

The Introduction of the Current World Economic Cycle and the Outlook for the Future

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Abstract

The so-called world economic cycle is characterized by the cyclical upsurge, recession, depression and the resurgence of the main world economies. This paper is based on the new Keynesian theory of the current world economic cycle, and put emphasize on the means of regulation.

The first chapter is a review of the world economic cycle theory, mainly introducing the new Keynesian theory. The new Keynesian theory inherited the macro-control of the old Keynesianism and absorbed the essence of liberalism. The understanding of New Keynesianism plays a key role in our understanding of the current world economy.

The second chapter is about the analysis of the current world economic cycle. This chapter is divided into three sections, the first section mainly describes the characteristics of the current world economy, the current world economy is still weak, but for the future economic recovery is still very large information. Section 2 focuses on the current economic risks, politics, culture, the environment and some low-income unstable countries which give the current world economy to with great unitability,

The third chapter is the combination of empirical analysis of the world economic cycle and the effective regulation of politics, this chapter is divided into three sections. The first section is mainly about the analysis of the world economic cycle, according to the long-wave theory, history is divided into five long economic cyclical waves, combined with empirical, we analyze every single wave one after another. The second section is mainly about the generation of the world economy, every rise of world economic cycle can be contributed to the rise of a new revolution, including technical force caused by industrial reform, which led to economic fluctuations. Section 3 focuses on the means of regulating the world's economic cycle. This is divided into three areas: politics, trade and innovation. The situation in today's world is becoming increasingly complicated. Only by taking right and effective measures can the economy be revived.

Keywords: The world economic cycle, the new Keynesianism, the current round of the world economic cycle, macro-control and market freedom, global trade

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Chapter 1: Review of the World Economic Cycle Theory

Since the 18th century, we have already entered the capitalist society, the growth of economy has shown a cycle of ups-and-downs, consist of recession, depression and then recovery. This phenomenon is called the economic cycle. The spiral of economic growth and the existence of economic cycle indicate that there is a significant regularity of economic activity. The exploration of this law constitutes the core of economic cycle research.

The economic cycle theory is an important branch of the macroeconomic field. Dornbusch, Stiglitz and Mankun, who are the main representative of the liberalism, which becomes one of the two major trends of this theory with government interventionism. These two innovative trends gradually formed a "new Keynesianism"

The new Keynesians research the economic cycle problem along two different ways: Firstly, at the basis of nominal wages and price stickiness; while the second one is to analyze the economic cycle from the perspective of price elasticity. In the short term, the reduction in aggregate demand not only reduces the actual variables such as output, but also reduces the price level and other nominal variables. In the long term, the total demand changes. This change in demand is only nominal that affects the price level. Price elasticity of instability is the reason for economic fluctuations.

The new Keynesian price of viscous economic cycle theory has exactly the same conclusion as the original Keynesianism, but it further explains why there is a wage price stickiness that making up for the lack of micro-foundation of Keynesianism. The new Keynesians put forward the long-term labor contract theory, the staggered wage contract theory, the stealth wage contract theory and the efficiency wage theory as the micro-foundation of wage sticky. It also put forward the menu cost theory, the price adjustment theory and the cost of additional pricing theory As the micro-foundation of price stickiness. The following analysis of the economic cycle theory will be based on the analysis of new Keynesian theory.

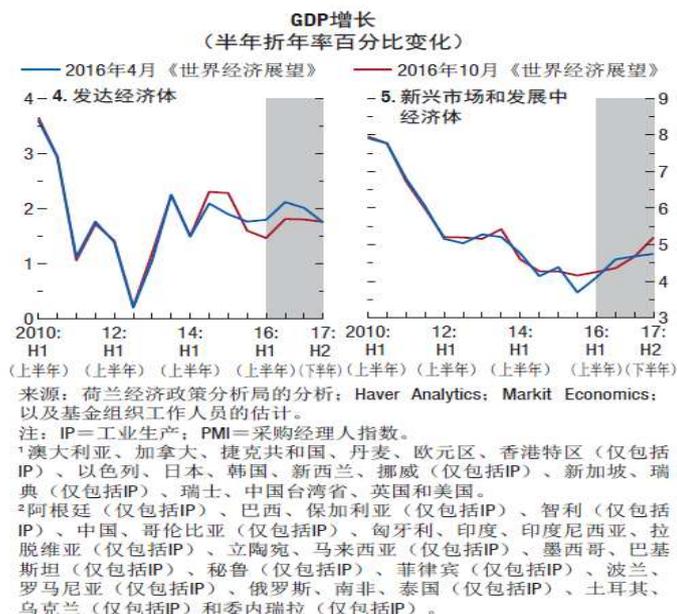
Chapter 2: Analysis of the Characteristics of the Current World Cycle

Section 1 Analysis of the Current World Economic Characteristics

The world economy at the post-war period has the widest range The deepest recession has been lasting for six years, but the return to a strong, synchronized global economy is still difficult to achieve. The overall growth rate of the world economy in 2015 fell to the lowest level since 2010, the growth rate of different economies unstably and uncertainly increased. The global economy was still weak in 2016 and we don't know whether it will recover soon.

We are undergoing a weak global economy.

The following graph shows the growth of GDP of different countries all around the world.



(Origin from IMF 《World economic outlook》)

	USA	Japan	UK	France	Germany	Italy	Canada
2007	1.78	2.19	3.43	2.36	3.39	1.68	2.01
2008	-0.29	-1.04	-0.77	0.20	0.81	-1.16	1.18
2009	-2.78	-5.53	-5.17	-2.94	-5.09	-5.49	-2.71
2010	2.53	4.71	1.91	1.97	3.95	1.71	3.37
2011	1.60	-0.45	1.65	2.08	3.72	0.59	2.96
2012	2.22	1.74	0.66	0.18	0.61	-2.77	1.92
2013	1.49	1.59	1.67	0.66	0.41	-1.70	2.00
2014	2.43	-0.10	2.99	0.18	1.58	-0.43	2.44
2015	2.57	0.59	2.52	1.16	1.51	0.80	1.04

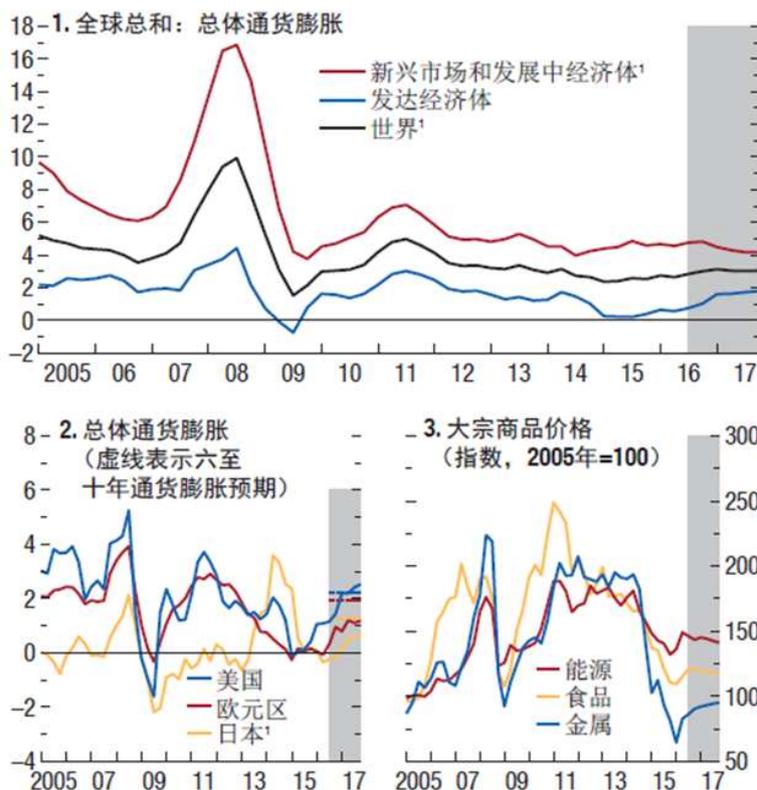
Note: Origin from **Wind** Database

	巴西	印度	印尼	俄罗斯	中国
2008年	5.17	3.89	6.01	5.25	9.60
2009年	-0.33	8.48	4.63	-7.80	9.20
2010年	7.57	10.26	6.38	4.50	10.60
2011年	3.92	6.64	6.17	4.30	9.50
2012年	1.76	5.08	6.03	3.40	7.70
2013年	2.74	6.90	5.58	1.30	7.70
2014年	0.15	7.26	5.03	0.60	7.30
2015年	-3.03	7.29	4.66	-3.83	7.00

Note: Origin from **Wind** Database

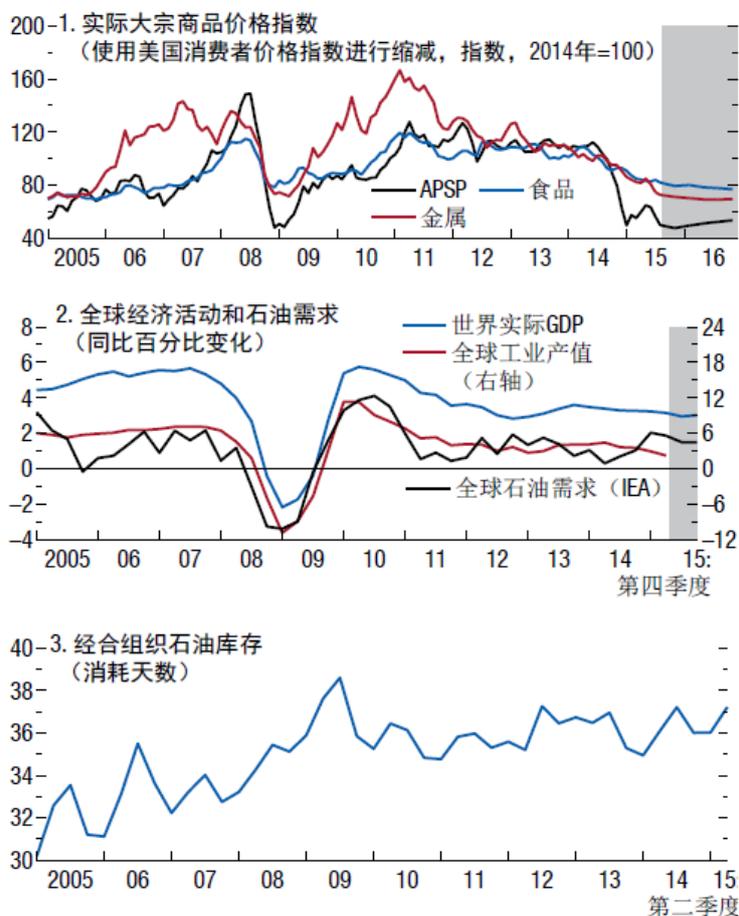
According to the figure above and the preliminary information, although the world economic growth has been better in 2016 than 2015, which is only a slight increase. The economic weakness and the lack of motivation are critical problems on which we still need to pay great attention. Mainly due to the weakening of economic activity in developed economies. Although the developed economies are weak, it did not bring spillover effects, China, as an emerging economic body, its economic growth in the first 6 months of 2016 is still strong

The Inflation rate is still low



In 2015, the consumer price inflation rate of the developed economies, which is 0.3%, becomes the lowest one since the global financial crisis. As the impact of oil prices subsiding, consumer price inflation rose slightly to about 0.5% in the first 6 months of 2016 (Figure 1.2). Core consumer price inflation is higher than overall inflation, but there are differences in major developed economies. US core consumer price inflation averaged just over 2% on average in the first 6 months of 2016, possibly reflecting temporary factors or seasonal. But the Eurozone and Japan's core consumer price inflation were at a 0.75% lower level. Inflation in emerging markets and developing economies remained stable, as the exchange rate remained stable or appreciated in many countries, and the effects of exchange rate devaluation in the past faded.

Commodity prices are falling



International oil prices in 2015 did not reverse the weakness of the year, hovering around the 50 US dollars barrel, leading to the reappear of the global deflation panic. In the oil prices plummeted, the global commodity prices are also unusually sluggish, and causing another global deflation panic. In addition, according to the commodity prices, the annual performance of 2015 is not that good. According to LME's three-month future contract, prices of lead, aluminum and zinc have been hovering at the line of \$ 2,000 per ton, and copper prices are also falling. How to break the price of commodities continues to be an important factor in saving the world's growth.

The global debt is high

According to the IMF's estimates, global debt has grown for three consecutive years and the global debt risk has increased. Overall, the debt rate of developed economies is higher than that of emerging economies. As shown in the table below, the proportion of debt in GDP of developed economies in 2015 was 105.4% and that of emerging economies was 43.9%. Global debt continues to expand in 2015, and the high level of debt is, to a certain extent, the inevitable result of the countries' response to the crisis, and the recovery of the world economy has also exacerbated the risk of debt.

	Year 2011	Year 2012	Year 2013	Year 2014	Year 2015
Developed economies	102.6	106.8	105.2	105.3	105.4
USA	99.1	102.4	103.4	104.8	105.1
Eurozone	86.5	91.1	93.4	94	93.5
Japan	229.8	236.8	242.6	246.4	246.1
Emerging economies	38.4	38.6	39.7	41.7	43.9
China	36.5	37.3	39.4	41.1	43.5
India	68.1	67.5	65.5	65	64.4
Russia	11.6	12.7	14	17.9	18.8

Section 2 The risk of the global economy

Policy and institutional risks

The Brexit and the current presidential campaign in the United States have led to a particular concern for labor mobility and migration, global trade integration and cross-border management. Institutional uncertainty, coupled with increased political disagreements within countries, could make the task of dealing with structural challenges more difficult. These challenges, including the easing of products and labor market controls, the restoration of the balance sheet, the implementation of welfare reforms, the influx of immigrants into the labor force, etc., appear to have become more tough as well. Therefore, these kind of policy inefficiencies may become more deeply rooted, so the world economy may be strongly weakened. So, if any of the risks mentioned in the following part realizes, its great adverse effects on the global trade does not do good to the world economic growth.

Conflict, health and climatic factors

A number of other factors continue to affect the prospects for each region. Such as the drought in East Africa and South Africa, the civil wars and conflicts in some countries in the Middle East and Africa, the development of immigrants in Jordan, Lebanon, Turkey and Europe, the global terrorist operations, and Latin America issue and the Caribbean conflict, the southern and southern Village card virus spread. Each of these issues leads to an enormous humanitarian and direct economic costs. Terrorist incidents have occurred, and ongoing internal conflicts have spread to neighboring areas. The outbreak of the village has exacerbated the public health crisis, which could have a serious impact on market sentiment and thus have a negative impact on demand and economic activity.

The impact of low income developing economies

In low-income economies, countries that rely on commodity exports still facing more difficult prospects than others. Commodity prices of these countries are greatly below the peak levels in 2014, with weak global growth and further tightening of financial

conditions in which economic growth in low-income developing countries that depend on commodities is significant

Weakened, especially fuel exporters have worsened the already weak macroeconomic situation.

Chapter 3: Combined with empirical analysis of the world economic cycle and the effective regulation of politics

Session 1 The summary and the analysis of the world economic cycle

Based on the implications of the world economic cycle and the long wave fluctuation hypothesis, we believe that the 1880 is the starting point for the world economy cycle, mainly because all parts of the world economy have grown significantly thereafter and the world's commodity trade and financial transactions have become increasingly frequent in 1880. So far, there are five major world cycle long wave fluctuations from 1880 to now.

The first long wave fluctuation period is 1880-1890, the current round of the world economic cycle in 1883 or so began a cyclical recession, the national recession is quite unified; in 1856 the world economy dropped into the bottom of the recession, although the economy is at the bottom of the recess, it is still very close to the other period. Only Britain was lagging, it was not until 1889 that the Britain economy reached the bottom of the recession. The subsequent recovery period is longer, about 5 years or more. At about 1891, the national economy to entered the rising stage. The cycle usually advance or lag for 1 year. In short, through the observation of the economic cycle of the various stages of the turning point, we find that the cyclical movement of countries in this period.

The second wave of period is 1890-1900, this round of the world economic cycle began around 1891 cyclical. The recession reached in 1896 and also pushed the economy into the bottom, followed by a longer recovery period, about 5 years or more. At about 1901, the national economy re-enter the rising stage. The second round of the world economic cycle also has the length of about 10 years.

The third wave of period is 1914-1949. This round of the world economic cycle began around 1929 cyclical recession, dropped into the bottom of the recession at about 1932, the recession period is relatively short, however the subsequent recovery period is longer, about 6 years. At about 1939, the national economy entered the rising stage. Observing the economic cycle of the various stages of the turning point, we find that the cyclical movement of countries show a good period of synchronization, countries entered the era of economic prosperity.

The fourth wave of period is 1949-1989, when the world economic cycle is based on a specific transmission mechanism. The recession stage originated in the United States, Britain, Canada and other countries, with close economic ties by the European continent countries and Japan and other developed countries. The world economic recovery benefited from the great impetus of the economies of USA and Western Europe.

The fifth wave of period is 2008-2040, the current round of the world economic cycle began to recess in 2007, fell to the bottom in 2008. In a year and a half later, developed financial institutions such as Europe and USA are trapped into liquidity difficulties and financial crisis as well as the world financial market chaos. The financial crisis has spread to a wide range of conduction speed and other characteristics, which also makes the world focuses on the financial crisis transmission mechanism issue once more

Session 2 *The generation of the world economic cycle*

According to the economy cycle theory, the balance or imbalance of supply and demand will determine whether the economy is smooth or fluctuating. The supply and demand imbalances caused by the supply shocks or demand shocks will cause the economy to run mainly in a volatile state, and the impact of the currency is the two types of shocks. The impact of macroeconomic fluctuations can be divided into three categories: one is from the supply of production impact, including technological progress, climate change, natural disasters, resource discovery and world market price fluctuations in raw materials; The impact of demand on the country's economic needs includes macroeconomic management authorities' policy shocks, such as fiscal policy, monetary policy and exchange rate policy, and the others are from of private demand.

The first world economic cycle occurs due to the outbreak of the industrial revolution, the widespread of steam engines makes the rapid economic growth. The second world economic cycle fluctuation is due to the rapid growth of steel production and the railway construction period. While the third period is due to the popularity of electricity, the rapid development of the automotive industry. The fourth one is due to the prosperity of petrochemicals and cars. The fifth one is due to the rapid development of information technology, information technology development leads us into a new era of science and technology.

Understanding the generation of the world economic cycle has a significant effect on how we regulate the economic cycle and can help us capture a better understanding of the cyclical nature of the world economy.

Session 3 *The meaning of world economic cycle control*

To adopt a more effective and coordinated policy, and to implement the "three-pronged" policy

Policymakers need a more effective and balanced policy mix to build a more robust path to economic growth and financial stability. After the central bank has taken an unprecedented series of initiatives, enhancing the market risk once again. Although the economic recovery still needs relatively loose monetary policy support, a more comprehensive policy mix will ease the increasing burden on the central bank. Some monetary policy, such as negative interest rates, has reached its limits of effectiveness, and the mid-term side effects of low interest rates on banks and other financial institutions are emerging. The implement of fiscal and structural policies enhances investor's confidence and boosts global economic growth, while

implementing macro-prudential policies also consolidate the foundations of the global financial system. These initiatives will help to avoid stagnation in financial and economic development. In the financial development stagnation and trade protectionism scenario, by 2021, world output losses will reach about 3%.

Promote innovation, increase economic power

From the economic power of the past. It can be seen that every the economic fluctuations is due to the rise of emerging technologies or industrial revolution, so we'd better let the economy flourish, we must improve innovation and increase economic momentum. For example, China's implementation of the "O2O" innovative model is to bring the world economy with a little new impetus.

Eliminate economic barriers and promote global trade

One of the reasons for the current decline in economic growth is the trade restrictions and the lack of investment, which has become a barrier to global trade. The global environment is not conducive enough to trade development, which may lead to the inability of commodity exporters and the keep the low-income countries from achieving the goal of establishing new export models and gradually narrowing the income gap with rich countries. It will also hamper global productivity gains, as well as the spread of knowledge, technology and investment. Therefore, in order to resist all forms of trade protection and to restore the trade liberalization process. We should devoted ourselves to eliminate the remaining trade barriers. We should provide much-needed support for trade growth, including the promotion of a new round of global value chain development. In conclusion, only by developing global trade can we slow down or delay the future world economic downturn. So, we think, all responsible countries should corporate together to finish this tough issue.