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A Cycle-Specific Approach to Business Cycles: Empirical Evidence from the G7  
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### Abstract

The goal of the paper consists in investigating if co-movements in some selected time series are common to various countries and cyclical phases. To do so, we use 18 economic time series (GDP and demand components, employment and wages, money and prices, interest rates and stock prices) between 1960:1-1998:IV for the G7 countries. The country-specific approach shows regularity in terms of co-movements and periodicity with respect to the GDP, in most of the series. In particular, consumption and investment among the aggregate demand components, employment and productivity, and, to a lesser degree, the consumers and GDP price indexes, their inflation rates and the stock market index, are stable across countries, while the exogenous component of the national income series, the monetary variables, the interest rates and the nominal wage level are not. Moreover, we propose a cycle-specific approach which aims at testing if GDP-comovements in aggregate time series are robust i.e. If they are common to various countries within each single cyclical episode. As regards the cycle-specific approach, the analysis of pairwise correlation coefficients within individual cyclical episodes shows that the real and labour market variable co-movements with GDP are stable across cycles for each country, while policy, wage and price variables are not. Both UK and US, whose wages and prices co-movements with GDP variables are stable across cycles, are an exception among the G7. Since our findings show that prices, interest rates and the costs of the factors do not behave uniformly across cycles and group of countries, a more cautious approach to the analysis of the business cycle should be taken. In particular, the results emerging from the cycle-specific approach may have important policy implications: first, if business cycles are not all alike policymakers reaction functions should be, at least, cycle-specific, and second, looking at UK and US exceptions, they should be even country-specific.

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