

External shocks, structural breaks and unemployment hysteresis in selected Asian countries

Abstract

This paper re-examines the hypothesis of unemployment hysteresis using panel data for 11 Asian countries for the period from 1980 to 2008. This study employs a variety of panel data unit root tests recently advanced by Bai and Ng (2004), Pesaran (2007) and Chang and Song (2009). The advantage of these tests is that they are able to exploit the cross-section variations of the series. In addition to these tests, a new powerful panel stationarity test proposed by Carrión-i-Silvestre et al. (2005) is applied which exploits the cross-section variations of the series and also allows for different numbers of endogenous breakpoints in the series. Our findings stress the importance of accounting exogenous shocks in the series and provide stronger evidence against the hypothesis of unemployment hysteresis for the countries analyzed. We also discover critical economic affairs which may cause the unemployment rates to fluctuate significantly. Policy implications are proposed through our observations.