

International Influences on the Australian Business Cycle: Evidence from Linear and Nonlinear Models

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This paper investigates the extent to which the Australian economy is affected by fluctuations in the economic activity of Japan and the United States. Using threshold autoregressive (TAR) models, we investigate the performance of a range of nonlinear models versus linear autoregressions which do not allow for external influences on Australia. We compare the models using Bayes factors and posterior odds ratios. The posterior odds ratios favour nonlinear specifications in which fluctuations in Japan affect the Australian growth rate. The evidence for nonlinear threshold effects with respect to the United States is inconclusive.

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