
Art, Science, and the Impact of RBC Models in Economic History

Alexander Field*^{†1}

¹Department of Economics, Santa Clara University – United States

Abstract

Thirty years have now elapsed since Larry Summers judged that "real business cycle models of the type urged on us by Prescott have nothing to do with the business cycle phenomena observed in the United States or other capitalist economies." In 2004 Kydland and Prescott won the Nobel Prize in economics, and their work has encouraged new methods and objectives for macroeconomic research and new standards for explanation and model evaluation, inspiring some economists and economic historians and provoking others. This paper considers the impact of RBC theory in macroeconomics and macroeconomic history, and asks, in light of what has transpired, whether Summers' evaluation should be challenged, modified, or overturned. The paper concludes that economic historians have been justified in their limited attention to real business cycle theory. We should remain aware of the unusual evaluative methods it employs and the damage the spread of RBC empirical tools has done to our understanding of the macroeconomy. Although the more radical claims of RBC proponents have been widely rejected, the diffusion of favored statistical tools, in particular the HP filter, has damaged our ability to think about and formulate policy, in particular by corrupting our understanding of output gaps, and how we measure them.

*Speaker

[†]Corresponding author: afield@scu.edu