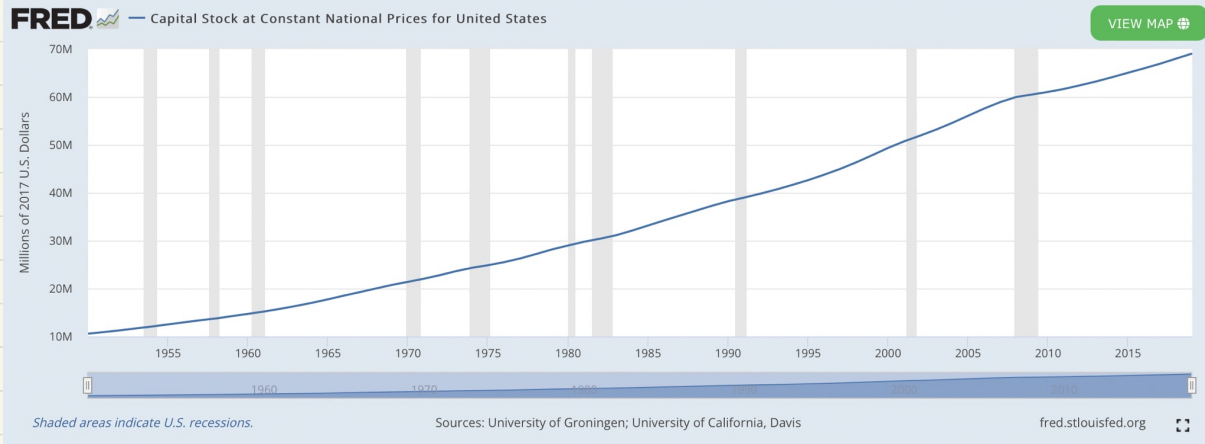


Household's Production Function

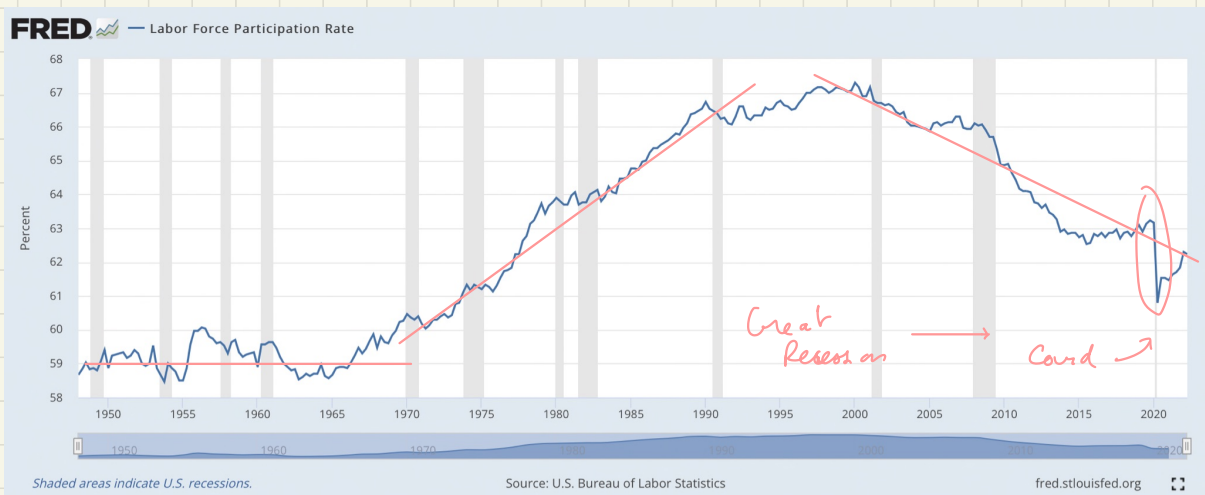
Pascal Michailat
<https://pascalmichailat.org/c2/>

How much does capital stock vary over the business cycle?

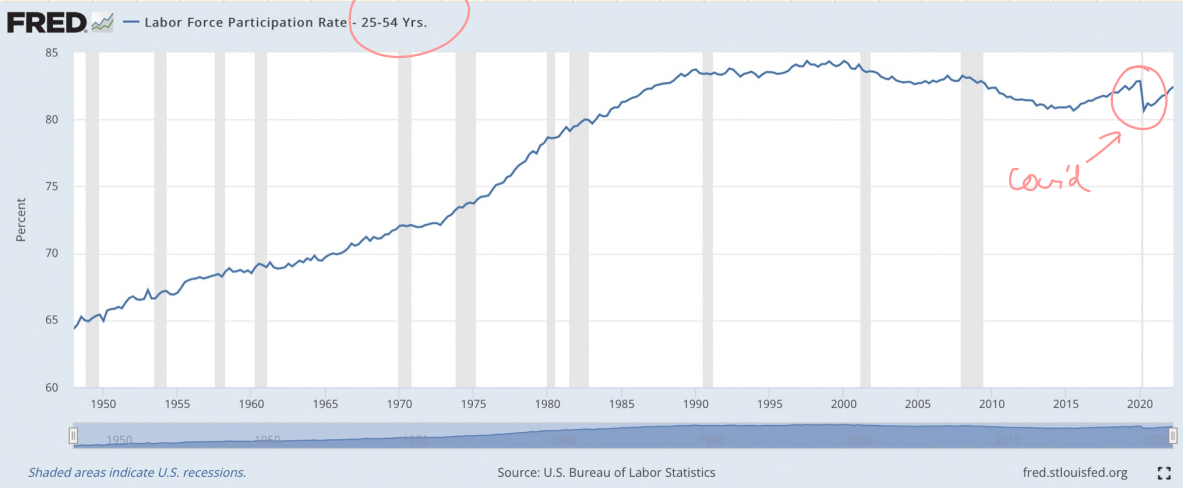


- capital stock is unaffected by recessions and business cycle
- assume constant capital stock (& constant technology)

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