Chapter 12

Shocks in Global Economy: Impulse Model of Macroeconomic Cycle

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ABSTRACT

This chapter represents an attempt to analyze the role of shocks (impulses) in business cycles in the world economy in connection with the global financial crises of the late 2000s. The theoretical explanation of the origin of any economic shock (external impulse), of economic systems’ reaction to it, as well as of the way the global shocks spread its influence all over the world suggests that the analytical predictions of E. Slutsky and R. Frish can be correct. The results provide some evidence for the hypothesis that the cyclical model of development of any economic system means its adjustment to new conditions caused by external impulses (shocks). To reinforce the findings, some results associated with other theoretical investigations and analytical researches are presented.

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INTRODUCTION

The contemporary world economy is more than six times larger than it was half a century ago. After the 1960s, the global economy went through severe interruptions in growth in every decade. The recurrent financial crises became worldwide events because serious national difficulties were transmitted to other countries through global trade and financial linkages. It means that the world economy has gone through great transformation since the 1960s. The breathtaking of international integration has resulted in a real global village, where countries become much closer because of better models of communication and stronger trade and financial markets. Becoming global, any recession interrupts economic growth around the world and exacts deep and long-lasting human and social costs.

Even now, it is still impossible to predict the location and time of the next financial crisis and the following worldwide recession as well as to prevent the huge human and social losses. Some argue that advanced economies will likely enter a period of secular stagnation because of misguided policies. Others claim that the days of robust growth are behind us because today’s innovations are less useful than the major inventions of the past. Another view, though, is that the global economy has enormous potential to generate a healthy dose of growth in the coming decades (M. Ayhan Kose and Ezgi O. Ozturk. 2014).

To make the last words true the problem of cyclical development of the global economy should be solved. Hence, the aim of this chapter is to investigate the interconnection of the economic crises and shocks, the origin of economic, financial, debt shocks and the role of shocks as the impulses to the cyclical development of the global economy, following the hypothesis of E. Slutsky (1937) and R. Frish (1933) as well as the approach of Irma And Frank Adelman (1959).

BACKGROUND

The global economy is becoming more and more integrated, facilitating the spread of crises, recession, uncertainty and risks. The worldwide economic system is undergoing a series of transformations that subject the future to considerable uncertainty, economic and financial shocks and unpredictability. The influence of the financial shocks and cyclical adaptation of the global economy like recession and recovery after the financial crises is of great interest. Hence, the turning points connected with shocks and the trajectory of the cyclical dynamics of the global economy are far from clear.
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