



APPLIES TO ACADEMIC YEAR 2004/2005

GRA 6634 Business Cycles

Program

Master of Business and Economics Program, Master of Science in Business, Master of Science in Business (Economics), Master of Science in Management, Specialization Course

Responsible for the course

Kai Leitemo

Department

Economics

Term

According to study plan

ECTS Credits

6

Business cycles refer to swings in aggregate economic activity. Booms are times of high activity, while busts are times of low economic activity. These swings have great impact on sales, employment, profit and investments. To stabilize the business cycles is an important objective of economic policymaking. A greater understanding of the sources behind the cycles may lead you to be better prepared for them as a business man or woman, and thereby minimizing the harmful effects.

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

Bachelor's degree in Business or eq

Compulsory literature

DeLong, J. Bradford. 2003. *Macroeconomics*. International ed. Boston, Mass: McGraw-Hill.
Diebold, Francis X.. 2001. *Elements of forecasting*. 2nd ed., Cincinnati: Ohio: South-Western.
A selection of articles (will be ready at the start of the term).

Recommended literature

None

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. What is a business cycle? A short history. Stylized facts. (3 h)
2. Macroeconomic theory. The Keynesian approach. Stabilization policy. (15 h)
3. Modern consumption theory. (6 h)
4. Modern investment theory. (3 h)
5. Stochastic models. (3 h)
6. Measuring the business cycles: Trends and cycles. (6 h)
7. Boom-bust cycles: Lending booms, bubbles, and financial crises. (3 h)

Computer-based tools

Blackboard/homepage

Course structure

Lectures (42 hours)

Evaluation

Written mid-term exam (1 hour, 20%) and final written exam (3 hours, 80%)

Evaluation code(s)

GRA 66341

Aids at the examination

A bilingual dictionary

Makeup exam

Nest time the course is offered