

Temporary and Permanent Components of Colombia's Output

Working Paper No. 96 Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR Luis Eduardo Arango

Structural time series models, frequency domain analysis, the HP-filter, and the Blanchard-Quah decomposition, are used to observe, some peculiarities of the business cycle. Such properties are those related to the volatility of the temporary component and the duration of the business cycle during both 1925-1994 and 1950-1994. For the longer period we find that cycles between three and six years seem to be the most important for the variability of output; volatility is greater for GDP than for per capita GDP, except when the processes are linearly detrended. For period 1950-1994, although the linear trend plus cycle model does not perform very well, cycles of about eight years seem to be most important for the cycle. The results of the Blanchard and Quah decomposition show that demand shocks have important explanatory attributes for output fluctuations. However, supply shocks, are dominant in the behaviour of output.