

Abstract

This paper contains a short history of business cycle theory. It is argued that in the course of time the emphasis shifted from a mainly exogenous to a mainly endogenous explanation of the cycle. After the integration of the two approaches in the so-called impulse and propagation theory, the balance kept shifting between an emphasis on endogenous propagation mechanism (Keynesians), the exogenous impulse mechanism (New Classical) and back again to the propagation mechanism (New Keynesians). The shifts in emphasis in theory are accompanied by changes in the perceived window of opportunity for economic policy.