



De La Salle University - Dasmariñas

**THE VOLATILITY OF BUSINESS CYCLE IN THE PHILIPPINES USING
AUTOREGRESSIVE HETEROSKEDASTICITY MODELS**

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ABSTRACT

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Various literatures have determined business cycles in developed and developing countries. It was seen that developing countries were more volatile compared to the developed nations. Studies also showed evidence that variations in volatility correspond to political and historical events. However, the evidence is debatable when it comes to the effect of trade openness. This study aimed to identify the effects of selected macroeconomic variables, trade openness, and historical uncertainties on the volatility of Philippine business cycle with the use of autoregressive heteroskedasticity models to capture symmetric and asymmetric volatilities.

With a declining trend in volatility, the Philippine business cycle has become more stable over time. Investment remains to be the most volatile component while consumption is the least. Moreover, inflation rate and unemployment rate were found to be countercyclical while money supply, real effective exchange rate, and trade openness are clearly pro-cyclical variables to real GDP growth. It was also found that the volatility of business cycle in the Philippines is best modelled to be symmetric.



Furthermore, the Philippine business cycle was found to be less vulnerable to historical uncertainties but was drastically affected by political crisis in the past. Results also showed evidence that real effective exchange rate has a negative effect on volatility while narrow money and unemployment rate both indicates positive effect. Surprisingly, trade openness was found to have a negative effect to the Philippine business cycle making it a stabilizing agent in the growth of the Philippine economy.

To further strengthen and stabilize the continuing growth of the Philippine business cycle, the study gives emphasis on the importance and benefits of trade liberalization in the Philippine business cycle. The stabilizing effect of trade openness was seen to ease the domestic risks in the Philippines due to the inefficiency in output production in Visayas and Mindanao with the aid of diversification. Moreover, the study also believes in strengthening its relationship to its major trading partners and give priority to projects which can help enhance trade transactions.



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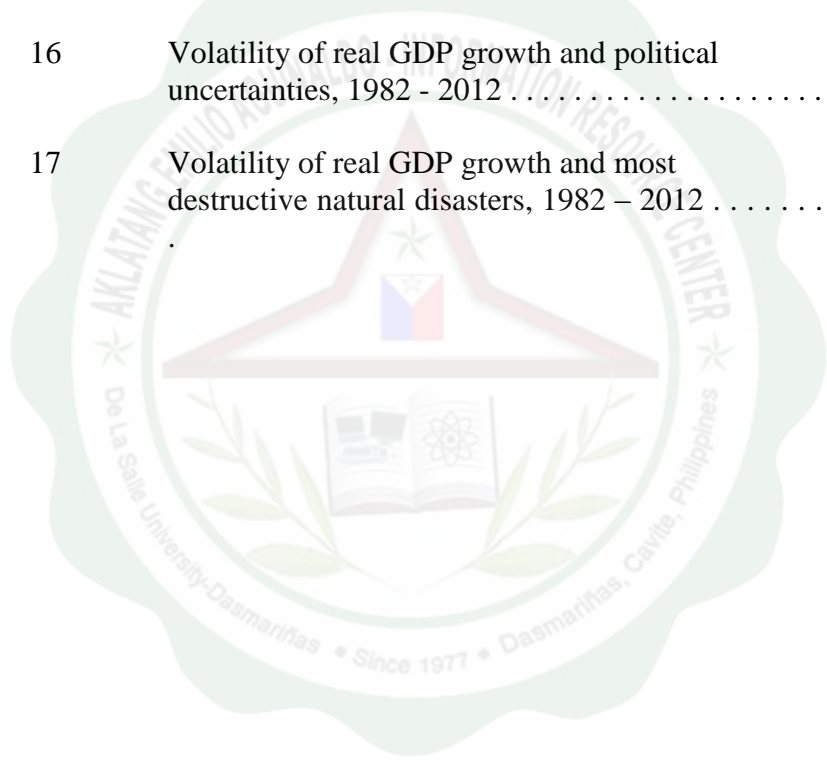


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