

Department of Economics
Barnard College
Fall 2009

Economics BC 3045: Business Cycles

Professor Sharon G. Harrison

Course description: You will finish this course with a thorough working knowledge of theories, empirics and policy implications of business cycles. In intermediate macroeconomics, you learned about the Phillips Curve and the NAIRU. We will study these in more detail, delving into the controversy surrounding the theoretical foundations of, and empirical evidence for, both concepts. We will also study more recent models, described as Neoclassical, that are dynamic in nature and based on microfoundations. 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 Mondays and Wednesdays from 1:10-2:25 pm.

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.

Courseworks: Homework assignments, important announcements, and other information will be posted throughout the semester on the courseworks page for this class (go to <https://courseworks.columbia.edu/>).

Evaluation: Your grade will be based on your performance on problem sets (10%), two exams (each 30%), and a culminating project (30%). Late problem sets will not be accepted. The lowest problem set grade will be dropped. There will be no make-up exams. Details of the project will be discussed in class. The date of the first exam is Wednesday, October 28, and the second will be on the date determined by the official final exam schedule. Please note that after I submit final exam and final course grades, I will not respond to emails regarding them.

Required Reading: The reading for this course will be a combination of books and course packet. The books are: (1) Any intermediate macroeconomics text (don't buy another one if you sold yours), though I will rely mostly on Blanchard's *Macroeconomics*; (2) *A Term at the Fed*, by Laurence Meyer, which is available at the Columbia University Bookstore. 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.

Honor code: I value Barnard's Honor Code for the integrity it fosters. All exams and assignments in this class are to be completed in accordance with the Barnard Honor Code. Columbia students commit themselves to the Honor Code upon registering for a Barnard course. The codes says, in part:

“We consider it dishonest to ask for, give, or receive help in examinations or quizzes, to use any papers or books not authorized by the instructor in examinations, or to present oral work or written work that is not entirely our own, unless otherwise approved by the instructor. We consider it dishonest to remove without authorization, alter, or deface library and other academic materials.”

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.

WEEK 1 September 9 **Introduction to Business Cycles**

- Definition, History of US:
 - Abel, A. and B. Bernanke, 2001, 'Business Cycles,' Chapter 8 in *Macroeconomics*, 4th edition, Addison-Wesley, 274-295. **Pages 274-284.**
 - 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. **Pages 44-57.**

WEEK 2: September 14, 16 **Introduction to Competing Theories**

- Keynesian, Classical, Neoclassical and New Keynesian Schools of Thought
 - Lecture Notes
 - Mankiw, N.G., 1990, 'A Quick Refresher Course in Macroeconomics,' *Journal of Economic Literature* 28:4, 1645-1660.

Introduction to Policy

- Fiscal Policy and its Alternatives
- Monetary Policy
 - Lecture Notes

WEEKS 3-5: September 21, 23, 28, 30, Oct 5, 7

- **Sept 28: Yom Kippur, no class.**

The Phillips Curve and the Nairu

- The Origins of the Phillips Curve and Nairu
 - Fisher, I., 1926, ‘A Statistical Relation Between Unemployment and Price Changes,’ reprinted as ‘I Discovered the Phillips Curve’ in the *Journal of Political Economy* 81, April 1973, 496-502.
 - Phillips, A., 1958, ‘The Relation Between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom, 1861-1957,’ *Economica* 25, 283-299.
 - Friedman, M., 1968, ‘The Role of Monetary Policy,’ *American Economic Review* 58, 1-17. **Pages 7-11.**
- The Modern Phillips Curve and Nairu
 - Intermediate Macro Text
 - Stiglitz, 1997, ‘Reflections on the Natural Rate Hypothesis’ *Journal of Economic Perspectives* 11:1, 3-10. **Pages 5-8.**
- Evaluations of the Phillips Curve and NAIRU
 - Rogerson, R., 1997, ‘Theory Ahead of Language in the Economics of Unemployment,’ *Journal of Economic Perspectives* 11:1, 73-92. **Pages 73-76 and 85-92.**
 - Stiglitz, pages 3-5 and 8-10
 - Galbraith, J., 1997, ‘Time to Ditch the NAIRU,’ *Journal of Economic Perspectives* 11:1, 93-108.

WEEK 6: October 12, 14

Monetary Policy in the context of the Phillips Curve and NAIRU

- – Meyer, Laurence, 2004, *A Term at the Fed.*
- Eisner, R., 1997, ‘When Bad Economic Theory Threatens Good Times,’ *The New York Times* Op-Ed Page, Saturday, October 11.
- Andrews, E., 2006, ‘Economy Often Defies Soft Landing,’ *The New York Times*, August 11, 2006.

WEEKS 7-11: October 19, 21, 26, 28, November 2, 4, 9, 11, 16, 18,

- **Oct 28: Midterm Exam**
- **Nov 2: Election Day Holiday**

Real Business Cycle Models

- Stylized Facts:
 - Abel and Bernanke's textbook Chapter 8, **Pages 284-295.**
 - 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.**
- The RBC Model
 - Mankiw, N.G., "Advances in Business Cycle Theory," Chapter 19 in *Macroeconomics*, 6th edition, Worth, **Skip the case studies on the Solow residual and monetary neutrality.**
 - Abel, A. and B. Bernanke, "Classical Business Cycle Analysis: Market Clearing Models," Chapter 10 in *Macroeconomics*, Addison-Wesley, 200, 351-371, **pages 351-358.**
 - 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.**
 - Prescott, E., 1986, 'Theory Ahead of Business Cycle Measurement,' *Federal Reserve Bank of Minneapolis Quarterly Review* 10(4), 9-22.
- Criticisms
 - Mankiw's text book, **case studies on the Solow residual and monetary neutrality.**
 - Abel and Bernanke, Chapter 10, pages 358-371.
 - 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.
 - Summers, L., 1986, 'Some Skeptical Observations on Real Business Cycle Theory,' *Federal Reserve Bank of Minneapolis Quarterly Review* 10(4), 23-27.
 - Prescott, E., 1986 'Response to a Skeptic,' *Federal Reserve Bank of Minneapolis Quarterly Review* 10(4), 28-33.

- Extensions

- Plosser, pages 67-69, and conclusion on 71.
- Stadler, pages 1758-1762.
- Cho, J.O. and T.F. Cooley, 1995, 'The Business Cycle with Nominal Contracts,' *Economic Theory* 6, 13-33.
- Baxter, M. and R.G. King, 1993, 'Fiscal Policy in General Equilibrium,' *American Economic Review* 83(3), 315-334.

WEEK 12: November 23, 25

- **Nov 25: Thanksgiving Holiday**

Ray Fair's Presidential Vote Equation

- – Fair, Ray C., 2002, *Predicting Presidential Elections and Other Things*, Stanford University Press, **Chapters 1-4.**
 - <http://fairmodel.econ.yale.edu/vote2008/index2.htm>

WEEKS 13-14: November 30, Dec 2, 7, 9

- – Student presentations

WEEK 15: December 14:

- – Student presentations
 - Catch-up and Review