Investment and Economic Disasters

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ABSTRACT

This paper investigates the impact of economic disasters on investment. Economic disasters have been recognized as a potential missing link for explaining output volatility and its effects in the long run, particularly working through the impact on investment. We use the identified economic disasters in a broad sample of countries, namely 131 countries for which we managed to collect the data to test for their impact on investment. Thus, in addition to the standard variables that enter the investment function, we complement it with the effects of economic disasters. In this context, our paper makes an empirical contribution to the literature on investment and economic disasters. Our results confirm the importance of standard determinants of investment, but in particular provide empirical support for the relevance of economic disasters, with its effects being statistically significant and negative. This finding may be treated as potentially important in helping to elaborate on the link between output volatility and growth. However, caution should be exerted as these results are a part of an ongoing research. In future work we plan to complement this investigation by panel data investigation and, especially, by covering longer time spans. This might add to robustness of this finding and its potential relevance in this part of economic literature.

Keywords: aggregate investment; economic disasters; output; output volatility; panel analysis.