

Department of Economics
Barnard College
Fall 2004

Economics BC 3045: Business Cycles

Professor Sharon G. Harrison

Course description: You will finish this course with a thorough working knowledge of both theories and policy implications of business cycles. Keynes provides the foundation for the static IS/LM model, which you learned in intermediate macroeconomics, along with the Phillips Curve. However, more recent models, described as Neoclassical, are dynamic in nature and based on microfoundations. Still other, New Keynesian, models include features of both. In the context of these and other models, we will study the design of fiscal and monetary policies that are intended to prevent or shorten recessions. Topics will include the plausibility of various models, both in theory and in practice; the absolute and relative effectiveness of various (monetary and fiscal) policies; and political considerations. Particular episodes in the macroeconomic history of the US will provide us case studies in which to study these topics.

Course prerequisites: You must have completed a course in intermediate macroeconomic theory (BC 3033 or equivalent) in order to take this course.

Class meetings: This class will meet Tuesdays and Thursdays 10:35-11:50 am.

Contact Information: My office is in Room 7, **Lehman Hall** and my phone number there is **854-3333**. You can also reach me by e-mail at **sh411@columbia.edu**.

Office Hours: To be announced.

Web Access and Email: It is essential that you have access to the web. In particular, we will be using the courseworks page (go to <https://courseworks.columbia.edu/>) throughout the semester.

Evaluation: Your grade will be based on your performance on problem sets (15%), a midterm exam (25%), a final exam (30%), a short paper (10%) and a project paper (20%). Late problem sets will not be accepted. The lowest problem set grade will be dropped. There will be no make-up exams. The project will be done in groups, and will consist of a series of written assignments culminating in a final paper. Details will be discussed in class. The date of the midterm is **Thursday, October 21**. The final exam will be on the date determined by the official schedule.

Required Reading: The reading for this course will be a combination of text book and course packet. Any intermediate macroeconomic text will do, though I will rely mostly on Blanchard's *Macroeconomics*. The course packet is available at Broadway Copy Center (at 121st; 864-6501) **Please call before you go to pick up your packet, to make sure one is ready for you**. Additional reading may also be made available to you as the course progresses.

Schedule of Topics

Note: "Intermediate Macro Text" means that the material can be found in any intermediate macro text book. I will use Blanchard's book, several copies of which are available on reserve at the Barnard Library. Lecture notes are not in the course packet. Additional readings may be made available as the semester progresses. **Check the web site regularly** for updates on assigned reading.

WEEKS 1 and 2: September 7, 9 and 14, 16 **Introduction to Business Cycles**

- **September 16: Rosh Hashanah, no class**

- Definition, History of US:

- Abel, A. and B. Bernanke, 1995, 'Business Cycles,' Chapter 9 in *Macroeconomics*, Addison-Wesley, 289-315. **Pages 289-299.**
- Temin, Peter, 1998. 'The Causes of American Business Cycles: An Essay in Economic Historiography,' in *Beyond Shocks: What Causes Business Cycles*, ed. by Jeffrey Fuhrer, 37-59. **Focus on pages 44-57.**

- Stylized Facts:

- Abel and Bernanke. **Pages 299-315.**
- Kydland, F. and E. and Prescott, 1990, 'Business Cycles: Real Facts and a Monetary Myth,' *Quarterly Review*, Federal Reserve Bank of Minneapolis, Spring, 3-18. **Pages 9-17.**

WEEK 3: September 21, 23 **Introduction to Competing Theories**

- Keynesian, Classical, Neoclassical and New Keynesian Schools of Thought

- Lecture Notes

WEEK 4: September 28, 30 **The IS/LM Model**

- Equilibrium in the Goods and Money Markets
- Including the Supply Side: General Equilibrium
- The Natural Rate
 - Intermediate Macro Text

WEEK 5: October 5, 7
Introduction to Policy

- Fiscal and Monetary Policy
- Policy in the IS/LM model
 - Intermediate Macro Text and Lecture Notes

WEEKS 6 and 7 : October 12, 14 and 19, 21
The AS/AD Model and the Phillips Curve

- The Supply Side and General Equilibrium
- The Short Run and Long Run Phillips Curve
- Policy in the AS/AD Model and Phillips Curve
 - Intermediate Macro Text and Lecture Notes
- **Oct 21: Midterm Exam**

WEEK 8: October 26, 28
Real Business Cycle Models

- The RBC Model
 - Mankiw, N.G. "Recent Developments in the Theory of Economic Fluctuations," Chapter 14 in *Macroeconomics*, Worth, 1997, 385-400. **Pages 385-394. Skip case study 14-2.**
 - Abel, A. and B. Bernanke. "Classical Business Cycle Analysis: Market Clearing Models," Chapter 11 in *Macroeconomics*, Addison-Wesley, 1995, 354-369, **pages 354-362.**
 - Stadler, G., 1994, 'Real Business Cycles,' *Journal of Economic Literature* XXXII, 1750-1783. **Pages 1750-top of 1758 and 1772-top of 1775. Skip A.1 on page 1773.**
 - Plosser, C., 1989, 'Understanding Real Business Cycles,' *Journal of Economic Perspectives* 3:3, 51-77. **Pages 51-66.**

WEEK 9: November 2, 4
Real Business Cycle Models Continued

- **Nov 2: Election Day Holiday**
- Criticisms

- Mankiw’s text book, case study 14-2.
- Abel and Bernanke, pages 366-369.
- Mankiw, N.G., 1989, ‘Real Business Cycles: A New Keynesian Perspective,’ *Journal of Economic Perspectives* 3:3, 79-90.
- Stadler, pages 1766-1772 (skip part B.), C. on page 1775.

- Extensions

- Plosser, pages 67-69, and conclusion on 71.
- Stadler, pages 1758-1762.

WEEK 10: November 9, 11

New Keynesian Models

- Wage and Price Rigidities, Real and Nominal Rigidities

- Mankiw’s textbook, pages 395-399.
- Gordon, R.J., 1990, ‘What is New-Keynesian Economics?’ *Journal of Economic Literature* 28:3, 1115-1171. Pages TBA.
- Romer, D., 1993, ‘The New Keynesian Synthesis,’ *Journal of Economic Perspectives* 7:1, 5-22. Pages TBA.

WEEKS 11 and 12: November 16, 18 and 23, 25

The Political Business Cycle

- **November 25: Thanksgiving Holiday**

- Ray Fair’s Presidential Vote Equation

- Fair, Ray C., 1978, ‘The Effect of Economic Events on Votes for President,’ *Review of Economics and Statistics* LX:2, 159-173.
- <http://fairmodel.econ.yale.edu/vote2004/index2.htm>

- Opportunistic and Partisan Models; Monetary and Fiscal Policy

- Drazen, A., 2000, ‘The Political Business Cycle after 25 Years,’ *NBER Macroeconomics Annual*, 75-117. Pages TBA.
- Alesina, A., 2000, Comment on Drazen, *NBER Macroeconomics Annual*, 117-124.

WEEKS 13 and 14: November 30 and December 2 and 7, 9

Catch-up and Review, Student Presentations

- Review

- Mankiw, N.G., 1990, ‘A Quick Refresher Course in Macroeconomics,’ *Journal of Economic Literature* 28:4, 1645-1660.