Dating business cycles in post-reform emerging economies

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Discussant Comments

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Overview

- Business cycle measurement (timing and amplitude) is well-developed for advanced economies

- Work on emerging economies has tended to lump disparate economies together and to neglect structural changes (associated with the process of "emerging")

- This paper is part of a research program designed to bring analysis of emerging economy business cycles on par with that for advanced economies

Business cycle dating in the US

- NBER is the de facto standard
  - Formal committee since 1978
  - The NBER's Business Cycle Dating Committee maintains a chronology of the U.S. business cycle. The chronology comprises alternating dates of peaks and troughs in economic activity. A recession is a period between a peak and a trough, and an expansion is a period between a trough and a peak. During a recession, a significant decline in economic activity spreads across the economy and can last from a few months to more than a year. Similarly, during an expansion, economic activity rises substantially, spreads across the economy, and usually lasts for several years. (*http://www.nber.org/cycles/recessions.html*)

Business cycle dating in the US

- The Committee does not have a fixed definition of economic activity. It examines and compares the behavior of various measures of broad activity: real GDP measured on the product and income sides, economy-wide employment, and real income. The Committee also may consider indicators that do not cover the entire economy, such as real sales and the Federal Reserve's index of industrial production (IP). (*http://www.nber.org/cycles/recessions.html*)

- The committee's procedure for identifying turning points differs from the ***two-quarter rule*** in a number of ways. First, we do not identify economic activity solely with real GDP and real GDI, but use a range of other indicators as well. Second, we place considerable emphasis on monthly indicators in arriving at a monthly chronology. Third, we consider the depth of the decline in economic activity. (*http://www.nber.org/cycles/recessions_faq.html*)

Business cycle dating in the US

- The Committee applies its judgment based on the above definitions of recessions and expansions and has no fixed rule to determine whether a contraction is only a short interruption of an expansion, or an expansion is only a short interruption of a contraction. (*http://www.nber.org/cycles/recessions.html*)

- The committee does not apply fixed formulas in this and other determinations, but rather forms judgments based on the underlying concepts of recessions and expansions and the goal of preserving historical continuity in the NBER business cycle chronology. (*http://www.nber.org/cycles/recessions_faq.html*)

Under the surface

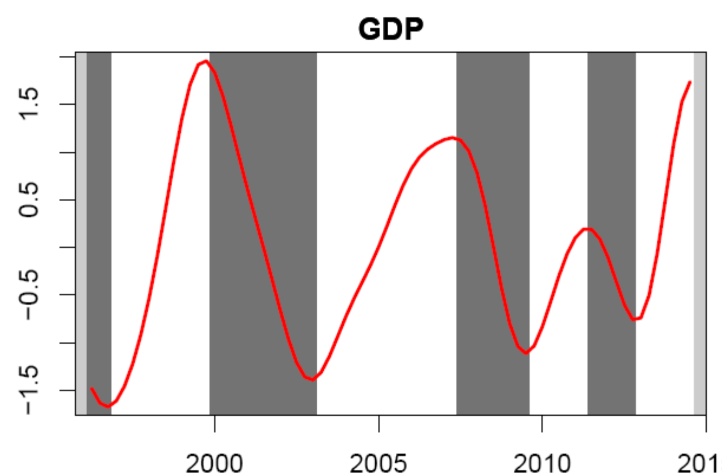
- The NBER's nontechnical descriptions are built on top of a sophisticated set of methodologies for analyzing the various economic series that measure economic activity
  - Deseasonalization
  - Removal of trends
    - Work with percentage deviations from trends
  - Robustness checks
- Recent work on emerging markets has brought these methods into use

Intellectual history

- Patnaik I., R. Sharma (2002). Business cycles in the Indian economy. *Margin*, 35, 71-80.
  - Transition from rainfall-driven cycles to conventional investment-driven cycles
- Ghate, C., R. Pandey, and I. Patnaik (2013). Has India emerged? Business cycle stylized facts from a transitioning economy. *Structural Change and Economic Dynamics.*
  - Characteristics of Indian business cycles before and after reforms, similarities and differences to advanced and other emerging economies
- Emerging Economy Business Cycles: Financial Integration and Terms of Trade Shocks (2013), Bhattacharya R., I. Patnaik, and M. Pundit, IMF Working Paper 13119
  - Mechanisms of Indian business cycles

Lessons of current paper

- Careful technical analysis of business cycles works for individual emerging economies like India
  - Choice of technique for filtering of trend matters
  - Results are plausible
- Important not to over generalize across countries or periods



Suggestions

- Add more detail on technical background, perhaps in appendices
  - Paper hard to read for a non-specialist who does not know all the literature
- Discrepancy between title and focus on single country
- Integrate sections 2 and 3, or reorganize?
- Does this paper specifically address changes in business cycle structure over time, or is it inferred (somewhat indirectly)?
- Draw out policy lessons more explicitly?

Thank you