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The Relationship Between Financial Variables and Real Economic Activity: Evidence From Spectral and Wavelet Analyses

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Published/Copyright: December 17, 2003

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From the journal **Studies in Nonlinear Dynamics & Econometrics** Volume 7 Issue 4

Many empirical studies find that financial variables possess a predictive power over real economic activity. To examine this relationship, we adopt two time-series techniques: spectral

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financial variables have a common component in the long run and a varying lead-lag relationship, depending on the cycles. It implies that the relationship between US industrial production and the financial variables is not constant over time. This result is consistently confirmed by wavelet analysis. The lead-lag relationship, in the sense of Granger causality, varies over time, depending on the wavelet time scale.

Published Online: 2003-12-17

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https://doi.org/10.2202/1558-3708.1183

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