Overview

In this half course we will study business cycles on the labor market. Recently, there has been a spur of attention in the literature for this topic, of which economists still have remarkably poor understanding. Hall (2007) reviews the type of questions we are interested in for this course:

"Modern recessions hit the U.S. economy in 1990 to 1991 and in 2001. A modern recession is one occurring in an economy with well-executed monetary policy and a low fraction of the labor force on the factory floor. I review the facts about modern recessions and compare them to earlier recessions, with primary emphasis on the labor market. The facts are perplexing - the modern economy undergoes recessions at least as severe as the earlier ones, without any measurable driving forces. Economists’ understanding of the modern causeless recession is at an early stage, but progress has occurred and the future of this area of research seems promising."

The recent interest was spurred by a paper by Robert Shimer in the American Economic Review in 2005, which argues that search and matching models can not explain more than 5% of fluctuations in unemployment. This left the profession with no reasonable model at all of business cycles on the labor market. In 2008, Rob Shimer came to Barcelona to teach the CREI lectures in Macroeconomics, offering his view on the current state of affairs on this important question. In this half course, we will study the CREI lectures in detail and discuss some additional research on empirical evidence, wage rigidity and the Great Moderation.

Course outline and preliminary reading list

1. Introduction


2. Fluctuations in labor input and Real Business Cycle models

Robert Shimer (2009), Labor Markets and Business Cycles, CREI lectures in Macroeconomics, robert.shimer.googlepages.com, chapter 1


*Cyclicality of the labor wedge*

*Elasticity of labor supply*

*Technology shocks as the driving force of business cycles*

3. *Fluctuations in (un)employment, models with search frictions*

Robert Shimer (2009), Labor Markets and Business Cycles, CREI lectures in Macroeconomics, robert.shimer.googlepages.com, chapter 2 and 3

*Unemployment volatility puzzle*

Explanations
Menzio, Guido and Shouyong Shi (2009). Efficient Search on the Job and the Business Cycle, unpublished manuscript

Heterogeneity

4. Data and facts on business cycle fluctuations on the labor market
Cyclicality of the separation rate

Additional stylized facts and other shocks
Barnichon, Régis (2008). The Shimer Puzzle and the Correct Identification of Productivity Shocks, CEP Discussion Papers dp0823

5. Wage rigidity
Robert Shimer (2009), Labor Markets and Business Cycles, CREI lectures in Macroeconomics, robert.shimer.googlepages.com, chapter 4 and 5
Leena Rudanko (2007). Labor Market Dynamics under Long Term Wage Contracting, working paper

Wage rigidity
Empirical evidence on wage rigidity
Christian Haefke, Marcus Sonntag and Thijs van Rens (2008). Wage Rigidity and Job Creation, CREI working paper

6. The Great Moderation