



International Finance Discussion  
Papers: Why is Productivity  
Procylical? Why Do We Care

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# International Finance Discussion Papers: Why Is Productivity Procylical? Why Do We Care

By John G Fernald, Susanto Basu

Bibliogov, United States, 2013. Paperback. Book Condition: New. 246 x 189 mm. Language: English . Brand New Book \*\*\*\*\* Print on Demand \*\*\*\*\*. Productivity rises in booms and falls in recessions. There are four main explanations for procyclical productivity: (i) procyclical technology shocks, (ii) widespread imperfect competition and increasing returns, (iii) variable utilization of inputs over the cycle, and (iv) resource reallocations. Each of these explanations has important implications for macroeconomic modeling. In this paper, we discuss empirical methods for assessing the importance of these explanations. We provide microfoundations for our preferred approach of estimating a first-order approximation to the production function, using a theoretically motivated proxy for utilization. When we implement this approach, we find that variable utilization and resource reallocations are particularly important in explaining procyclical productivity. We argue that the reallocation effects that we identify are not biases - instead, they reflect changes in an economy's ability to produce goods and services for final consumption from given primary inputs of capital and labor. Thus, from a normative viewpoint, reallocations are significant for welfare, and from a positive viewpoint, they constitute potentially important amplification and propagation mechanisms for macroeconomic modeling.



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