

Business Fluctuations in Post-Apartheid South Africa

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Abstract

The main finding of this paper is that business cycles have been driven primarily by permanent productivity shocks in South Africa in which a net outflow of skilled migrants caused a shortage of skilled labour in the aftermath of apartheid. This finding is in stark contrast to the findings in the literature that business cycles have been driven primarily by temporary productivity shocks in some Latin American countries. The other findings of this paper are as follows. Exogenous changes in the risk premium of the interest rate have played a negligible role in the South African business cycles. However, once the risk premium exogenously increases, it will persistently have a negative effect on the level of output. These findings are obtained by assessing business cycles in the post-apartheid South Africa within a framework of real business cycle (RBC) models for small open economies.

Keywords: Skill Shortage, Risk Premium, Real Business Cycle Model

JEL Classifications: E32, F41, F66