

Quantitative Macroeconomics
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Homework 6, due April 26

Question 1. Solve a business cycle economy

1. Solve the business cycle economy in Cooley and Prescott (1995). Note that this is an economy with only one source generating fluctuations, TFP shocks. Report business cycle moments and IRFs generated by your model. Compare your results with the data.
2. Augment that economy to incorporate investment-specific shocks as in Fisher (2006). Consider these shocks are trend stationary. Discuss your new results. Did your results improve?
3. Augment the economy to incorporate habit persistence as in Boldrin, Christiano, and Fisher (2001). Discuss your new results. Did your results improve?
4. Augment the economy to incorporate the extensive margin of labor as in the benchmark case of Cho and Cooley (1994), and discuss your new results. Did your results improve?