT

This study contributes to the existing literature by providing evidence on the impact of inflation on economic growth for BRIMC economies. We used panel data for the period 1970–2013 to examine the inflation–growth nexus in BRIMC economies. We applied different panel data techniques name as: PMG, MG and DFE estimators which are based on the error-correction mechanism. Besides these estimations, we have also applied the Hausman test to measure the comparative efficiency and consistency of these estimators. Our finding reveals that the relationship between economic growth and inflation within the linear frame work is positive and significant in the long run only and when we introduce a square term of inflation then the relationship between these two variables become negative and significant in the long run. So, this sign switching behavior of inflation from positive into negative revealed the existence of non-linear relationship between inflation and economic growth. Therefore we find out the threshold level for BRIMC economies which is based on a Fixed-Effect panel threshold model proposed by Hansen (1999). Our results show that inflation hampers growth if it exceeds thresholds of 8.32% for BRIMC economies. However, below this threshold, inflation has a positive as well as statistically significant effect on long run economic growth.