

Chapter 8

Business Cycle Facts
pp. 276-298 only.

Introduction

- Business Cycle Facts
 - What is a business cycle?
 - We present an organized discussion about facts that characterize business cycles in the U.S.

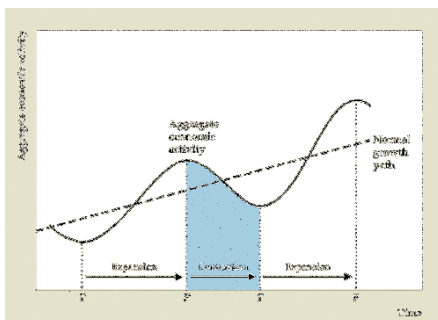
What are Business Cycles?

- Business cycles refer to fluctuations in aggregate economic activity (real GDP is the “reference” variable).

Characteristics of Business Cycles

- Phases of expansion and contraction
- Cycles occur across multiple sectors/industries at the same time
- Variables are related by co-movements
- Cycles are recurrent, but not regular
- Cycles are persistent

Figure 8.1 A business cycle



Business Cycle Facts

- The description of regular co-movements constitutes what we call business cycle facts.

Characterizing Co-movements

- Business cycle facts are best described by characterizing co-movements
 - Coincident, leading and lagging variables
 - Procyclical, countercyclical, acyclical variables
 - The amplitude of fluctuations is also useful in characterizing business cycle facts.

SUMMARY 10

Business Cycle Facts: A Summary of Key Facts

Variable	Direction	Timing
Production	Procyclical	Coincident
Industrial production	Procyclical	Coincident
Manufacturing production	Procyclical	Coincident
Construction production	Procyclical	Lagging
Government production	Procyclical	Coincident
Expenditures		
Consumption	Procyclical	Coincident
Investment	Procyclical	Lagging
Government expenditure	Procyclical	Coincident
Net exports	Procyclical	Coincident
Income		
Real GDP	Procyclical	Coincident
Real per capita GDP	Procyclical	Coincident
Real personal income	Procyclical	Coincident
Real disposable income	Procyclical	Coincident
Real consumption expenditure	Procyclical	Coincident
Real investment expenditure	Procyclical	Lagging
Real government expenditure	Procyclical	Coincident
Real net exports	Procyclical	Coincident
Real personal income	Procyclical	Coincident
Real disposable income	Procyclical	Coincident
Real consumption expenditure	Procyclical	Coincident
Real investment expenditure	Procyclical	Lagging
Real government expenditure	Procyclical	Coincident
Real net exports	Procyclical	Coincident

Figure 8.2 Cyclical behavior of the index of industrial production

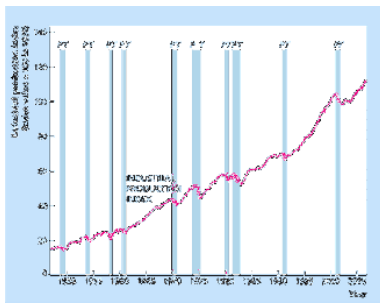


Figure 8.3 Cyclical behavior of consumption and investment

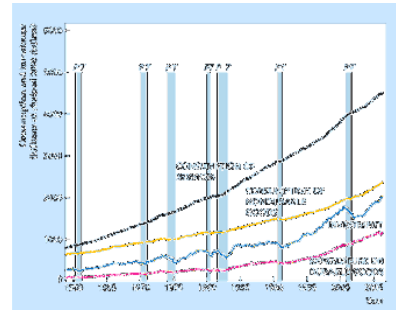


Figure 8.4 Cyclical behavior of civilian employment

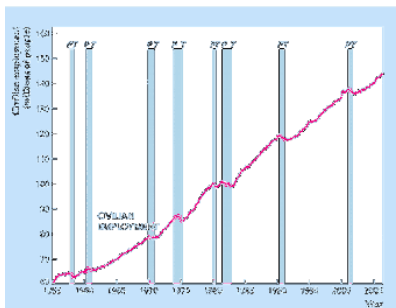


Figure 8.5 Cyclical behavior of the unemployment rate

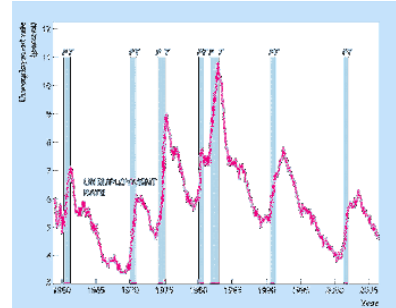


Figure 8.6 Average labor productivity and the real wage

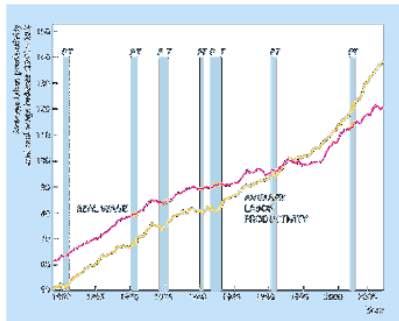


Figure 8.7 Cyclical behavior of nominal money growth and inflation

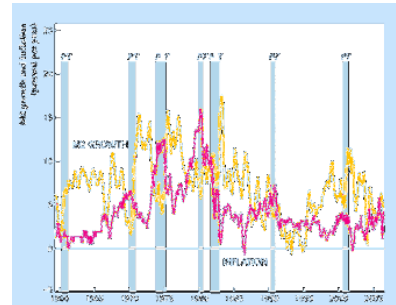


Figure 8.8 Cyclical behavior of the nominal interest rate

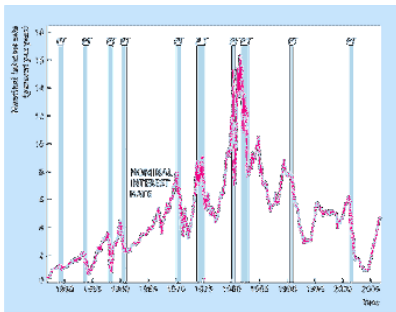
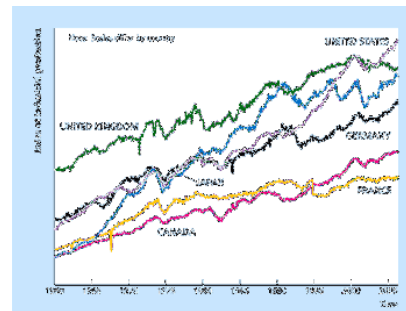


Figure 8.9 Industrial production indexes in six major countries



Where Do We Go from Here?

- Business cycle facts suggest regularities that we hope to explain with theory.

The End