



Leibniz-Institut für
Wirtschaftsforschung Halle

IWH Research Seminar in Economics

Montag, 3. Juli 2017, 14:15–15:45 Uhr, Konferenzsaal im Erdgeschoss



Predicting Ordinary and Severe Recessions with a Three-state Markov-Switching Dynamic Factor Model. An Application to the German Business Cycle

Professor Dr. Maik Wolters, Friedrich-Schiller-Universität Jena

(zusammen mit Prof. Dr. Kai Carstensen und Markus Heinrich, Christian-Albrechts-Universität zu Kiel und Magnus Reif, ifo Institut München)

We estimate a Markov-switching dynamic factor model with three states based on six leading business cycle indicators for Germany preselected from a broader set using the Elastic Net soft-thresholding rule. The three states represent expansions, normal recessions and severe recessions. We show that a two-state model is not sensitive enough to reliably detect relatively mild recessions when the Great Recession of 2008/2009 is included in the sample. Adding a third state helps to clearly distinguish normal and severe recessions, so that the model identifies reliably all business cycle turning points in our sample. ([read more](#))

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