University of Toronto
Department of Economics
Course Outline
ECO425H1F
Professor M. Alexopoulos
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Times and location: We will meet for class every Wednesday from 11-1 in RW141. The time slot Friday 11-12 (also in RW141) will be used for makeup classes, tutorials and extra office hours. Specific details on which Fridays will be utilized will be announced in class and on Blackboard.

TA for the course: Paul Lim (spaull.lim@mail.utoronto.ca)

Office Hours: For Professor Alexopoulos - By appointment

For Paul Lim – Fridays from 11-12 for days without tutorials and by appointment

Overview: This course builds on material covered in ECO325H1. Students will learn about the role business cycle fluctuations play in the macroeconomy and we will review a number of theories concerning the sources of business cycle fluctuations. As part of the course, we will discuss aspects of monetary policy, fiscal policy, theories of unemployment, the effects of innovation on economic fluctuations, the Great Depression and the Financial Crisis.

Grading Scheme:

40% of the grade will be determined by a midterm test, held during class time on October 22.

15% of your grade will be based on an assignment that will be distributed during the term.

10% of the grade will be based on a short in class presentation (~15 min) on a paper assigned from the reading list. The presentation should summarize the main points in the paper and explain how the paper contributes to the literature. The grade will be based on your presentation skills and understanding of the material. **Copies of all presentation materials should be provided to me no later than THREE days in advance of the presentation.

35% of the grade will be determined by a literature review that will be based on topics I will assign to you during the third week of classes. An outline of the papers you will use as the basis of your literature review should be handed in no later than November 5 for approval. The literature review will be due in class on November 26.

There is no final exam for this course.

Other important dates:

Nov 3, 2014: Last day to drop courses with F section codes from academic record and GPA. After this deadline a mark is recorded for each course, whether course work is completed or not (a 0/zero is assigned for incomplete work), and calculated into the GPA.

Nov. 26: last day of classes.

Topics

1. **The Business Cycle Facts.**

   Cooley, Thomas and Edward Prescott. 1994. Economic Growth and Business Cycles in *Frontiers of Business Cycle Research*. Thomas Cooley Editor. Princeton University Press.

   Prescott, E. 1986. Theory Ahead of Business Cycle Measurement. *Federal Reserve Bank of Minneapolis Quarterly Review*, Fall, 9-22

2. **Real Business Cycle Theory.**

   Class notes
   Romer, D. 2012. Chapter 5

3. Basic Monetary Business cycle Models: Sticky Prices and Limited Participation

Christiano, Lawrence, Martin Eichenbaum and Charles Evans. (1997). ``Sticky Price and Limited Participation Models of Money: A Comparison'', *European Economic Review* 41, 1201-49.

4. Some Basic Theories of Unemployment

4.1. Indivisible Labour

4.2. Efficiency Wages

4.3. Search and Matching

Class notes
Romer, D. 2012. Chapter 10
Hansen, Gary D. (1985). ``Indivisible Labor and the Business Cycle'', *Journal of Monetary Economics* 16, 309-27.

5. Are Technology shocks and innovation key sources of business cycle fluctuations?

Total Factor Productivity Shocks

Basu, Susanto, John Fernald and Miles Kimball. "Are Technology Improvements Contractionary?" Manuscript, University of Michigan, 2004 (also available from www.nber.org as a working paper).

Gali, Jordi. "Technology, Employment, and the Business Cycle: Do Technology Shocks Explain Aggregate Fluctuations?" American Economic Review 89 (March 1999), 249-71.

Christiano, Lawrence, Martin Eichenbaum and Robert Vigfussen. 2004. "What happens after a technology shock?" Manuscript, Northwestern University. (download from http://www.faculty.econ.northwestern.edu/faculty/eichenbaum/)

Shea, John , 1998. "What Do Technology Shocks Do? "NBER macroeconomics annual 1998. pp. 275-310

Alexopoulos, Michelle. 2011 "Read all about it!! What happens following a technology shock?" American Economic Review

Investment specific shocks

Greenwood, Jeremy & Hercowitz, Zvi & Krusell, Per, 2000. "The role of investment-specific technological change in the business cycle," European Economic Review, Elsevier, vol. 44(1), 91-115.

Jonas D. M. Fisher, 2006. "The Dynamic Effects of Neutral and Investment-Specific Technology Shocks," Journal of Political Economy vol. 114(3), 413-451.

6. Are Monetary Policy Shocks a key source of fluctuations?

Christiano, Lawrence J. & Eichenbaum, Martin & Evans, Charles L., 1999. "Monetary policy shocks: What have we learned and to what end?," Handbook of Macroeconomics, in: J. B. Taylor & M. Woodford (ed.), Handbook of Macroeconomics, edition 1, volume 1, chapter 2, pages 65-14

7. Exploring sources of the Great Depression and the Great Recession

Cole, H. & L. Ohanian, 1999. "**The Great Depression in the United States from a neoclassical perspective**," Quarterly Review, Federal Reserve Bank of Minneapolis, issue Win, pages 2-24

Romer, C., 1990. “The Great Crash and the Onset of the Great Depression” *The Quarterly Journal of Economics 105 (3), 597-624*

Alexopoulos, M and J. Cohen, 2009. “ Measuring our ignorance, one book at a time: New indicators of technological change, 1909-1949” *Journal of Monetary Economics* 56(4), 450-470

Bloom, N. 2008. The credit crunch may cause another great depression. *VoxEU*, 8 October 2008.

Bloom, N. 2009 will be the Nightmare on Main Street. *VoxEU*, 18 November 2008.

Alexopoulos, M. and J. Cohen 2008 "Uncertainty and the credit crisis" VoxEU, 23 December 2008

*****Most of the published papers on this list can be downloaded from Jstor and/or the other electronic sources available through the UofT library.