

ECON 4325, Spring 2009, Seminar 6

- 1) Exercise 6.2 in Gali
- 2) Explain briefly what the Taylor principle is. Is there a corresponding condition when both prices and wages are sticky? If yes, explain briefly what it is.
- 3) Explain the concept “the inefficiency gap” used by Gali, Gertler and Lopez-Salido. Explain the difference between efficient and inefficient business fluctuations. Explain how the welfare costs of a recession depend on to what extent the steady state of the economy is distorted. Discuss also briefly other costs of business fluctuations not considered in Gali, Gertler and Lopez-Salido’s formal analysis.