

International Linkages of Business Cycles in a Two-Country Model: a Case with Trading and Financial Sectors

Ping-Hung Chou*

Department of Finance, Ching Yun University

Ta-Sheng Chou

Department of Economics, National Tsing Hua University

Abstract

As a small economy, Taiwan's output is greatly affected by the output of foreign countries. However, not many studies have thoroughly discussed this issue. The purpose of our study is to explore the linkages of international business cycles. Since the United States seems to be the most important trading partner of Taiwan, it is included in our two-country model. The impact of the US economy on the economy of Taiwan is hypothesized to pass through two main channels: trading and financial sectors.

Keywords: Business cycles, Error correction model, International linkages, Taiwan.

JEL classification codes: C22, E32, O53

Acknowledgement

The authors are indebted to many for helpful comments including Eveline Ma and Kurt Shao.

* Corresponding author: Department of Finance, Ching Yun University, 229, Chien-Hsin Rd., Jung-Li, Taiwan 320, R.O.C. TEL:886-3-4581196 ext 6715 FAX:886-3-4684025 E-mail:phchou@cyu.edu.tw