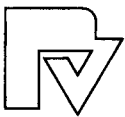


Marcus Kappler • Andreas Sachs
Editors

Business Cycle Synchronisation and Economic Integration

New Evidence from the EU



Physica-Verlag
A Springer Company

ZEW

Zentrum für Europäische
Wirtschaftsforschung GmbH
Centre for European
Economic Research

Table of Contents

1	Introduction.....	1
2	Literature Review	5
2.1	Business Cycle Synchronisation and Convergence	5
2.1.1	Literature on the Euro Area and New Member States	5
2.1.2	Literature on the G7 and OECD Countries	8
2.1.3	Literature on the Euro Area Versus Global Convergence.....	9
2.1.4	Literature on Country Clusters.....	10
2.1.5	Literature on Canada and the US: Lessons for the Euro Area	11
2.1.6	Literature on Identifying Business Cycle Shocks	13
2.1.7	Literature on Risk Sharing and Fiscal Federalism	16
2.2	Determinants of Business Cycle Synchronisation	18
2.2.1	Trade Integration.....	18
2.2.2	Currency Unions and Monetary Integration.....	20
2.2.3	Fiscal Policy.....	20
2.2.4	Sectoral Structure.....	21
2.2.5	Financial Market Integration.....	22
2.2.6	Gravity Variables and Other Indicators	25
3	Descriptive Analysis.....	33
3.1	Methods for Estimating the Cycle	33
3.2	Methods for Measuring Synchronicity	36
3.3	Cycle Measures for Euro Area GDP.....	37
3.4	Stylised Facts on Synchronisation in the Euro Area	40
3.4.1	A Statistical Test of Convergence.....	45
3.5	Stylised Facts on Synchronisation in Non-Euro Area Countries	47
3.5.1	Regional Integration: The Euro Area.....	55
3.5.2	Other EU Countries: Synchronisation but at a Lower Level.....	56
3.5.3	The Euro Area and Global Convergence	57
3.6	Coherence, Phase Effects and Dynamic Correlations.....	59
3.7	Macroeconomic Convergence beyond GDP Cycles	66
3.7.1	Business Cycle Persistence	71
3.7.2	Inflation, Output Growth and Shocks	72
3.8	Cluster Analysis.....	76
3.8.1	Methodology.....	77
3.8.2	Empirical Results.....	78

3.9	Synchronisation and Convergence Within the US.....	88
4	Determinants of Business Cycle Synchronisation	93
4.1	Financial Market Integration and Synchronisation.....	93
4.1.1	Measuring Financial Integration.....	94
4.1.2	Empirical Method.....	96
4.1.3	Results.....	106
4.1.4	Concluding Remarks.....	117
4.2	Structural Reforms in the Euro Area.....	119
4.2.1	Empirical Evidence.....	122
4.2.2	Data and Definition of Variables.....	124
4.2.3	Empirical Strategy.....	130
4.2.4	Results.....	133
4.2.5	Concluding Remarks.....	144
5	Shock Propagation Mechanisms and Business Cycle Convergence.....	147
5.1	Structural Vector Autoregression Models.....	147
5.1.1	Confronting the Estimated Structural Shocks.....	148
5.1.2	Confronting the Estimated Dynamic Responses to Shocks.....	149
5.1.3	Confronting Shares of Global and Country-Specific Shocks.....	150
5.2	Cycles of G7 Countries.....	153
5.2.1	Data and Descriptive Analysis.....	153
5.2.2	Empirical Model.....	154
5.2.3	Results.....	156
5.3	Heterogeneity of Business Cycles in the EU.....	160
5.3.1	Data.....	160
5.3.2	Empirical Model.....	161
5.3.3	Results.....	161
5.4	Concluding Remarks.....	169
6	Summary and Policy Implications	171
7	Appendix	175
7.1	Data description and sources.....	175
7.2	Frequency Domain Analyses.....	180
	List of Figures.....	183
	List of Tables.....	185
	References.....	187