

EconWorld2018@Lisbon

Unemployment Hysteresis and Convergence: Evidence from selected Latin American Countries / İşsizlik Histerisi ve Yakınsama: Latin Amerika Ülkelerinden Bulgular

Feyyaz Cengiz Dikmen¹, Gülten Dursun¹¹Kocaeli University, Turkey

ABSTRACT

In this study, the unemployment hysteresis is tested by the nonlinear panel unit root test proposed by Beyaert and Camacho (2008) for twelve Latin American countries for the period 1980-2015. In this approach, two regimes of threshold autoregressive (TAR) specifications are used in which the panel series can show unit roots. This specification consists of a combination of three approaches based on the calculation of critical values through known threshold model, panel unit root tests and bootstrap simulations. TAR panel unit root test results show that unemployment hysteresis only applies to Regime I. In the next step, 12 Latin American countries characterized by hysteresis effect for the Regime I are analyzed whether they show convergence in unemployment rates. The findings show that divergence under regime I (p-value 0.438) cannot be rejected, whereas convergence findings occur under regime II (p-value 0.005). While this regime also exhibits absolute convergence (p-value 0.569), Colombia emerges as the country with the highest convergence rate under the regime II.

KEYWORDS Unemployment Hysteresis; Panel TAR; Latin America

JEL E24, C23, N16