

## Macro Module 9 + 10 Readings

(The attached PDF file has better formatting.)

### Chapter 8: An Equilibrium Business-Cycle Model (Modules 9 and 10)

Business cycles are explained two ways: real business cycles and IS-LM curve analysis. This course covers the real business cycle interpretation.

Pages 129-133 explain trend and standard deviation. You know these terms, and the final exam does not test them. But know how they are used in Barro's analysis. Skip "By the Numbers" on page 177.

Understand the model on page 133-138.

From the section on "Matching the Theory with the Facts" on pages 138-141, know which items are pro-cyclical and which are contra-cyclical. Barro verifies the macroeconomic model with empirical evidence from recessions. The relation of theory with facts is not perfect; know the conclusions that Barro draws. Chapters 15 and 16 use pro- and contra-cyclicalities to test models. When you study Modules 21-24 (chapters 15 and 16), you will come back and review the cyclicalities relations in Modules 9 and 10,

Pages 141-142 deal with changes in technology. Focus on the conclusions in the last two paragraphs in this section on page 142. Most technological changes are long-lasting, not temporary, but they are not permanent.

Read pages 142-147, which deal with changes in the labor supply and labor productivity. Skip "By the Numbers" on page 144. Know the three effects: income effect, substitution effect, and intertemporal substitution effect, and know how they relate to temporary vs permanent changes in the real wage rate. Focus on the conclusions on pages 146-147.

Review Question A.1 on page 148. This topic is covered in the text.

Review Questions B.3 and B.4 on page 148. These topics are covered in the homework assignments.

Review Questions B.5 and B.6 on page 148. These questions change a parameter in the equations.