

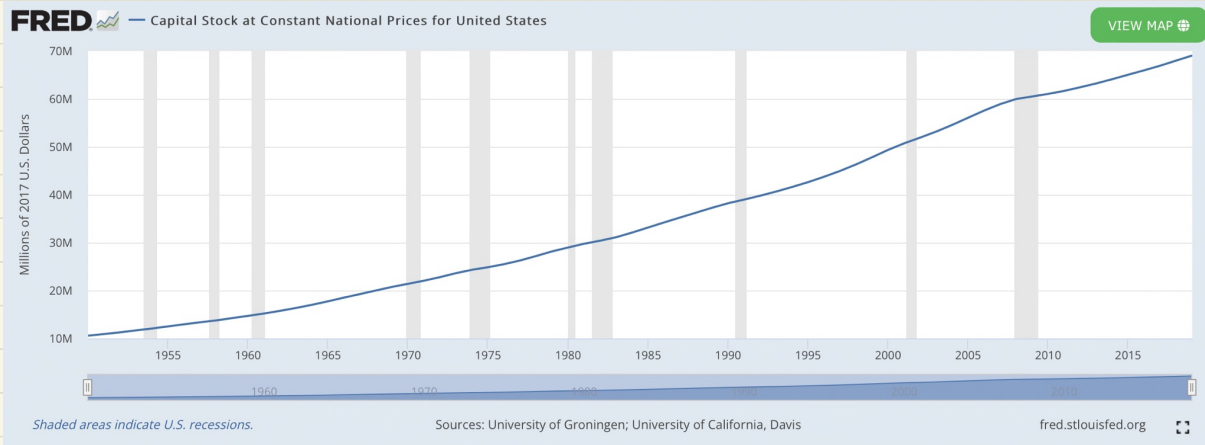
Household's Production Function

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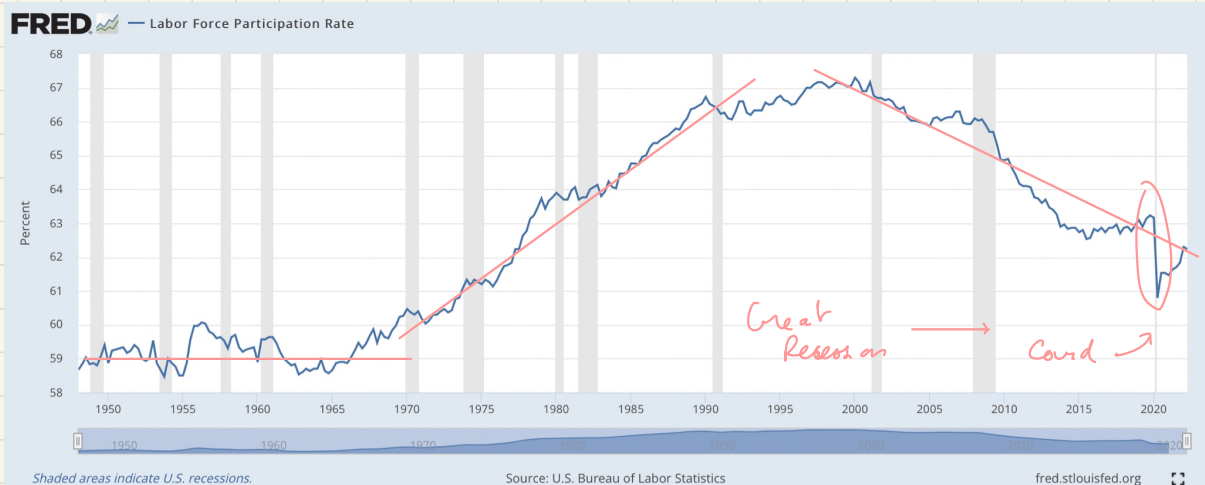


How much does capital stock vary over the business cycle?

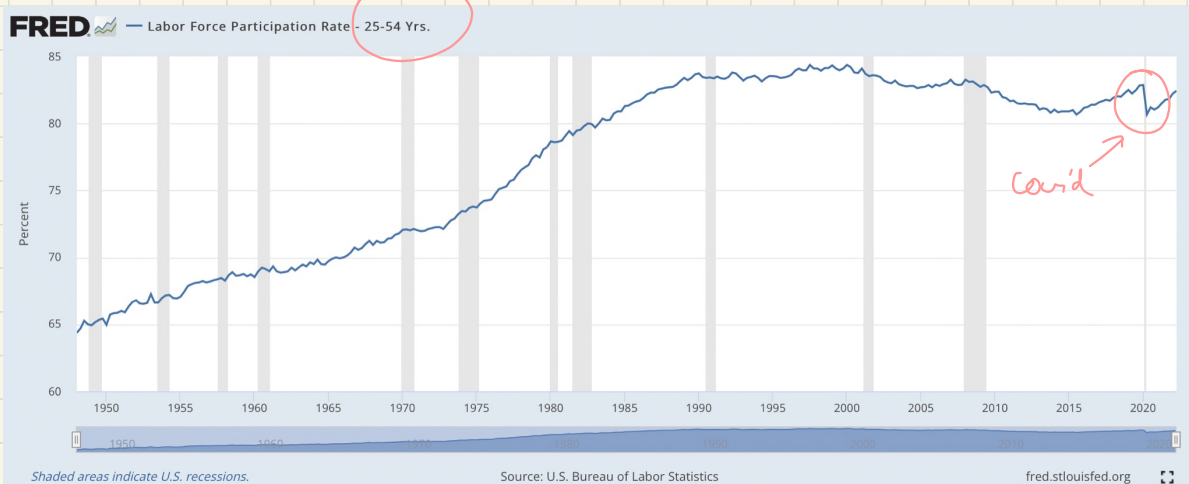


→ capital stock is unaffected by recessions
and business cycle
→ assume constant capital stock
(& constant technology)

How much does labor supply vary over the business cycle?



→ labor supply is fairly acyclical
clean out demographic forces



→ Labor supply is acyclical

→ Assume that labor supply is fixed.

Summary

- Fixed technology
- Fixed capital stock
- Fixed labor supply
- Fixed productive capacity R

→ Amount of services that household can produce, and sell to other households