

Workshop I: Business Cycles

For each of the parts below, discuss the questions within your individuals groups. Elect someone to report what your group concludes.

Part I: Working with Macroeconomic Data in Abel and Bernanke Chapter 8 (page 309)

What were your conclusions from questions 1, 3 and 4?

Part II: Article by Kydland and Prescott (1990)

Consider the following questions regarding the paper by Kydland and Prescott (1990).

1. Economic Methodology: What are the merits of :
 - a. Getting stylized facts before developing a theory to explain a set of facts, versus
 - b. Coming up with a theory (or relationship) you think that holds between different variables and then putting that theory to test by exploring that relationship in the data?

Is one approach better than the other? ... Discuss.
2. According to the article, what is the key distinction between Burns and Mitchell's (1946) definition of a business cycle and that by Lucas (1977)? How do the definitions differ?
3. How does Kydland and Prescott's (1990) definition of a business cycle differ from Lucas' (1977)? What is their contribution in this paper over Lucas for business cycle theory?
4. What are the key findings in this paper? Are any of their findings at odds with the literature?
5. What are some of the key assumptions within this paper?