



APPLIES TO ACADEMIC YEAR 2011/2012

## GRA 6634 Business Cycle Theory

### Programme

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

### Responsible for the course

Kai Leitemo

### Department

Department of Economics

### Term

According to study plan

### ECTS Credits

6

### Language of instruction

English

### Introduction

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. Stabilizing business cycles is an important objective of economic policymaking. A greater understanding of the sources behind the cycles and what the authorities do to counteract them, may enable you to make better investment and consumption decisions as a business person.

### Learning outcome

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 introduce the participants to empirical methods designed to measure trends, cyclical movements and co-movements in macroeconomic data. The course is also the preparatory course for doing further macroeconomic studies at the graduate level. It is a prerequisite for the GRA 6631 Monetary and Fiscal Policy course.

### Prerequisites

Bachelor degree qualifying for admission to the MSc Programme + intermediate undergraduate macroeconomic course.

### Compulsory reading

#### Books:

Birch Sørensen, Peter and Hans Jørgen Whitta-Jacobsen. 2010. Introducing advanced macroeconomics : growth and business cycles. 2nd ed. McGraw-Hill. Chapters 1, 14-20, 23-25.

#### Other:

During the course there may be hand-outs and other material on additional topics relevant for the course and the examination.

A list of compulsory readings will be provided on It's learning or in class.

Kai Leitemo. Articles supplementing the book may be distributed

### Recommended reading

#### Course outline

Business cycles (macroeconomic fluctuations) refer to booms and recessions in aggregate economic activity. Business cycles triggered by macroeconomic shocks have always been with us. Despite serious attempts by governments and central banks to stabilise the macroeconomy, the world economy has experienced large fluctuations, for instance, that one caused by the 2008-2009 international credit crisis. 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. Business cycles therefore involve substantial macroeconomic risks for many business firms, households, banks and other financial institutions. Particular attention will be paid to how firms and households make investment and consumption decisions. 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.

An outline of the course:

**Part I:** Introduction to macroeconomics. Long run versus the short run. Stylized facts about the business cycles. (Introducing Advanced Macroeconomics (IAM), 2nd ed., Chapter 1 and 13)

**Part II:** Modern consumption and investment theories. Aggregate demand and aggregate supply. (IAM, Chapters 14-17)

**Part III:** The theories at work: explaining business cycles. Stochastics. Stabilization policy. (IAM, Chapters 18-20)

**Part IV:** Extensions to the open economy. Role of the exchange rate. Choice of policy regimes. (IAM, Chapters 23-25)

### **Computer-based tools**

It's learning/homepage

### **Learning process and workload**

A course of 6 ECTS credits corresponds to a workload of 160-180 hours. Both lectures and exercise seminars are provided.

Please note that while attendance is not compulsory in all courses, it is the student's own responsibility to obtain any information provided in class that is not included on the course homepage/It's learning or text book.

### **Examination**

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

Specific information regarding student evaluation beyond the information given in the course description will be provided in class. This information may be relevant for requirements for term papers or other hand-ins, and/or where class participation can be one for several elements of the overall evaluation.

This is a course with continuous assessment (several exam elements) and one final exam code. Each exam element will be graded using points on a scale (e.g. 0-100). The elements will be weighted together according to the information in the course description in order to calculate the final letter grade for the course. You will find detailed information about the point system and the cut off points with reference to the letter grades on the course site in It's learning.

### **Examination code(s)**

GRA 66341 accounts for 100 % of the final grade in the course GRA 6634.

### **Examination support materials**

A bilingual dictionary.

Exam aids at written examinations are explained under exam information in our web-based Student handbook. Please note use of calculator and dictionary.

<http://www.bi.edu/studenthandbook/examaids>

### **Re-sit examination**

It is only possible to retake an examination when the course is taught next.

The assessment in some courses is based on more than one exam code.

Where this is the case, you may retake only the assessed components of one of these exam codes.

Where this is not the case, all of the assessed components of the course must be retaken.

All retaken examinations will incur an additional fee.

### **Additional information**

#### **Honor Code**

Academic honesty and trust are important to all of us as individuals, and represent values that are encouraged and promoted by the honor code system. This is a most significant university tradition. Students are responsible for familiarizing themselves with the ideals of the honor code system, to which the faculty are also deeply committed.

Any violation of the honor code will be dealt with in accordance with BI's procedures for cheating. These issues are a serious matter to everyone associated with the programs at BI and are at the heart of the honor code and academic integrity. If you have any questions about your responsibilities under the honor code, please ask.