UNIVERSITY of GUELPH

Graduate Seminar

Department of Economics and Finance

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MA Candidate

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Second Reader: Stephen Kosempel

Do government intervention and foreign aid reduce shrinking? Research focused on negative growth.

This paper investigates a puzzle uncovered in a recent paper by Broadberry and Wallis (2017), stating that rich countries are rich because they shrink less in recessions and not because they grow more when growing. We use regression analysis using the most recent Penn world data and other data sources to explain why rich countries shrink less and poor countries shrink more. First, we find that government interventions during recessions are strongly and negatively correlated with shrinking. This effect is robust and persists after controlling for factors such as corruption, volatility in government spending and overall government spending. Second, we find that foreign aid also has a negative relationship with shrinking, but these results are less robust. This research suggests that governments can play an important role in reducing shrinking rates, which is very much in line with what we are currently experiencing regarding government responses during the COVID-19 pandemic.

Date: Tuesday, August 17th, 2021
Time: 2:00pm
Room: Teams

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