Meetings: Tuesdays 9:00-10:50 AM in 902 International Affairs Building.

Office Hours: Tuesdays, 2-3PM in IAB 1109 or by appointment.

Requirements: The grade will be based on homework assignments, a midterm and a final examination which will be part of the field exam.

Description: This course introduces students to the research frontier on equilibrium business cycle theories and methods for evaluating such theories. The course extends the canonical real business cycle model to analyze models with news-driven short-run fluctuations and models with nominal rigidities. Attention is given to numerical methods to approximate the dynamics implied by stochastic general equilibrium models, with particular emphasis given to perturbation methods. The course will also include an operational introduction to full and limited-information approaches to the estimation of dynamic stochastic general equilibrium models.

Outline of the Material to be Covered

1. Real Business Cycle Theory


Hornstein, Andreas. “Monopolistic competition, increasing returns to scale, and the importance of productivity shocks.” *Journal of Monetary Economics* 31 (June 1993): 299-316.


2. Monetary Models of the Business Cycle


4. The Sources of Aggregate Fluctuations

(a) Neutral Technology Shocks


(b) Investment-Specific Technology Shocks


Justiniano, Alejandro, Giorgio Primiceri, and Andrea Tambalotti. “Investment Shocks and the relative price of investment.” manuscript, Northwestern University, November 2009.

(c) Anticipated Shocks


5. Endogenous Business Cycle Theory


6. The Aggregate Effects of Tax Shocks


7. Anticipation, Cointegration, and Comovement in the Open Economy


