Abstract

This is a brief introduction to the special issue on "New Developments in Modelling and Estimation of Economic Cycles". The concept and definition of economic and business cycles are discussed together with two main schools of thought, the Keynesian and the neoclassical. Until the Keynesian revolution in mainstream economics in the wake of the Great Depression, classical and neoclassical explanations were the mainstream explanation of economic cycles; following the Keynesian revolution, neoclassical macroeconomics was largely rejected. There has been some resurgence of neoclassical approaches in the form of real business cycle (RBC) theory. Real business cycle theory is a class of macroeconomic model in which business cycle fluctuations to a large extent can be accounted for by real (in contrast to nominal) shocks. In a broad sense, there have been two ways by which economic and business cycles have been studied, one analyzing complete cycles and the other, studying the behavior of the economic indicators during incomplete phases by comparing current contractions or expansions with corresponding phases in the past in order to assess current economic conditions. Two different methodologies have been applied for current economic analysis, the parametric one, that makes use of filters based on models, such as ARIMA and State Space models, and the other based on nonparametric digital filtering. Some of the invited papers of this issue deal with this second approach.

Keywords

Economic Cycles, ARIMA, Digital Filtering.