

## Entrepreneurial Impact of Turbulence in Interest Rates, Inflation Rates, and Exchange Rates

Jason Dennis  
And  
Andrew Whyte  
Yeshiva University  
Abstract

The increased international inter-relation between markets of individual countries, which continues to be intensified by globalization, has facilitated almost instantaneous movements of financial assets to pursue entrepreneurial activities in the geographical domain of choice. The financial market crashes of the 1990's led to the belief that less developed countries are more vulnerable to contagion effects. This belief has far reaching economic implications in relation to, the balance of payments, unemployment, investment, economic growth and development, price stability, a competitive currency, and more generally the overall macro economic performance of an economy. This macro economic performance clearly has the ability to make or break local firms, especially those whose demand derives primarily from the domestic economy. As such, it is relevant to study the interaction between macroeconomic outcomes and entrepreneurial performance against the background of shocks to the economic system. This study uses quarterly Jamaican data from 1993-2005. An Error Correction Model (ECM) was estimated on the premise of cointegration results. A long run relationship was identified between stock market index and both the inflation rate and interest rate. The results indicate that a shock to interest rates and the inflation rate would both result in turbulence in the stock market, with the innovation in inflation being far more adverse. Thus it is extremely critical that policy makers and Monetary Authorities put measures in place so as to maintain price stability, as this could quickly decimate the returns to entrepreneurship.

**Key Words:** Entrepreneurship, Turbulence, Macroeconomic Shocks, Cointegration, Stock Performance

### Introduction

The global economy experienced extraordinary changes in the nineties that affected the economic prospects of both developed and less developed countries when the decade ended. One measure of the returns to entrepreneurial activity is stock prices/ the return on stocks. The relationship between stock market returns and fundamental economic activities in the United States have been well documented. However, the economic role of the stock markets in relatively less developed Caribbean countries like Jamaica is less clear. Thus the need to measure/estimate the likely economic implications of stock market fall out in Jamaica, as a result of turbulence in the following macroeconomic variables: Interest Rate, Inflation Rate and Exchange Rate.

Specifically, how do these less developed markets respond to changes in fundamental economic variables, when compared to the well developed, well organized, and more efficient markets like the U.S. stock market? The purpose of this study is to investigate the relationship between stock market performance and macroeconomic variables in the Jamaican stock market to gain insight into the impact on entrepreneurial outcomes.

Jamaica is selected as a case study for developing countries because of its large volume of both real and financial investment, when compared to many other countries in the Caribbean. However, Jamaica has experienced mediocre economic growth. Jamaica is a leading member of the Caribbean Community with a liberalized financial market; and is in very close proximity to the United States of America. Thus, it is interesting to ascertain the sensitivity or vulnerability of the Jamaican stock market to turbulence in macroeconomic variables, as a result of shocks, and the economic and entrepreneurial implications of such

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\* Jason Dennis is corresponding author. Email: Jason.dennis@uwimona.edu.jm