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Identification of relationship between business cycle and monetary sphere of the economy

The goal of this research is identification of the mechanism responsible for the occurrence of cyclical fluctuations in GDP dynamics, which relates them with the changes in the monetary sphere of the economy.

On the basis of the US macroeconomic data for the years 1920-1983 the author showed the existence of a statistically significant mechanism that relates GDP dynamics with the situation in the monetary sphere of the economy, in particular with the dynamics of the M2 monetary aggregate. Verification was carried out with the use of multiple-regime smooth transition autoregressive models (MRSTAR), in which the variable representing the monetary sphere is not a direct regressor of GDP growth rate, but only determines the linear autoregressive regime of GDP dynamics. The research did not confirm the hypothesis that changes in the monetary sphere are a statistically more significant determinant of GDP dynamics' autoregressive regime than the level of GDP dynamics.