

Labor Adjustment Costs and Complex Eigenvalues

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Abstract

Aggregate fluctuations display both persistence and damped oscillations in response to transitory shocks. The standard Real Business Cycle model cannot explain these patterns, because its stable eigenvalues are positive and real. We demonstrate that this model with labor adjustment costs can yield complex eigenvalues. Numerical experiments illustrate this results but they suggest that the imaginary part of the eigenvalues remains insufficiently large compared to the real one. However, the paper shows that labor adjustment costs can potentially improve the dynamic properties of a standard RBC model.

Keywords : Labor adjustment costs, Business cycle model, Complex eigenvalues.

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