

## **The business cycle in Malaysia: some empirical evidence**

### **Abstract**

An economy business cycle has been generally conceptualised as fluctuations in an economic activity around some underlying secular trend rate of growth. The objective of this paper is to examine the phenomenon of the business cycle in selected Malaysian macroeconomics variables. For this purpose, non-stationary Dickey Fuller (1979, 1981) test statistics and Cochrane variance ratio (1988) analysis were used to examine the characterisation of the series under consideration. This is followed by decomposing those series using Beveridge and Nelson (1981) technique and then estimating the relationship of those series using regression analysis. The results have showed that all variables were in favour of the stochastic trend alternative and a large proportion of the variability of changes in those variables arose from permanent shocks. The estimated results shown that both permanent and cyclical components of real gross domestic product (RGDP) are important for contributing to the Malaysian federal government revenue (RFGR) whereas the Malaysian federal government expenditure (RFGE) policy suggests a permanent characterisations regardless of cyclical characterisation. Hence, real and temporary factors that influence RGDP are important sources of RFGR whereas RFGE tend to be stable regardless of the level of economic activities.