



APPLIES TO ACADEMIC YEAR 2003/2004

GRA 6634 Business Cycles

Program

N/A

Responsible for the course

Erling Steigum

Department

Economics

Term

According to study plan

ECTS Credits

6

Objective

The main goal is to give course participants a deeper theoretical and empirical understanding of the nature of business cycles in industrialized countries. Another goal is to teach participants how to master empirical methods designed to measure trends, cyclical movements and co-movements in macroeconomic data, and to give them a solid basis for assessing macroeconomic risks and the uncertainty associated with business cycle forecasts.

Prerequisites

None

Compulsory literature

DeLong, J. Bradford. 2002. *Macroeconomics*. International ed. Boston, MA: McGraw-Hill. Part III, IV and V.

A selection of articles (will be ready at the start of the term).

Recommended literature

Will be ready at the start of the term.

Course outline

Business cycles (macroeconomic fluctuations) refer to booms and recessions in aggregate economic activity. In some periods, economic growth is fairly smooth, but business cycles triggered by macroeconomic shocks have always returned, despite serious attempts by governments and central banks to stabilise the macroeconomy. Most firms are affected by business cycles. Typically, many firms expand sales and increase profits in booms, while recessions trigger losses and increase the rate of bankruptcy. Even systemic banking crises may break out, such as in Norway, Sweden and Finland in the early 1990s. Business cycles therefore involve substantial macroeconomic risks for many business firms, households, banks and other financial institutions. Such risks both shape financial decisions and "real" decisions about consumption, saving, investment, employment and production. Particular attention will be paid to how firms and households make investment and consumption decisions under uncertainty. Theories explaining business cycles as the combined result of unpredictable shocks and the behaviour of households, business firms, financial institutions and governments/central banks will be presented along with the empirical evidence. We will also address measurement issues and demonstrate empirical methods of measuring trends, cyclical movements and co-movements in macroeconomic data.

The following ten topics define the core of the course:

1. Business cycle analysis: A short history
2. The Keynesian approach: Aggregate demand, the output gap, and macroeconomic policy when prices are sticky.
3. Empirical methods: Trends, cycles, indicators, forecasts, and stylised facts.

4. Consumption and saving: Permanent income, wealth effects, and precautionary saving
5. Fixed investment, the stock market, and business cycles
6. Real business cycles: Innovations, productivity, and supply shocks
7. Neo-Keynesian theory: Inflation, cyclical unemployment, and the role of expectations
8. Boom-bust cycles: Lending booms, bubbles, and financial crises
9. International aspects of business cycles
10. Stabilisation policy: Rules, discretion, debt, and the policy mix.

Computer-based tools

Blackboard

Course structure

Lectures (36 hours)

Evaluation

Written exam (3 hours)

Evaluation code(s)

GRA 66341

Aids at the examination

Non programable calculator

Makeup exam

Next ordinary exam