

Economics 8020
Business Cycle Theory and Monetary and Fiscal Policy
Spring 2024

Economics 109

Department of Economics

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The 4 main skills for understanding monetary policy, fiscal policy and financial stability policy—often called collectively “stabilization policy”—are (a) deep theoretical analysis of business cycle models, (b) understanding real-world policy debates, (c) computation of business cycle models and (d) comparison of computations of business cycle models to data. This course focuses on theoretical analysis of business cycle models and understanding real-world policy debates. It does not focus on computation of business cycle models or comparisons of those computations to data, but is highly complementary with courses that do. Analyzing optimal monetary policy and financial cycle models would be within the scope of the course, but as a practical matter there isn’t time; topics such as that are addressed mainly in the context of current real-world policy debates.

Most of the resources for this class can be found in a branch of my blog: <https://blog.supplysideliberal.com/businesscycletheory> If you happen to wind up on the main page of my blog, click “Resources” at the top, then choose “Business Cycle Theory” among the Resources. Below is a simply a list of papers I am likely to refer to in the course. The first two references listed are used extensively in the course for real business cycle theory. Real-world policy debates are addressed primarily through blog posts and papers available from links on blog posts.

References:

I. Real Business Cycle Theory

- * Kimball, Miles. 2003. “Q-Theory and Real Business Cycle Analytics.” Download from link on the course website
- * Kimball, Miles. 2002. *Real Business Cycle Theory: A Semiparametric Approach*. Download from link on the course website.
- Prescott, Edward. 1986. “Theory Ahead of Business Cycle Measurement,” *Federal Reserve Bank of Minneapolis Quarterly Review* 10 (Fall).
- King, Robert G., Charles I. Plosser, and Sergio R. Rebelo. 1988. “Production, Growth and Business Cycles: I. The Basic Neoclassical Model,” *Journal of Monetary Economics* 21: 195-232.
- Hall, Robert, 1988. “Intertemporal Substitution in Consumption,” *Journal of Political Economy* 96, 339–357.
- Basu, Susanto, and Miles Kimball. 2003. “Long-Run Labor Supply and the Elasticity of Intertemporal Substitution for Consumption,” available on my website.
- Basu, S., and Kimball, M., “Cyclical Productivity with Unobserved Input Variation,” (revision requested by the *Journal of Monetary Economics*). Available as NBER Working Paper # 5915.
- Romer, David. 2001. “Real-Business-Cycle Theory,” in *Advanced Macroeconomics*.
- Campbell, John. 1994. Inspecting the Mechanism: An Analytical Approach to the Stochastic Growth Model,” *Journal of Monetary Economics*, vol. 33 (June), 463-506.

- * Mankiw, N. Gregory. 1987. "Government Purchases and Real Interest Rates," *Journal of Political Economy*, 95, 407–419.
- Hayashi, Fumio. 1982. "Tobin's Marginal q and Average q: A Neoclassical Interpretation," *Econometrica* 50 (January), 213-224.
- Abel, Andrew, and Olivier Blanchard. 1983. "An Intertemporal Model of Saving and Investment," *Econometrica*, 51, 3 (May), 675-692.

II. Sticky Price Models

- * Kimball, Miles. 1995. "The Quantitative Analytics of the Basic Neomonetarist Model," *Journal of Money, Credit and Banking* 27 (November), 1241–1277.
- Gali, Jordi. 1999. "Technology, Employment, and the Business Cycle: Do Technology Shocks Explain Aggregate Fluctuations," *American Economic Review*, 249-271.
- * Basu, Susanto, John Fernald and Miles Kimball. 2003. "Are Technology Improvements Contractionary?" I will e-mail this to you when the next version is ready.
- Cooper, Russell, and Andrew John. 1988. "Coordinating Coordination Failures in Keynesian Models," *Quarterly Journal of Economics* 103 (August), 441–463.
- Ball, Laurence, and David Romer. 1990. "Real Rigidities and the Non-Neutrality of Money," *Review of Economics Studies* 57, 183–203.
- * Kimball, Miles. 1995. "Quantitative Analytics of the Basic Neomonetarist Model," *Journal of Money, Credit, and Banking* 27 (November 1995, Part 2), 1242–1277. You might also want to take a look at the following comment by Michael Woodford.
- Barsky, R., House, C. and Kimball, M., "Sticky-Price Models and Durable Goods" on Chris House's website.
- * Basu, Susanto, and Miles Kimball. 2003. "Planning Costs and the Effects of Fiscal and Monetary Policy," unpublished manuscript. On my website.
- * *Interest and Prices*, by Michael Woodford. This is a long and sometimes technical book. I would like you to concentrate on getting an overview by reading the entire book without getting hung up on any one part. Concentrate on the intuitive economic meaning of each passage. This book can serve as an excellent reference for you in the future *if you read it carefully to know what material is contained in it*. You will see in class the somewhat different angle I take on many of the things covered in this book.

III. Applications

- Barsky, B., Juster, F. T., Kimball, M. and Shapiro, M., 1997: "Preference Parameters and Behavioral Heterogeneity: An Experimental Approach in the Health and Retirement Study," *Quarterly Journal of Economics* (May), 537–579.
- Kimball, M. and Matthew Shapiro, "Labor Supply: Are the Income and Substitution Effects Both Large or Both Small?"
- Chetty, Raj. August, 2004. "Labor Supply and Risk Aversion: A Calibration Theorem." Berkeley and NBER. I will e-mail this paper to you.
- Kimball, Miles, Robert Barsky, Fred Conrad, Randy Nesse, Norbert Schwarz, Dan Silverman and Robert Willis. September, 2004. "Subjective Well-Being and Utility in Psychology and Economics," and NIA grant proposal.
- Kimball, M., 1994: "Labor Market Dynamics when Unemployment is a Worker Discipline Device," *American Economic Review*, 84 (September), 1045–1059.

Kimball, M., 1987: "Making Sense of Two-Sided Altruism," *Journal of Monetary Economics*, **20** (September), 301–326.

Basu, S., Kimball, M., Mankiw, N. G. and Weil, D., 1990: "Optimal Advice for Monetary Policy," *Journal of Money, Credit and Banking* **22** (February), 19–36.

Kimball, Miles and Matthew Shapiro. 2004. "The Retirement Elasticity."