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Unemployment Hysteresis in Central and Eastern European Countries: Further Evidence from Fourier Unit Root Tests

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ABSTRACT

This study examines the existence of unemployment hysteresis in the unemployment rates of seven Central and Eastern European Countries (CEECs) and Turkey using recently developed Fourier unit root tests by Furuoka that account for the existence of structural breaks and nonlinearity in the unemployment rates. The study specifically applied four alternative methods to analyze the unemployment rate series. The best estimation procedure was preferred by the F-tests. The results from the conventional unit root tests of ADF suggest that the hysteresis in unemployment is confirmed for most of these seven countries, with the exception of Hungary and Turkey. The nonlinear Fourier ADF (FADF) test indicates that the unemployment rate series are nonstationary except Romania and Turkey. ADF-SB test strongly rejects the null hypothesis of unemployment hysteresis in all countries except Hungary. FADF-SB test results support the evidence of the hysteresis in two countries, namely Hungary and Poland. Also we find that in all the remainder countries analyzed, the unemployment rates are mean reverting processes. F-tests results indicated that the FADF-SB test was the most appropriate method among the four proposed alternatives.

KEYWORDS Unemployment; Hysteresis; Unit root; Fourier ADF-SB

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