Summary of articles

Nominal inertia in a competitive model with an incomplete capital market, by Torben M. Andersen and Michael Christensen

In an intertemporal model with competitive labour and product markets it is shown how nominal inertia with asymmetrical adjustment of nominal wages and prices may arise even though there are no informational asymmetries between the labour and the product markets. As a consequence, nominal shocks can have real effects. Nominal inertia is in the present setting generated by the interplay between incomplete capital markets and an inability of agents to disentangle temporary from permanent shocks.

Journal of Economic Literature classification numbers : E32, E52.

Internal finance and capital accumulation in a dynamic general equilibrium model with credit constraints, by Henri R. Sneessens and Maria Lucia Stefani

This paper uses a dynamic general equilibrium setup with overlapping generations to provide a better understanding of the causes and consequences of credit constraints resulting from asymmetric information and moral hazard. These constraints imply that the entrepreneur's access to credit is limited by the amount of internal funds available. In a general equilibrium setup, internal funds and the interest rate are endogenous. It is shown that credit constraints have large effects either by redistributing wealth or by changing the equilibrium capital stock, or both. Insofar as the interest rate elasticity of savings is close to zero, the effects on income distribution are likely to be much more important than the effects on output and investment. Even though Pareto improving policies do exist, they seem extremely difficult to implement in practice. Even in our simple setup with no borrower heterogeneity, simple transfers from unconstrained households to finance-constrained entrepreneurs may well fail to lead to Pareto superior outcomes and to eliminate the inefficiencies generated by capital market imperfections, even though they would have a positive impact on aggregate investment and output.

Journal of Economic Literature classification number : E44.

Analytical solutions to an RBC model with imperfect competition, increasing returns and underemployment, by Jean-Pascal Bénassy

We construct in this paper a "benchmark" model of fluctuations withoptimizing households and firms. The economy is a monetary one, withimperfect competition in goods and labor markets, as well as increasingreturns to scale and specialization. This economy is subject totechnological and monetary shocks. Analytical solutions are derived, whichallow to understand the respective roles of imperfect competition andincreasing returns in generating underemployment of resources and potentialpersistence effects.

Journal of Economic Literature classification numbers : E32, D43.

Participation, unemployment and wage bargaining in a real business cycle model, by François Langot and Muriel Pucci

The objective of this article is to evaluate quantitative implications of the hypothesis of matching, with endogenous participation, in the framework of a real cycle model. The choice of participation results from a trade off between domestic production and search for a job. Thus, fluctuations of the unemployment summarise the flows in and out of the labour force. Moreover, in this model, unemployment fluctuations are not Pareto optimal as in Andolfatto [1966] and Merz [1995]. Results of the simulations show how it is possible to explain some stylised facts of the American labour market when flows on this market are so clarified.

Journal of Economic Literature classification numbers : D58, E32, J41.

Fiscal policies, public deficit restraints and European stabilization, by Frédérique Bec and Jean-Olivier Hairault

The ability of fiscal policies to smooth macroeconomic fluctuations under the constraints imposed by the Maastricht Treaty is at the heart of the current policy debate in Europe. A two-country intertemporal stochastic general equilibrium model is used in order to evaluate the efficiency of fiscal policy. First, it reveals the importance of the nature of the shocks hitting European countries : asymmetrical shocks actually strengthen the national fluctuations. Then, constraints on public deficit imposed by the Maastricht Treaty limit the ability of national governements to stabilize their economies. Furthermore, they can lead the european countries to adopt pro-cyclical budget rules.

Journal of Economic Literature classification numbers : F41, H87, E32.

Big shock, slow growth and the dynamics of aggregate labour demand with firing costs, by Marianne Chambin and Franck Portier

This paper studies the dynamic properties of the labour demand model with non convex adjustment costs proposed by Bentolila and Bertola [1990]. With this model we evaluate the importance of the firing costs, following a great shock, for the dynamics of adjustment of the aggregated labour demand of a stationary state to an other. The model is calibrated on the French economy, and studies the transition following the shock of 1973-74,–*i.e.* a shock on the price of oil as well as the transition from a rapid and stable growth to a slow and uncertain one. We show that in this case, a drastic reduction of the firing costs when the shock occurs does not allow to modify substantially the path of the economy.

Journal of Economic Literature classification numbers : J23, E27.

Liquidity constraints and time non-separable preferences, by Jérôme Adda and Raouf Boucekkine

We present an intertemporal model of consumption and savings incorporating liquidity constraints and non separable preferences. We solve the problem numerically and characterize the optimal consumption behavior. We explore the traditional puzzles highlighted in the empirical literature as excess smoothness of consumption, its excess sensitivity to current income and its excess persistence. We show that a model with durability and liquidity constraints is able to reproduce some of the stylized facts. Next we show that some of the econometric tests are not robust and can mistake liquidity constraints for habit formation. Hence previous results establishing habit formation on US data should be interpreted with caution.

Journal of Economic Literature classification numbers : D91, E21,C63.

Stochastic implications of the life cycle consumption model under rational habit formation, by Carlo C.A. Winder and Franz C. Palm

Hall [1978] showed that the life cycle consumption hypothesis implies a first order autoregressive process for the marginal utility of consumption. This paper extends his results by showing that an appropriate pattern of rational habits will lead to an arbitrary autoregressive integrated moving average (ARIMA) process for consumption. Since the framework allows for consumption of durable goods, the analysis extends the results of Mankiw [1982]

Journal of Economic Literature classification numbers : B22, D12, C32.

Can animal spirits explain the dynamics of European unemployment ?, by Patrick Fève and François Langot

We estimate a model with equilibrium unemployment explained by a search process on the labor market. We find that the matching function

has increasing returns to scale and we show that this model may display fluctuations at business cycle frequencies even when there are no shocks to the fundamentals of the economy. In particular, self-fulfilling beliefs, or "animal spirits", can explain the fluctuations around the Beveridge curve observed in the French, German and U.K. economies.

Journal of Economic Literature classification numbers : C52, C51, E32.