

**Syllabus for
Macroeconomics: Business Cycle
(Master of Science in Economics)**

2 SWS Lecture & 2 SWS Tutorial - 5 ECTS

Lecture: Wednesday, 9.45-11.15 h, LG 0.225, starting date: 25 October 2017
Tutorial: Pencil and Paper: Tuesday, 15.00-16.30 h, LG 3.152/3
PC: Monday, 13.15-14.45h (group 1) and 15.00-16.30h (group 2), LG 0.421
First class: 23 October 2017; prior registration necessary, specific dates will be announced on StudOn
Language: English
Office hours: Christian Merkl: by appointment
Britta Kohlbrecher: Wednesday, 15.15-16.15h

Macroeconomics in the DMSE:

This course covers business cycles, search and matching models and monetary policy issues. It enables students to start reading the modern scientific literature in macroeconomics and to follow presentations by macroeconomists in the department's research seminar.

Structure:

1. Introduction: Growth and Cycles

- Distinction between growth and cycles
- What are the stylized facts of the business cycle?

Literature:

Hodrick, Robert J. and Edward Prescott (1997): "Postwar U.S. Business Cycles: An Empirical Investigation." *Journal of Money, Credit, and Banking*, 29 (1), 1-16.

2. Refresher and a Tour from Old Style to Modern Macroeconomics

- A short refresher of the basic elements of old style macroeconomics: IS-LM & AD-AS.
- A historical tour from old style to modern macroeconomics

Literature:

Goodfriend, Marvin and Bob King (1997): "The New Neoclassical Synthesis and the Role of Monetary Policy." *NBER Macroeconomics Annual*, 12, 231-283.

3. A Basic Real Business Cycle Model

- Derivation of a basic RBC model
- Comparison of stylized facts and the model

Literature:

Hansen, Gary (1985): "Indivisible Labor and the Business Cycle." *Journal of Monetary Economics*, 16, 309-327.

4. Real Business Cycles with Real Unemployment

- Derivation of a basic search and matching model
- The "Shimer puzzle"

Literature:

Hornstein, Andreas, Krusell, Per and Violante, Giovanni (2005): "Unemployment and Vacancy Fluctuations in the Matching Model: Inspecting the Mechanism." *Federal Reserve of Richmond Economic Quarterly*, Vol. 91, No. 3, 19-51.

Shimer, Robert (2005): "The Cyclical Behavior of Equilibrium Unemployment and Vacancies." *American Economic Review*, Vol. 95, No. 1, 25-49.

5. Monetary Theory: The Basic New Keynesian Model

- Basic elements of NKM: monopolistic competition & sticky prices (wages)
- Effects of monetary policy in a NKM

Literature:

Galí, Jordi (2003): "New Perspectives on Monetary Policy, Inflation, and the Business Cycle." In: *Advances in Economics and Econometrics*.

6. The NKM: Critique and Potential Solutions

- How does the NKM fit the data?

Literature:

Rudd, Jeremy and Karl Whelan (2007): "Modeling Inflation Dynamics: A Critical Review of Recent Research." *Journal of Money, Credit, and Banking*, 39, 155-170.

Mankiw, Gregory (2001): "The Inexorable and Mysterious Tradeoff between Inflation and Unemployment." *Economic Journal*, 111, 45-61.

7. Optional Research Topics