

# What are “business cycles”?

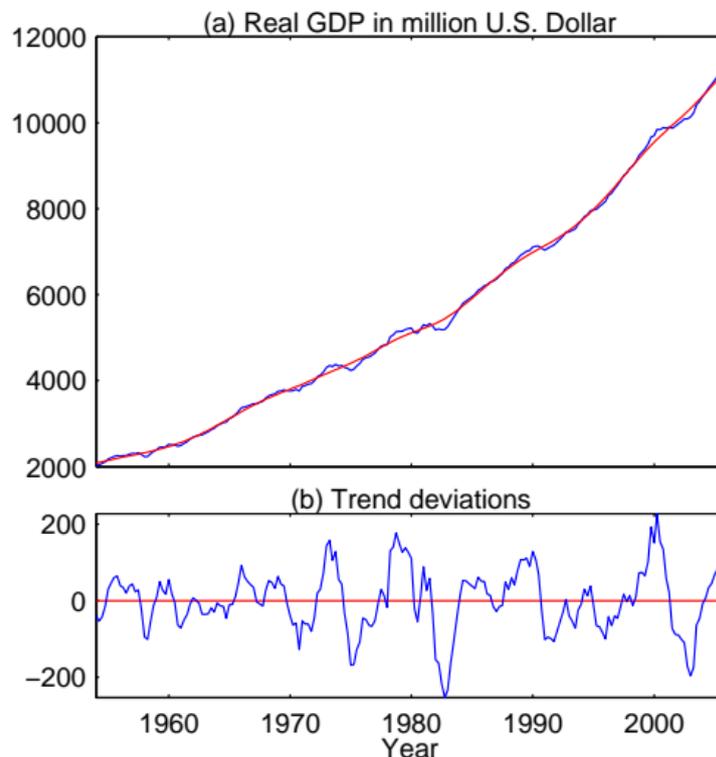
## Two branches in economics

- **Macroeconomics** considers the global structure of countries and regions
- Microeconomics considers local structure of households and firms

## Typical macroeconomic time series (*indicators*)

- Gross domestic product (GDP) (Bruttoinlandsprodukt)
- Unemployment rate
- Price level
- Exports, Imports
- Consumption, Investment

# What are “business cycles”?



- Around a longterm trend we observe short-terms fluctuations
- Short-term fluctuations are referred to as **business cycles**
- Origin is discussed in controversy:
  - Real business cycle theory (fluctuations arise from exogenous shocks)
  - Endogenous business cycle theory (fluctuations are intrinsic)

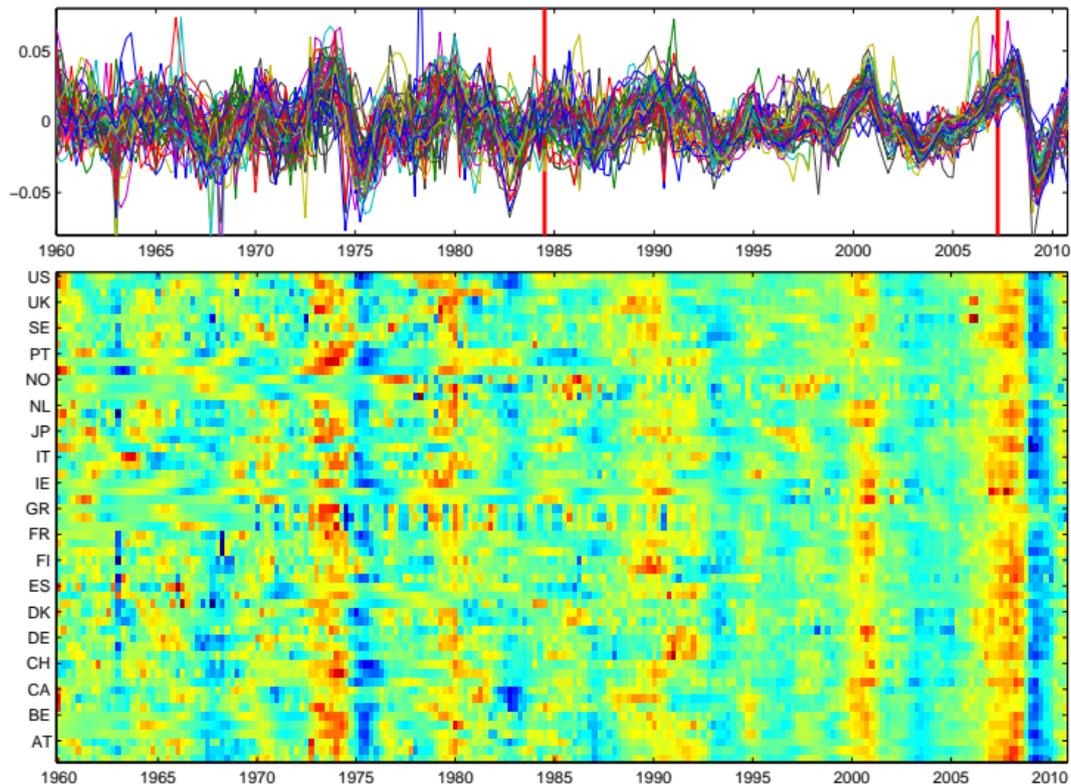
National Bureau of Economic Research (NBER): recession dating for U.S.

# Business cycles synchronization?

*Will business cycles in the euro area converge? A critical survey of empirical research* (Jakob de Haan et al., 2008)

- Two scenarios in the European union
  - **Optimistic view** : Further economic integration ►convergence of business cycles
  - **Pesimistic view** : Concentration of industries ►sector-specific shocks may become region-specific ►divergence of business cycles
- Optimal common monetary policy for all countries?
  - Countries in recession prefer expansionary monetary policy
  - Countries in growth prefer restrictive monetary policy
- 'One size does not fit all' dilemma
- News from July 8: "ECB raises key interest rate to 1.5% as expected" to reduce inflation pressure during growth
- Not optimal for countries in recession (Greece)

# Business cycle synchronization



15 European countries + US, UK, Japan, Canada — GDP, imports, and exports

# Business cycle synchronization

