

**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 0.424, starting date: 24 October 2018  
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).  
Specific dates will be announced in class.  
Language: English  
Office hours: Christian Merkl: by appointment  
Britta Kohlbrecher: Wednesday, 15.15-16.15h

**Macroeconomics in the Master of Science in Economics:**

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 and the macro-labor 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 the New Keynesian model (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**