

**ECO 313, Fall 2017, Required Homework Assignment #2**  
**Due at 9:30 AM on October 3**

This assignment covers the material from the following paper, as well as the two comments that are available on the reading list:

Leamer, Ed. 2007. "Housing is the Business Cycle," *Proceedings, Federal Reserve Bank of Kansas City*, 149-233.

Now answer the following questions. Be brief, one or two concise paragraphs per question should be more than enough.

1. Why does Leamer make the claim in the title that "Housing is the Business Cycle?"
2. Why does Leamer discuss the "abnormal" contributions of sectors such as housing to GDP growth?
3. What is meant by "false positive?" Do their existence disprove Leamer's main point?
4. What is meant by "false negative?" Do their existence disprove Leamer's main point?
5. Do you find the paper persuasive?

Several years have now passed since Leamer wrote this paper. This will allow us to gather new data and test Leamer's hypothesis *out of sample*. By out of sample, I mean that the data was not available when he formed and initially tested his theory.

6. The St. Louis Fed's FRED database is an extraordinary reserve of macroeconomic data. Go there, collect, and plot data on real GDP growth, real consumption, and residential investment since 2007. Provide your graph.
7. Explain why you chose the specific measures of these variables that you did.
8. Does your graph from #6 support Leamer's argument?