

Monographs

Business Cycles

Durations, Dynamics, and Forecasting

Francis X. Diebold
and Glenn D. Rudebusch*

Published by Princeton
University Press, 1999; 420 pages.

This collection of 18 articles—most of which were published in leading economics journals—spans more than a decade of sustained research on business cycles by two of the most prominent economists in the field. Francis Diebold and Glenn Rudebusch frame this body of work by providing a detailed introduction that draws out its principal themes and findings. Using the latest quantitative methods, the authors address several principal questions about the measurement, modeling, and forecasting of business cycles. They ask whether business cycles have become more moderate in the postwar period, concluding that recessions have, in fact, been shorter and shallower. They consider whether economic expansions and contractions tend to die of “old age.” Contrary to popular wisdom, they find little evidence that expansions become more fragile the longer they last, although they do find that contractions are increasingly likely to end as they age.

The authors discuss the defining characteristics of business cycles, focusing on how economic variables move together and on the timing of the slow alternation between expansions and contractions. They explore the difficulties of distinguishing between long-term trends in the economy and cyclical fluctuations. And they examine how business cycles can be forecast, looking in particular at how to predict turning points in cycles, rather than merely the level of future economic activity. They show here that the index of leading economic indicators is a poor predictor of future economic activity, and consider what we can learn from other indicators, such as financial variables. Throughout, the authors develop and apply a variety of advanced econometric techniques, including nonparametric analysis, fractional integration, and regime-switching models.

Because this book represents both the solid analytic foundation and the state of the art of research on business cycles, it is crucial reading for policymakers, bankers, and business executives.

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Financial Modernization and Regulation

Robert A. Eisenbeis,
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Financial systems around the world are undergoing a process of modernization. Many forces have contributed to this movement, such as advances in information technology, product and market innovations, and recent regional financial crises. This evolution in the financial sector is leading to larger, more complex financial organizations that call for significant change in current supervisory and regulatory structures. While some changes in regulatory policies already have occurred, the adaptation of supervisory oversight and regulation in the face of these new developments is expected to continue for many years to come.

This volume collects papers originally presented in September 1998 at the conference “Financial Modernization and Regulation,” cosponsored by the Federal Reserve Banks of Atlanta and San Francisco. The papers, which have been revised for publication, seek to identify the reason for changes in the financial services sector and the implications of these changes for financial supervision and regulation. Taken together, the papers offer valuable insights on (1) the forces behind financial modernization, (2) the implications financial modernization poses for corporate structure, market discipline, and financial regulation, (3) how to price deposit insurance to reflect banks’ risk-taking accurately, and (4) balancing private versus public interests and managing potentially conflicting public policy goals.

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