

The Cyclical Extraction (CE) and the Causality Test (CT) in Business Cycle Analyses: Do they complement or contradict to one another?*

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Abstract:

In business cycle analysis, the CE and the CT models are used during the process to select the indicators. However, the results from both models sometime were inconsistent. The aims of this paper is to examine which model as the best for business cycle analysis. The IPI is used as a benchmark indicator while the money supply M1, M2 and M3 as the tested indicators. Overall findings suggest that the outcome of the CE and CT models were very different especially in classifying the indicators as a “leading”, “coincident” or “lagging” series. The findings also suggest that the CE and CT model can be used simultaneously in business cycle analysis. The CT helps to identify the relationship of each of time series while the CT provide extra information on “conformity” criterion as well as the magnitude of predictive measure.