

# 1 Figures

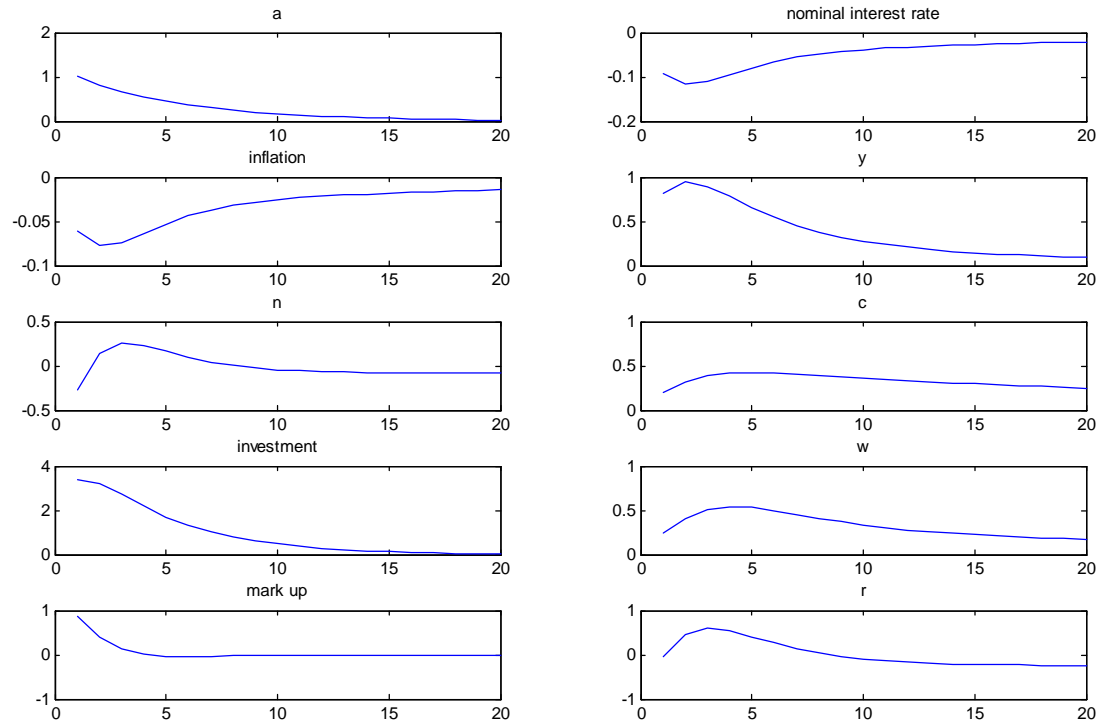


Figure 1: technology shock

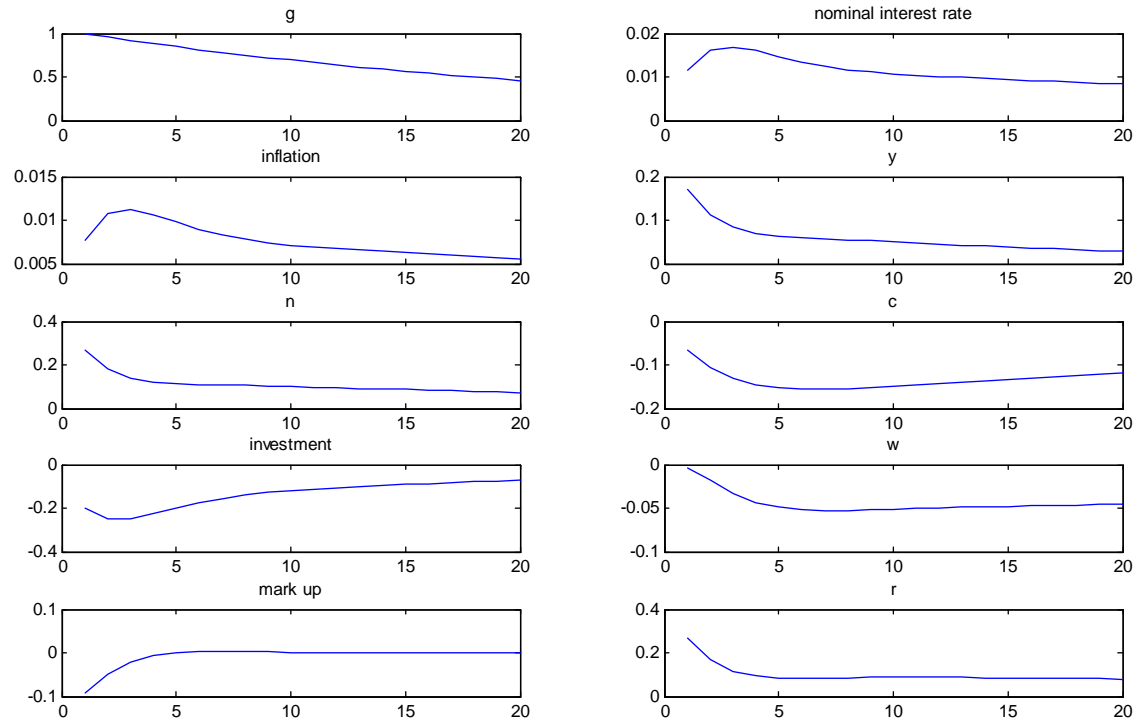


Figure 2: government shock

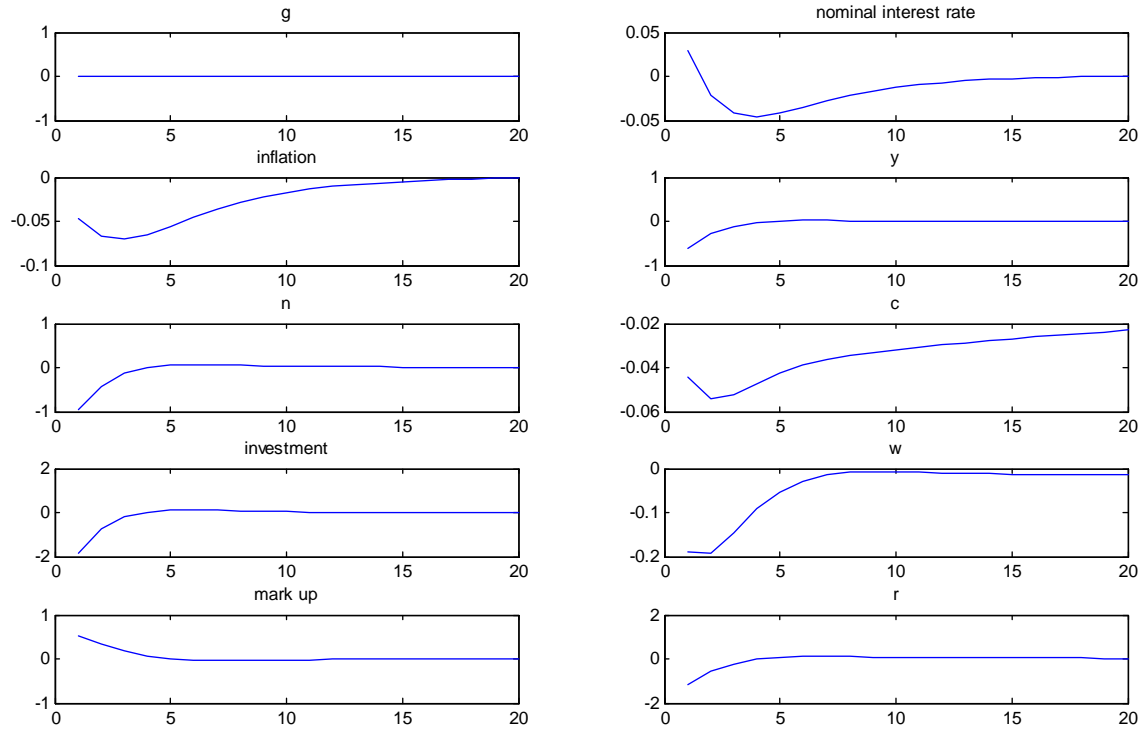


Figure 3: monetary shock

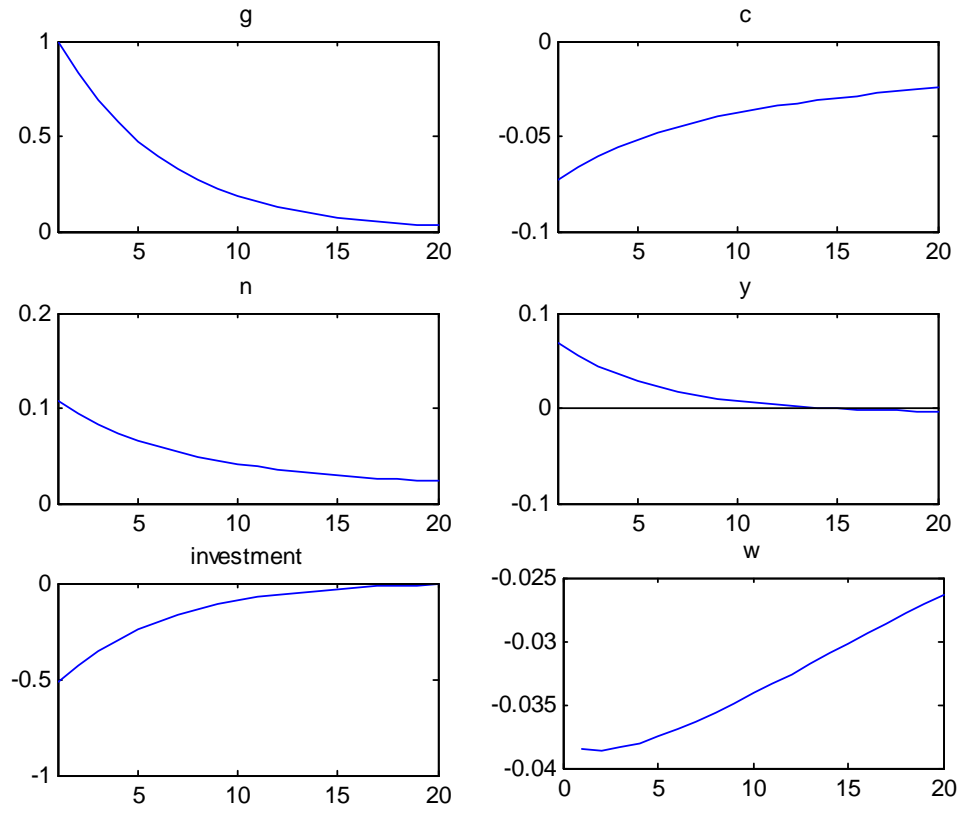


Figure 4

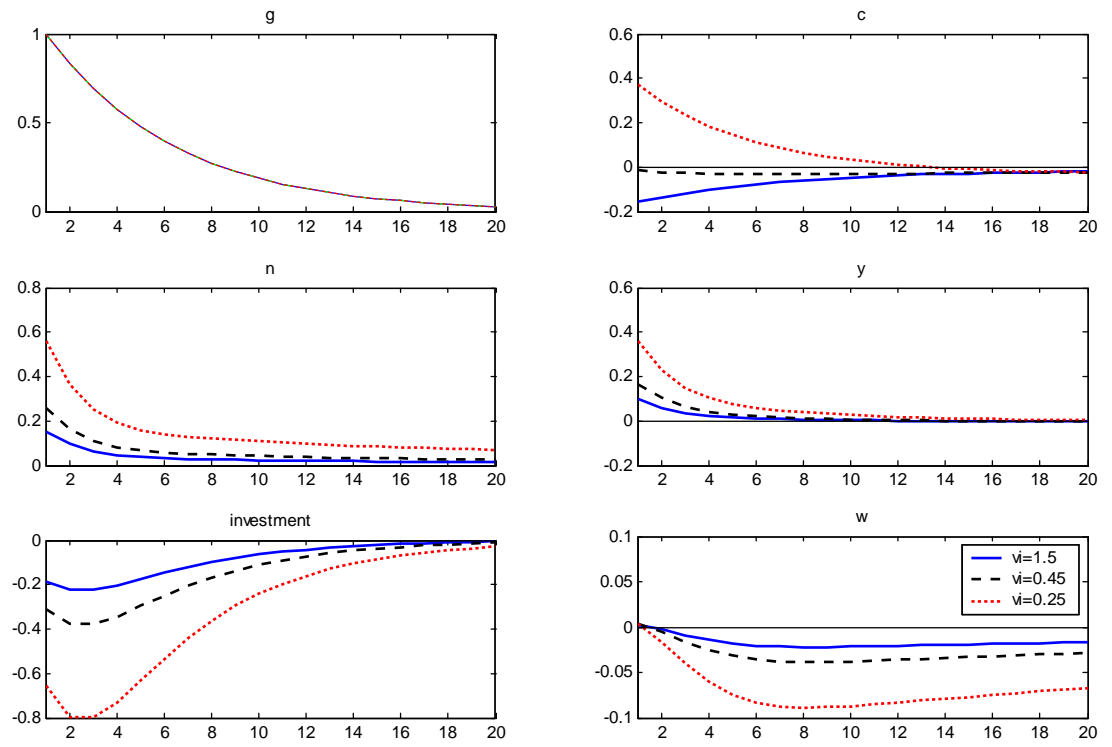


Figure 5

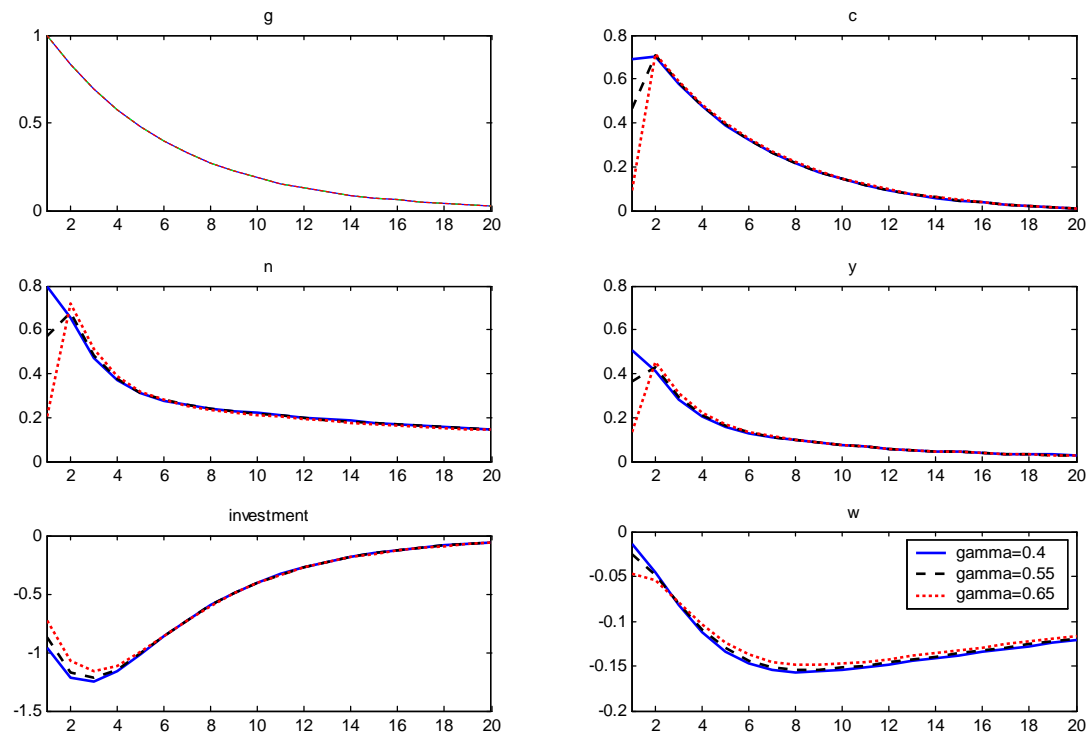


Figure 6

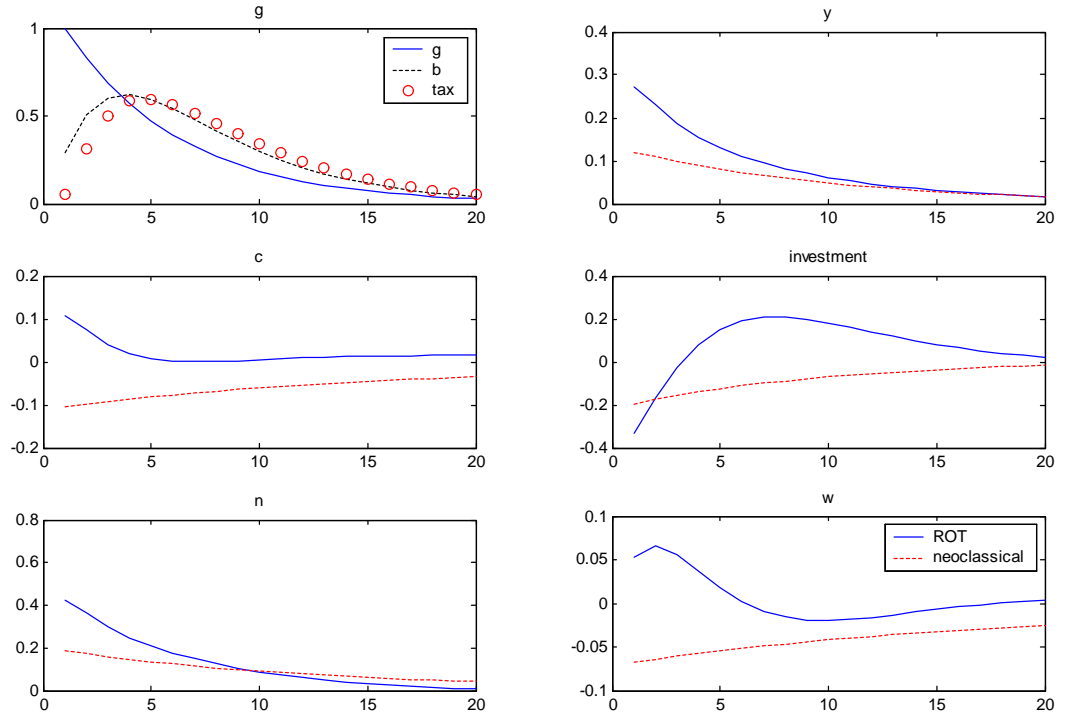


Figure 7

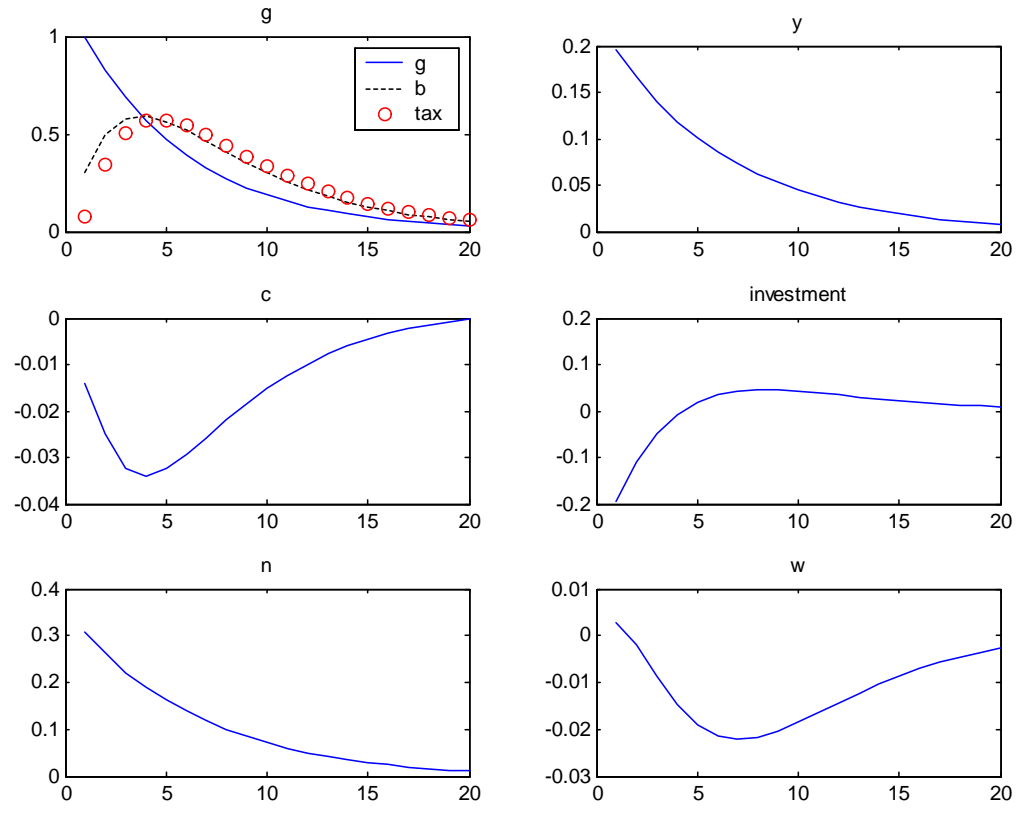


Figure 8

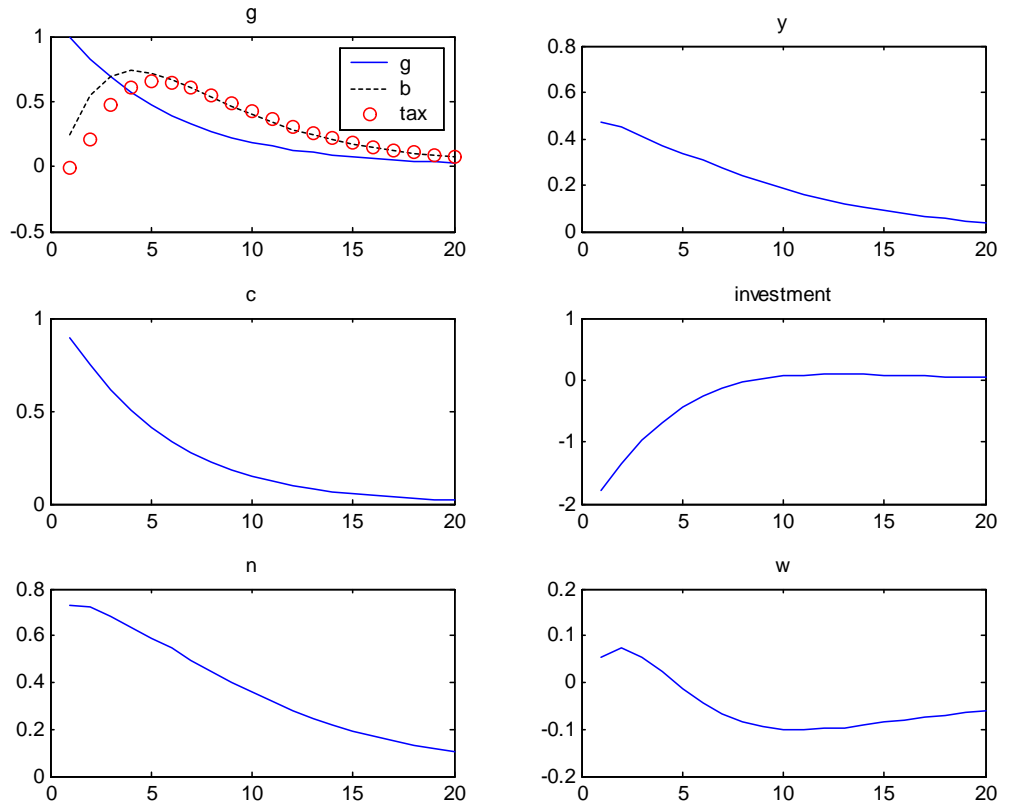


Figure 9

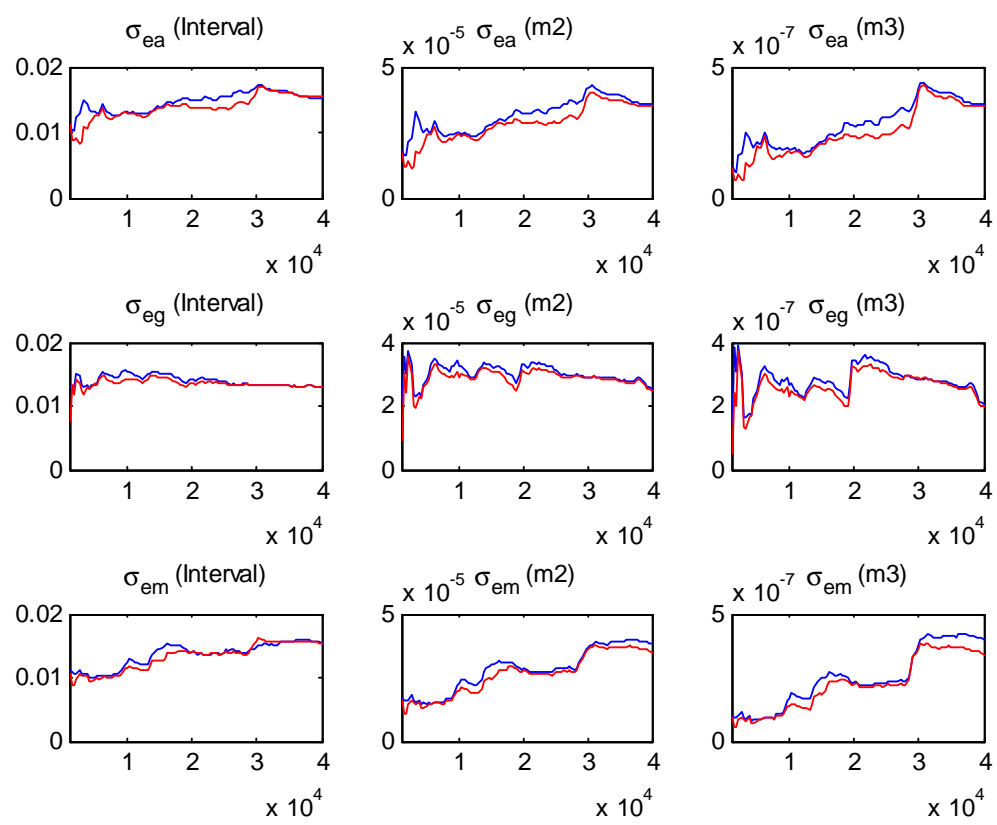


Figure 10: MCMC univariate diagnostic (Brooks and Gelman, 1998)

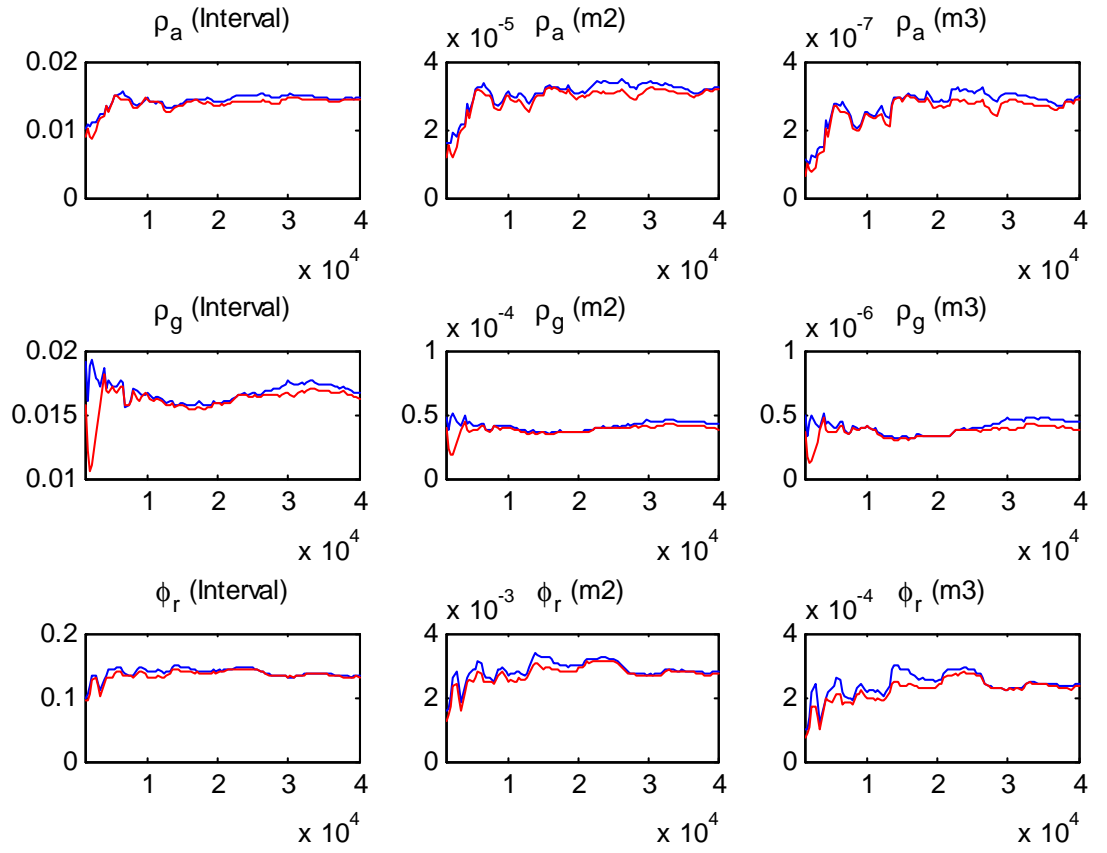


Figure 11: MCMC univariate diagnostic (Brooks and Gelman, 1998)

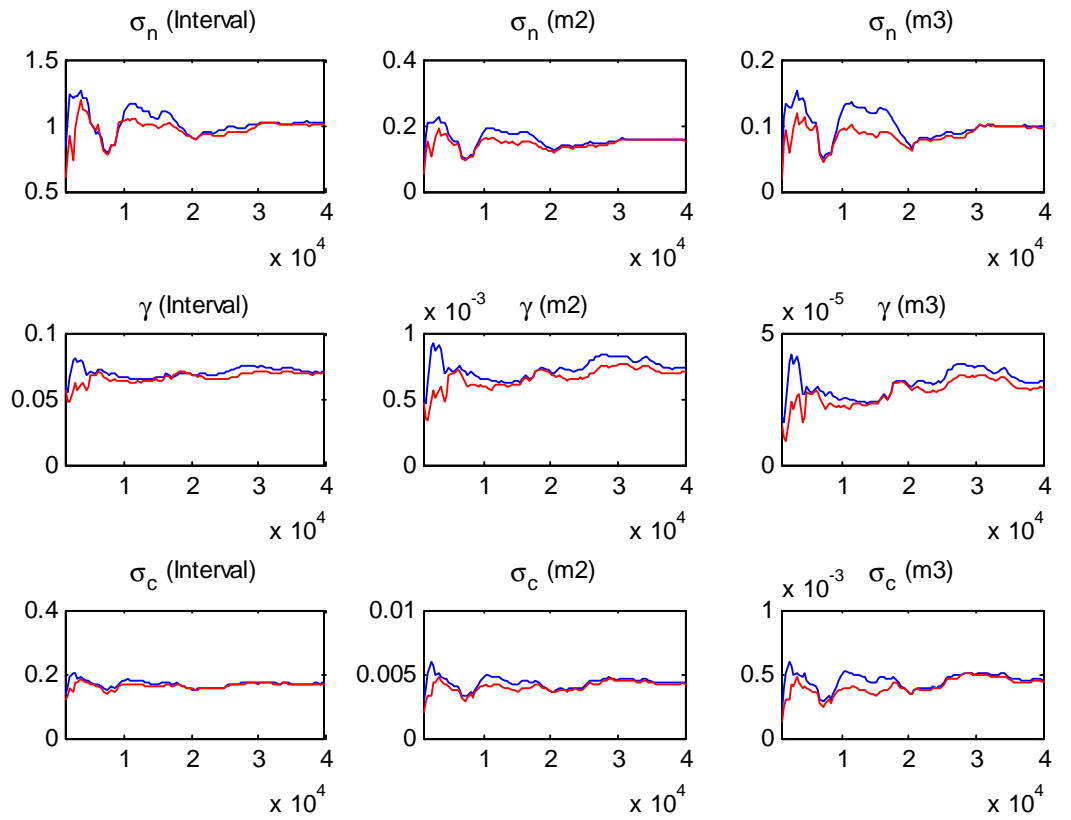


Figure 12: MCMC univariate diagnostic (Brooks and Gelman, 1998)

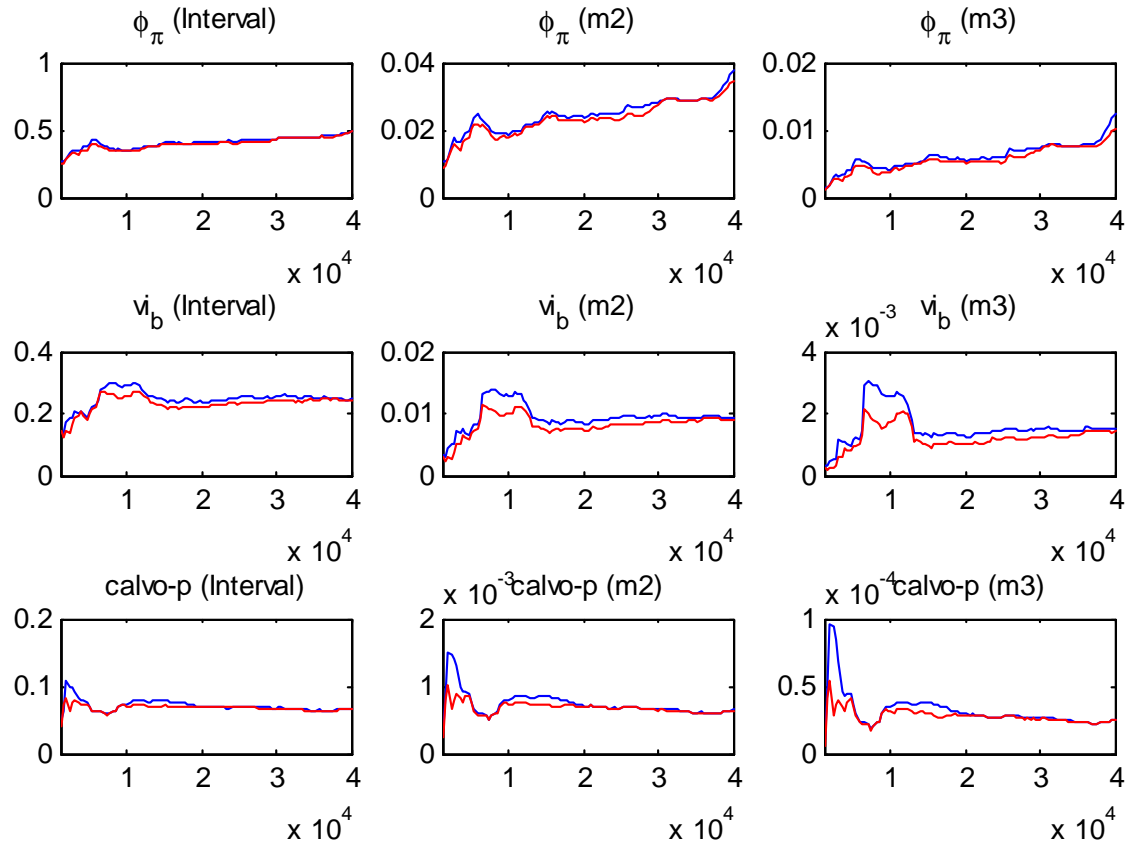


Figure 13: MCMC univariate diagnostic (Brooks and Gelman, 1998)

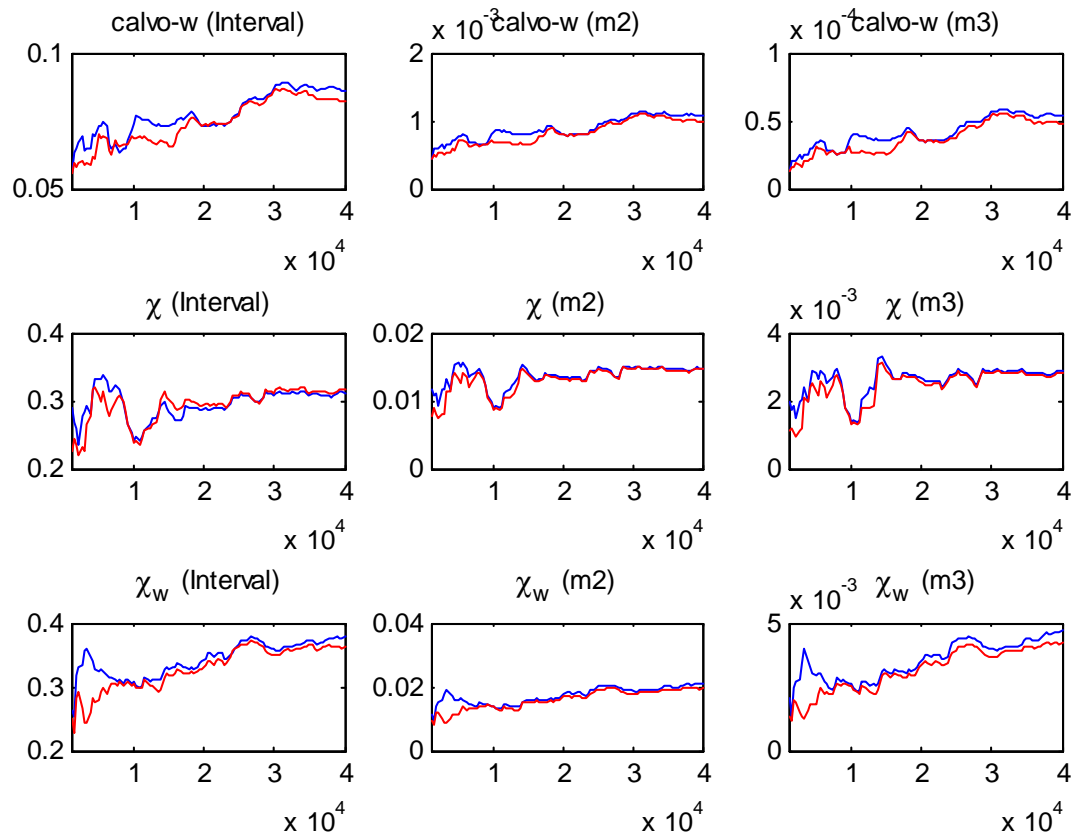


Figure 14: MCMC univariate diagnostic (Brooks and Gelman, 1998)

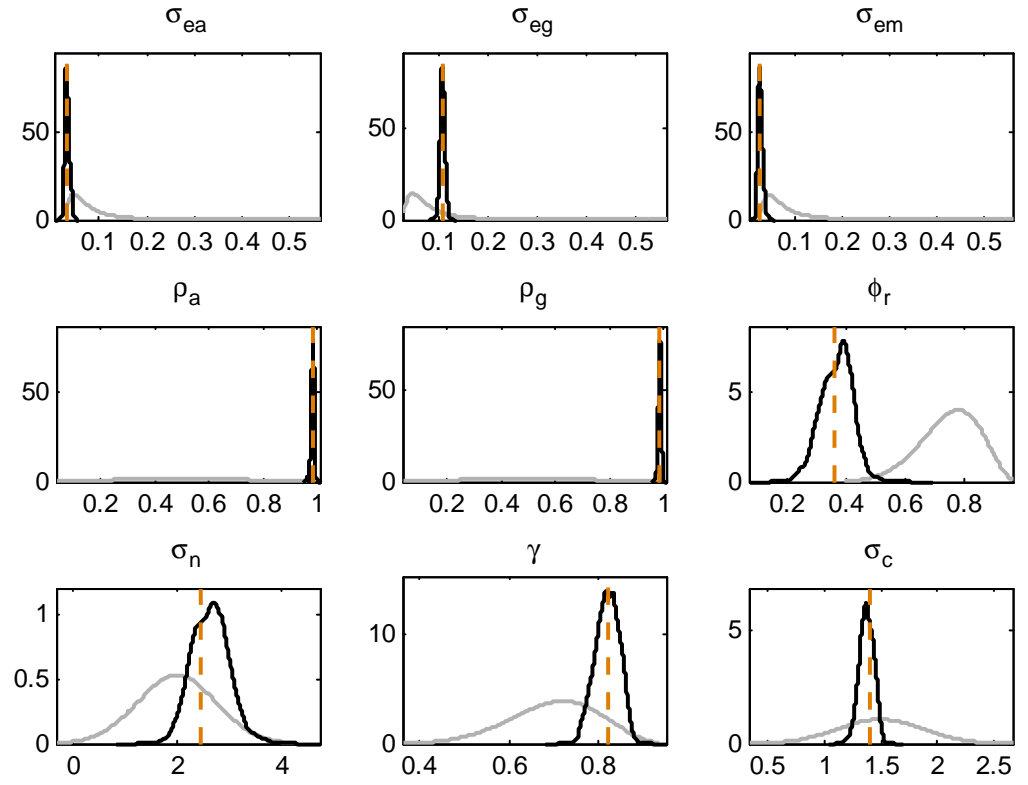


Figure 15: Priors and Posteriors

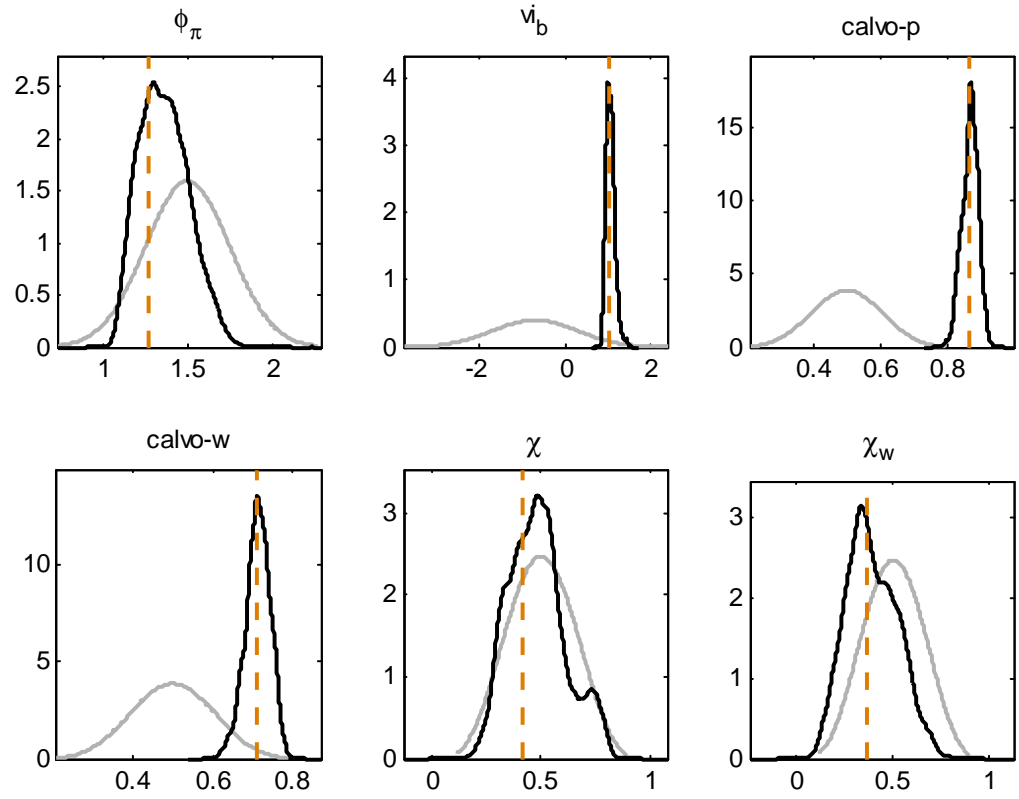


Figure 16: Priors and Posteriors

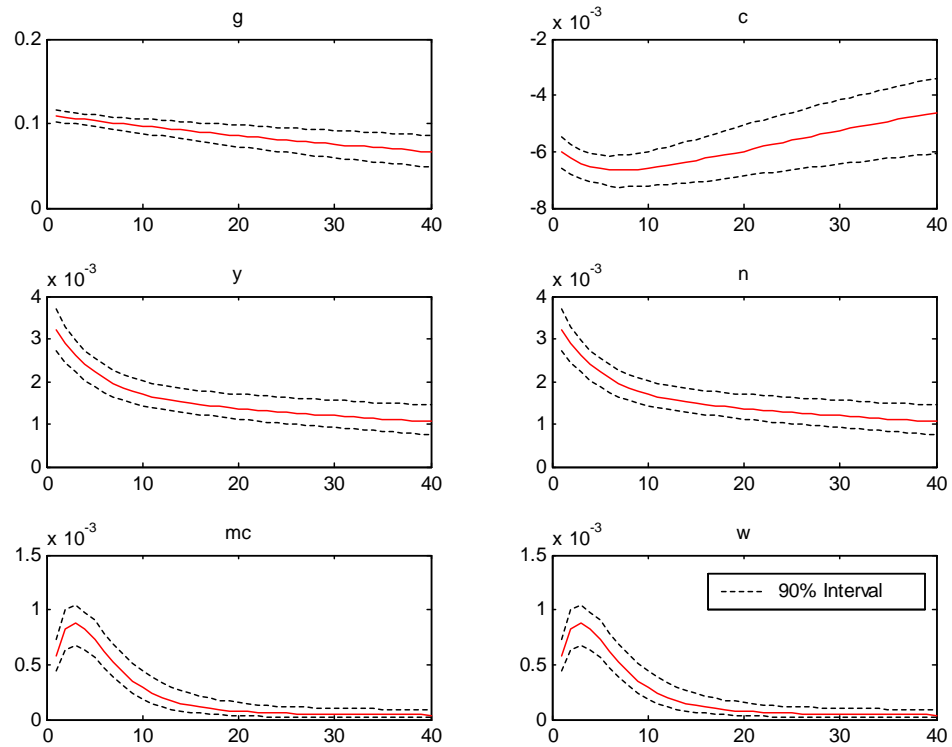


Figure 17: Bayesian IRF (one standard deviation shock)

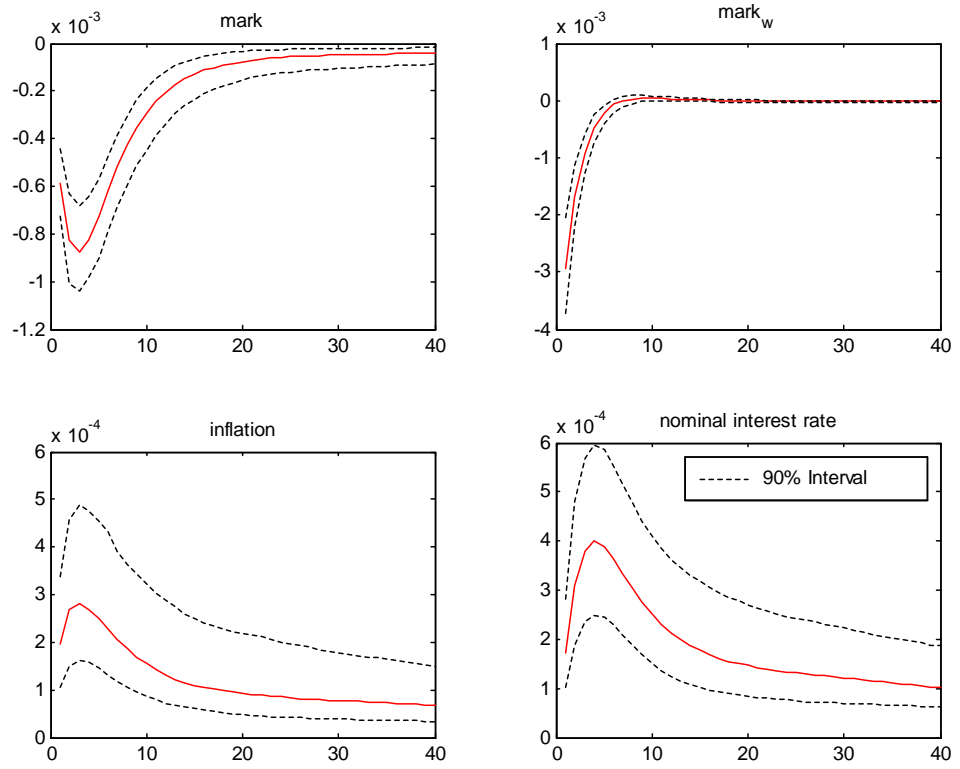


Figure 18: Bayesian IRF (one standard deviation shock)

## 2 Tables

**Table 1**

<b>Symbol</b>	<b>Value</b>	<b>Description</b>
$\omega$	0	Fraction of non Ricardian households
$\phi$	1	Weight of private consumption in the effective consumption index
$\beta$	0.9926	Subjective discount factor
$\alpha$	0.36	Share of capital in added value
$\Phi$	0.0592	Fixed cost parameter
$\delta$	0.025	Depreciation rate
$\eta$	4	Price-elasticity of demand for a specific good variety
$\tilde{\eta}$	21	Wage-elasticity of demand for a specific labor variety
$1 - \xi_p$	0.2	Fraction of firms setting prices optimally each quarter
$1 - \xi_w$	0.36	Fraction of labor markets setting wages optimally each quarter
$\gamma$	0.65	Degree of habit persistence
$\sigma_c$	2	Preference parameter - elasticity of consumption
$\sigma_n$	1	Preference parameter - elasticity of labor
$\psi$	9.0255	Preference parameter
$\kappa$	4	Parameter governing investment adjustment costs
$\chi$	1	Degree of price indexation
$\tilde{\chi}$	1	Degree of wage indexation
$\gamma_1$	0.0324	Parameter governing capacity adjustment costs
$\gamma_2$	0.000324	Parameter governing capacity adjustment costs
$\pi$	1	Gross inflation target
$a$	1	Steady state value of technology shock
$\rho_a$	0.97	Serial correlation of the log of the technology shock
$G/Y$	0.2041	Steady state value of government spending
$\rho_g$	0.96	Serial correlation of the log of government spending
$\phi_\pi$	1.5	Monetary policy parameter

**Table 2**

Symbol	Value	Description
$\omega$	0.5	Fraction of non Ricardian households
$\phi$	1	Weight of private consumption in the effective consumption index
$\beta$	0.99	Subjective discount factor
$\alpha$	0.36	Share of capital in added value
$\Phi$	0.0413	Fixed cost parameter
$\delta$	0.025	Depreciation rate
$\eta$	4	Price-elasticity of demand for a specific good variety
$\tilde{\eta}$	21	Wage-elasticity of demand for a specific labor variety
$1 - \xi_p$	0.2	Fraction of firms setting prices optimally each quarter
$1 - \xi_w$	1	Fraction of labor markets setting wages optimally each quarter
$\gamma$	0	Degree of habit persistence
$\sigma_c$	1	Preference parameter
$\sigma_n$	0.2	Preference parameter
$\phi$	1	Preference parameter - Share of private consumption
$v$	0.33	Preference parameter
$\psi^o$	2.1762	Preference parameter
$\psi^r$	6.7946	Preference parameter
$\chi$	0	Degree of price indexation
$\tilde{\chi}$	0	Degree of wage indexation
$\kappa$	4	Parameter governing investment adjustment costs
$\gamma_1$	0.0351	Parameter governing capacity adjustment costs
$\gamma_2$	0.0709	Parameter governing capacity adjustment costs

**Table 2, cont'ed**

Symbol	Value	Description
$\phi_r$	0	Monetary policy parameter
$\phi_\pi$	1.5	Monetary policy parameter
$\phi_b$	0.33	Fiscal policy parameter
$\phi_g$	0.1	Fiscal policy parameter
$\tau$	0	Discretionary taxation
$\pi$	1	Gross inflation target
$a$	1	Steady state value of technology shock
$\rho_a$	0.82	Serial correlation of the log of the technology shock
$\frac{g}{Y}$	0.2	Steady state share of government spending on GDP
$\rho_g$	0.91	Serial correlation of the log of government spending
$i$	$\frac{1}{\beta} = 1.0101$	Steady state value of gross interest rate

**Table 3**

	Prior distribution			Posterior distribution			
	Distr.	Mean	St. Dev.	Mode	Mean	5%	95%
$\sigma_a$	<i>Invgamma</i>	0.10	2.00	0.0341	0.0341	0.0256	0.0411
$\sigma_g$	<i>Invgamma</i>	0.10	2.00	0.1087	0.1089	0.0995	0.1160
$\sigma_m$	<i>Invgamma</i>	0.10	2.00	0.0258	0.0278	0.0185	0.0344
$\rho_a$	<i>Beta</i>	0.50	0.20	0.9838	0.9840	0.9762	0.9926
$\rho_g$	<i>Beta</i>	0.50	0.20	0.9873	0.9849	0.9780	0.9949
$\sigma_c$	<i>Normal</i>	1.50	0.25	1.3972	1.3980	1.1269	1.5929
$\sigma_n$	<i>Normal</i>	2.00	0.75	2.4438	2.6237	2.0458	3.1906
$\gamma$	<i>Beta</i>	0.70	0.10	0.8220	0.8231	0.7761	0.8625
$v$	<i>Normal</i>	0.70	1.00	1.0394	1.0613	0.8986	1.2232
$\xi_p$	<i>Beta</i>	0.50	0.10	0.8617	0.8657	0.8216	0.9006
$\xi_w$	<i>Beta</i>	0.50	0.10	0.7083	0.7159	0.6637	0.7631
$\chi$	<i>Beta</i>	0.50	0.15	0.4130	0.4638	0.2750	0.7121
$\tilde{\chi}$	<i>Beta</i>	0.50	0.15	0.3647	0.3932	0.1758	0.5983
$\phi_\pi$	<i>Normal</i>	1.50	0.25	1.2666	1.3980	1.1269	1.5929
$\phi_r$	<i>Beta</i>	0.75	0.10	0.3641	0.3775	0.2833	0.4528