

**Abstract:**

It is well established that increased uncertainty can lead to declines in economic activity. Particularly, variation over time in the probability and severity of “rare disasters,” or large but rare declines in output and consumption, can resolve several puzzles in asset pricing and international macroeconomics. One shortcoming of the rare disaster literature is that it’s difficult to estimate time variation in the moments of such infrequent events. We exploit a dataset on episodes of sustained political unrest to shed new light on this literature. We document that these episodes are associated with significant political turmoil, significant average losses in output, investment, and consumption growth rates, and greater volatility and negative skewness of the same aggregate series. Therefore, these episodes of political unrest allow identification in the time variation of the probability and severity of outcomes on the lower tail of the distribution of macroeconomic aggregates. In line with the rare disaster literature, we find that a standard small open real business cycle model ascribes a significant portion of observed total average losses during these episodes to the observed increases in higher moments, particularly the negative skewness. We conclude that the literatures on the macroeconomic consequences of aggregate risk can benefit from exploiting empirical variation in negative skewness.