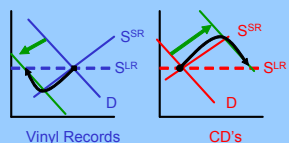


Real Business Cycles



Our Basic Equation

$$\frac{\Delta Y}{Y} \cong \frac{\Delta A}{A} + \alpha \frac{\Delta K}{K} + (1 - \alpha) \frac{\Delta L}{L}$$

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Real Business Cycles

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$$\frac{\Delta A}{A} = \beta + \varepsilon_t$$

Real Business Cycles

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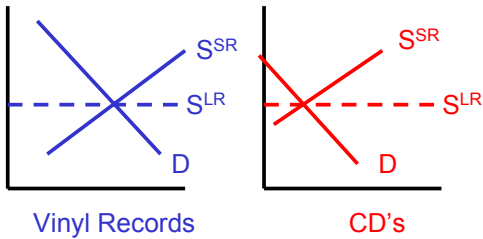
$$\frac{\Delta A}{A} = \beta + \varepsilon_t$$

$$\frac{\Delta A}{A} < 0$$

How can ΔA be negative?

- Sectoral Shifts
- Government Policies

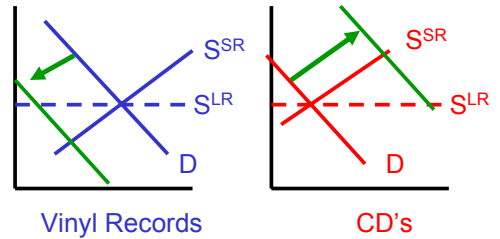
Sectoral Shifts



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Real Business Cycles

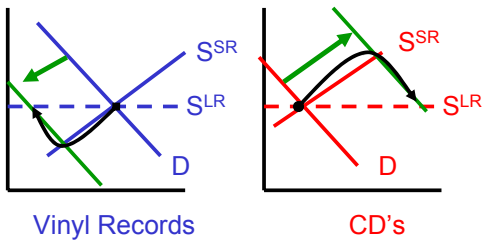
Sectoral Shifts



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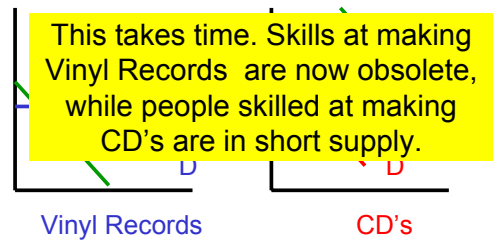
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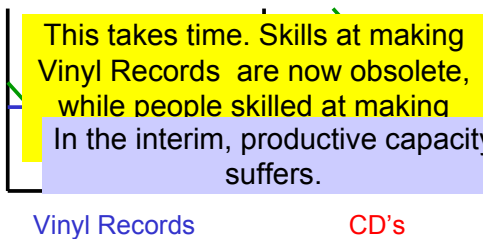
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Real Business Cycles

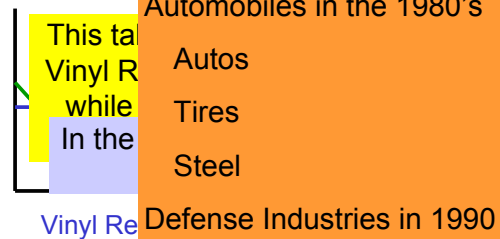
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Real Business Cycles

Sectoral Shifts



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Real Business Cycles

Sectoral Shifts

This ta
Vinyl R
while
Vinyl Re

Automobiles in the 1980's
Autos
Tires

And do not forget the dot-com boom in 2000.

Defense Industries in 1990

Government Policies

- The government adopts...
 - strong environmental policies, regulating what firms can and cannot do.
 - new health and safety requirements.
 - a strong social security program, giving experienced workers an incentive to retire early.

Government Policies

- The government adopts...
 - strong environmental policies, regulating what firms can and cannot do.
 - new health and safety requirements.
 - a strong social security program, giving experienced workers an incentive to retire early.
- All of these policies, however desirable, lower A

End

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