Real business cycles in emerging economies: the role of international growth and interest rate

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INTRODUCTION

There are two important stylized facts that business cycles in small open emerging economies (SOEs) have experienced in the last decades. The first one is a negative correlation between output and the cost of borrowing that these countries face in international financial markets. Secondly, there is a positive correlation between output and moderate international growth rate. Periods of low international interest rate and moderate growth rate in the international economy are often associated with economic expansions in emerging economies and periods of high international interest rate or negative growth rate in the international economy are associated with economic recessions in SOEs.

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