Review of beating the business cycle essay sample

Beating the Business Cycle by Authors Lakshman Achulthan and Anirvan Banerji provides an intricate description of how the ECRI (Economic Cycle Research Institute) forecast economic growth and market turns so business managers and individuals alike can predict and profit from future changes in the economy. Using approximately 100 objective indexes and economic indicators such as stock price, imports, exports, foreign trade, manufacturing and real estate the ECRI is well known for their accuracy in predicting economic changes.

To highlight a few of their successes the ECRI was able to predict the U. S. recession of 2001 and 1991 approximately six months before economists did. They were also reputed for predicting a weak recovery in 2002. (cover page) The following is a list of the ECRI's record of previous predictions. Achuthan and Anirvan's contribution will broaden your understanding of today's business cycle and enlighten you of its effects on financial markets and the U. S. economy.

Beginning with discussions on economic booms and recessions the authors mention that when classical econometricians failed at accurately predicting the ups and downs in business activity, the ECRI was able to predict these turns by using economic indicators derived from 80 years or business cycle research. Their research was passed down from legendary business scholar Geoffrey H. Moore. Moore was referred to by The Wall Street Journal as the " the father of leading indicators".

To analyze economic turns in the U. S. economy the ECRI uses two main indicators, the Weekly Leading Index (WLI) and the Future Inflation Gauge

(FIG). The WLI is thought to be the most accurate indicator available and leads turning points in the economy by eight months. In short, the WLI predicts upswings and downswings economic growth. If the WLI drops below zero it is identifying an upcoming recession. (pg 139)

(ECRI)

The Future Inflation Gauge is designed to predict future changes in the inflation rate. An upward swing in the index indicates an increase in inflation and downward swing will indicates a decrease in inflation. It is important that is indicator is closely monitored as inflation is directly related with interest rates. (Pg. 136)

Together these two indicators are essential for accurately assessing cyclical change so individuals and small businesses can navigate though the peaks and troughs of the economy. (Pg. 136) Having an understanding that inflation pressures affect interest rates and the Federal Funds Rate will help investors, finance managers and individuals make better economic decisions. Being able to evaluate this data will help them decide when to invest, buy a new house or car, and when to take out a new business loan. The authors express the importance of analyzing both the WLI and the FIG indicators when predicting changes in the economy and judging from their impressive track record they have been successful to say the least. The following is a list of the ECRI’s record of previous predictions.

* Aug 03 Japanese Recovery

* Mar 01 Recession Unavoidable

* Sep 00 U. S. Inflation Downturn

* Sep 00 Eurozone Slowdown

* Sep 00 Recession Warning

* Jun 99 End of ‘ Goldilocks’

(ECRI)

Another important concept the authors suggest when making economic forecasts is to use “ the three P’s”. When analyzing leading indexes if the changes reverse in a pronounced, persistent, and pervasive manner, these are signals of a coming change. Furthermore, the authors specify how one should evaluate these changes. If they are significantly pronounced the authors suggest making sure the changes are comparable in magnitude to cyclical swings of previous recessions or recoveries. When considering the pervasiveness of a cyclical swing the authors suggest that you do not consider only one or two indicators driving the movement and that you evaluate the majority of the index components. Persistency can then be identified if the movements take place over a period of approximately three or four months. (Pg. 138)

In my opinion, the most valuable segment of this book is the real life scenarios discussed in Chapter 9. Illustrating a list of occupational and personal situations the authors provide advice and a logical course of action by evaluating WLI and FIG data. Such advice is given on situations from how and when to invest, when to take a vacation, when should one stay in school or start looking for a career change, to corporate decision making in various industries. Being able to make effective financial decisions is not only a key component in becoming a successful manager but it is a key component in becoming successful period. This book has helped me to understand how to evaluate the economy and make optimal decisions personally, as well as professionally. I would recommend this book to anyone who wants to become successful in life.