

Evaluating an International Real Business Cycle Model:
With an Application to ASEAN

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Abstract

A variant of standard two-country real business cycle model is studied to account for international economic fluctuations in South East Asia in its relation to the OECD over the last three decades. In the model, correlated technology shocks and government spending shocks are the major impulses driving business cycle fluctuations. The model is simulated and calibrated, for some plausible parameter values that match the growth observations of these economies, to annual data for these countries. The model is then subjected to econometric tests following suggestions made by Canova, Finn, and Pagan (1995) and Chow and Kwan (1998). The paper provides a preliminary assessment of the extent to which the international real business cycle (IRBC) model can be used to explain certain features of growth fluctuations in South East Asia.