1 Figures

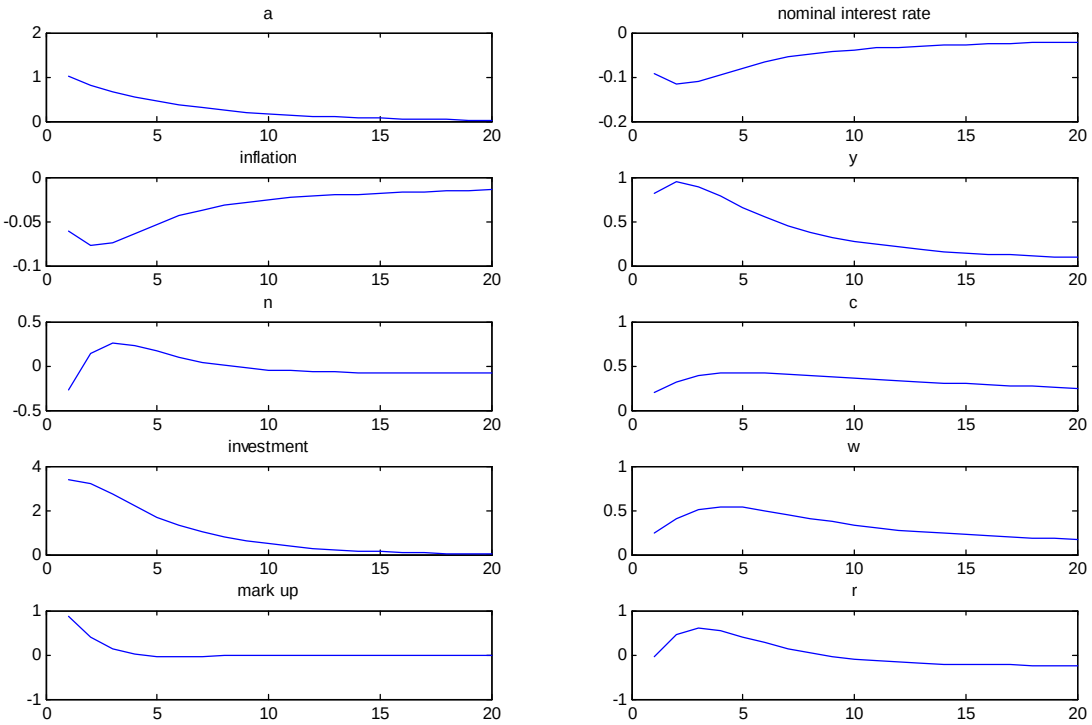


Figure 1: technolgy shock

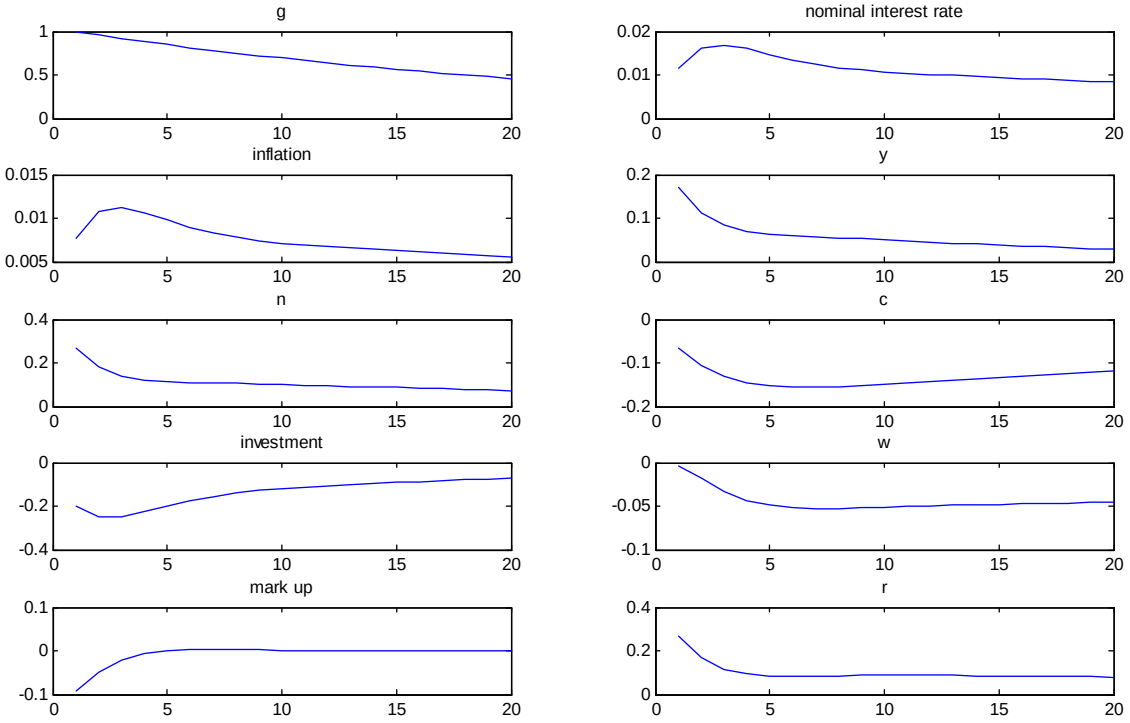


Figure 2:government shock

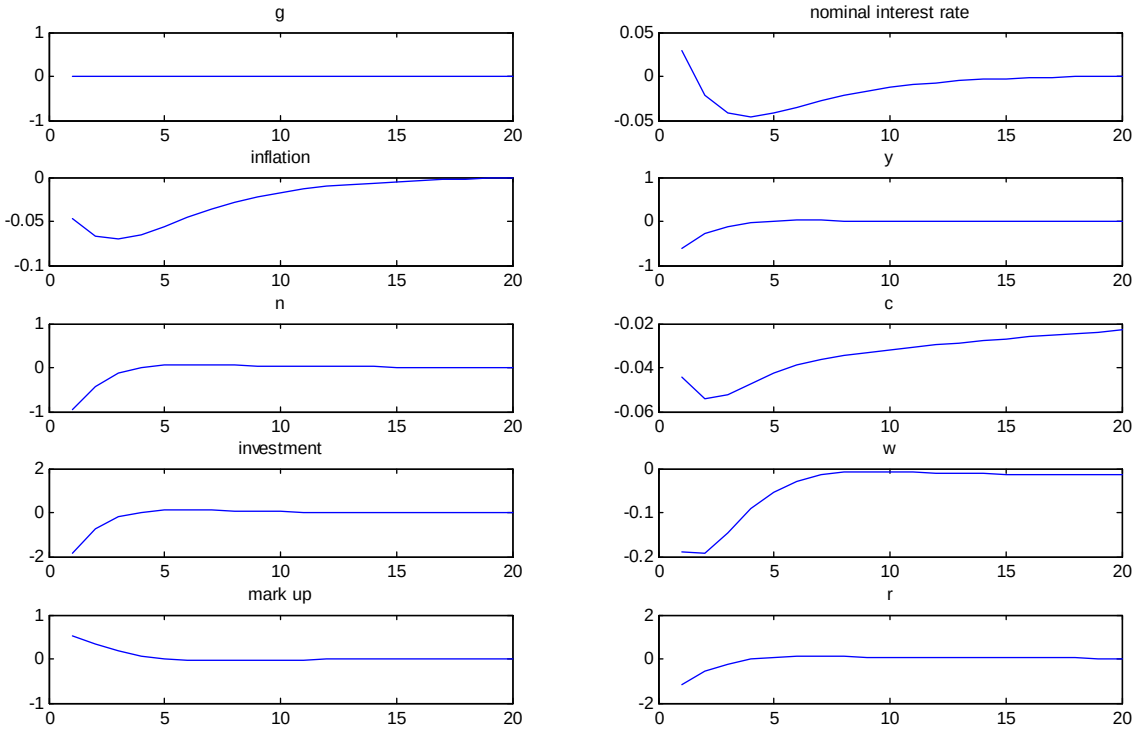
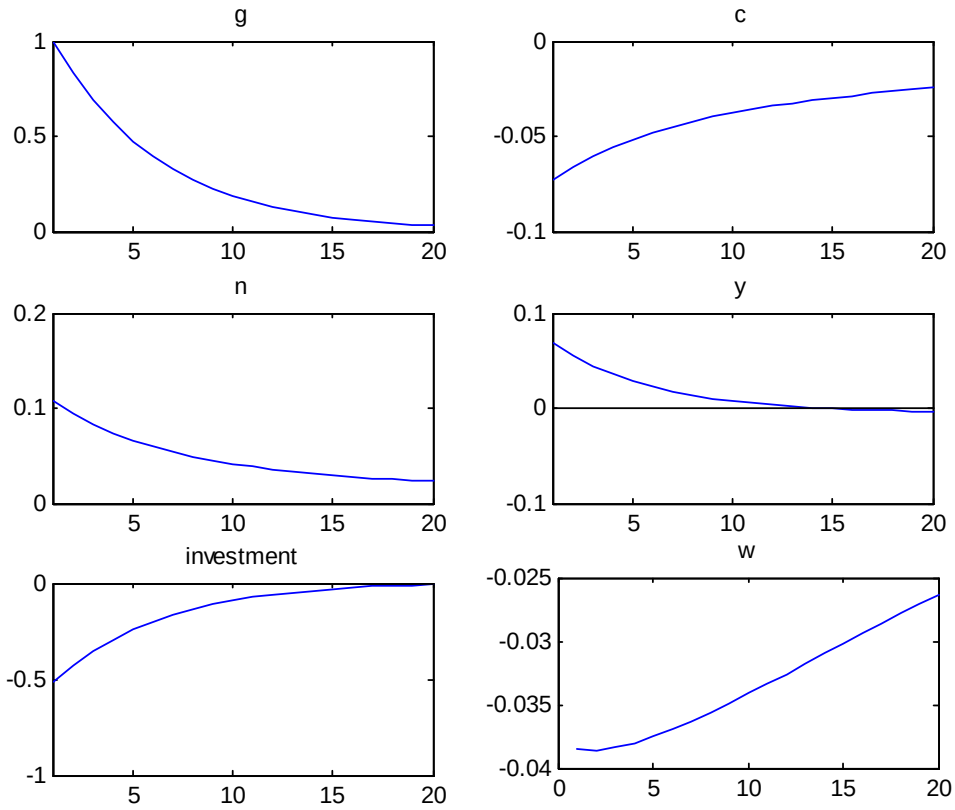


Figure 3: monetary shock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0
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10
15
20
c
0
-0.05
-0.1
5
10
15
20
n
0.2
0.1
0
5
10
15
20
y
0.1
0
-0.1
5
10
15
20
investment
0
-0.5
-1
5
10
15
20
w
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-0.03
-0.035
-0.04
0
5
10
15
20

Figure 4

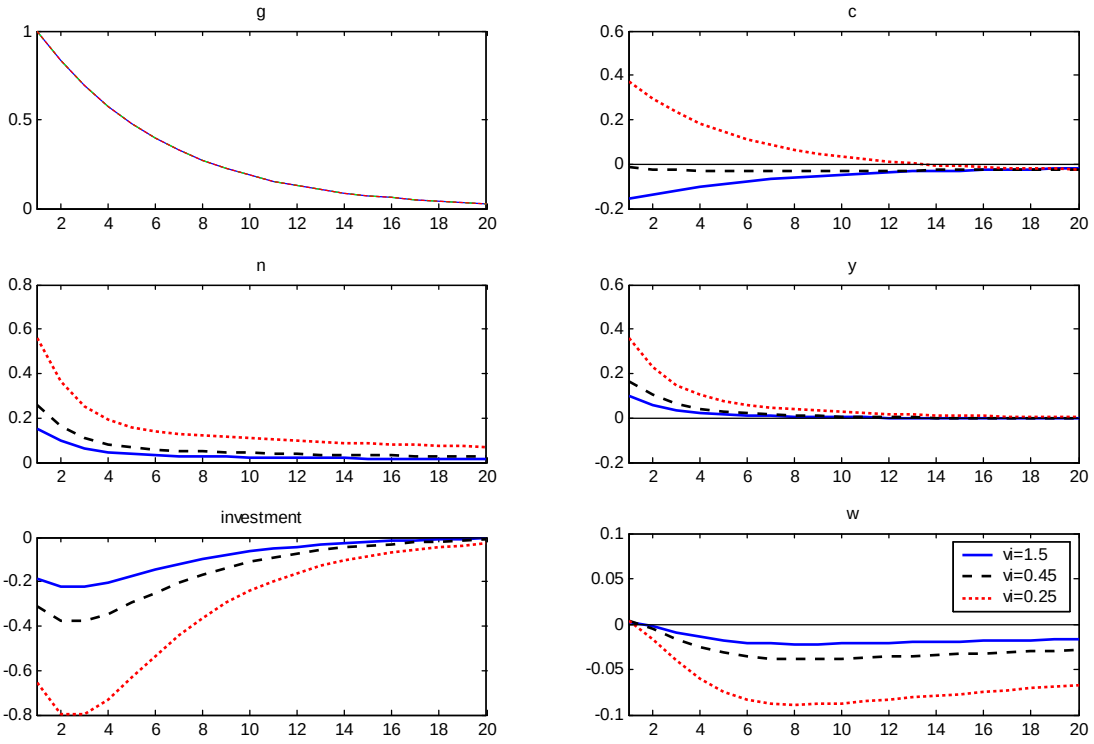

Figure 5

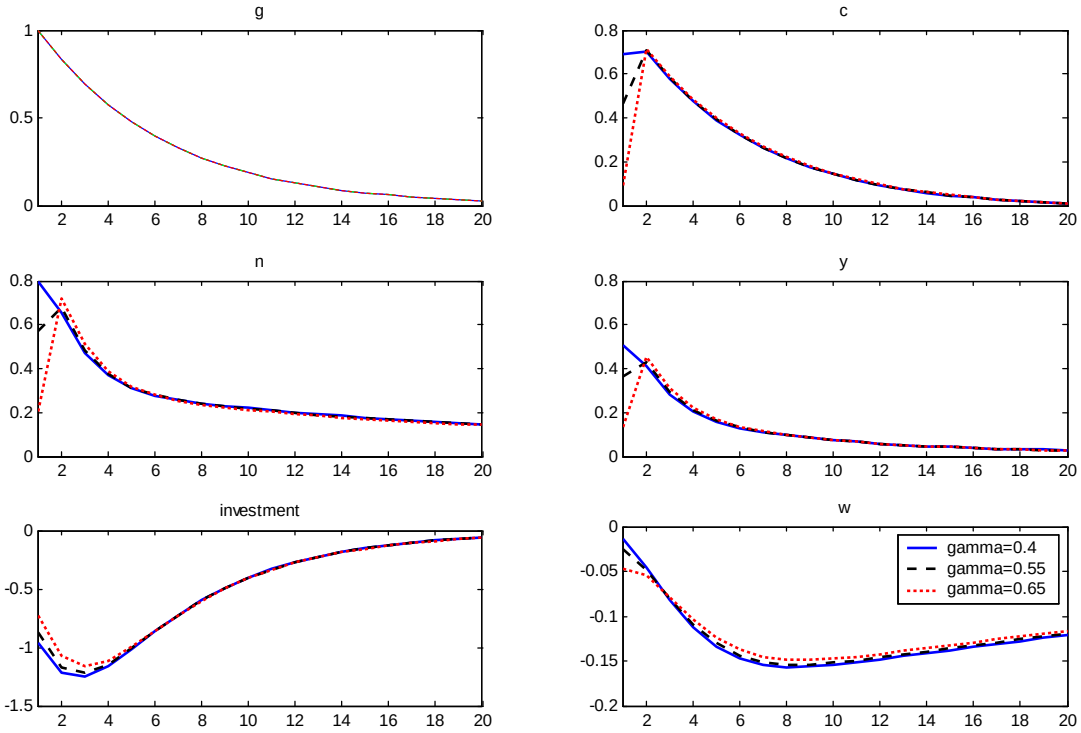

Figure 6

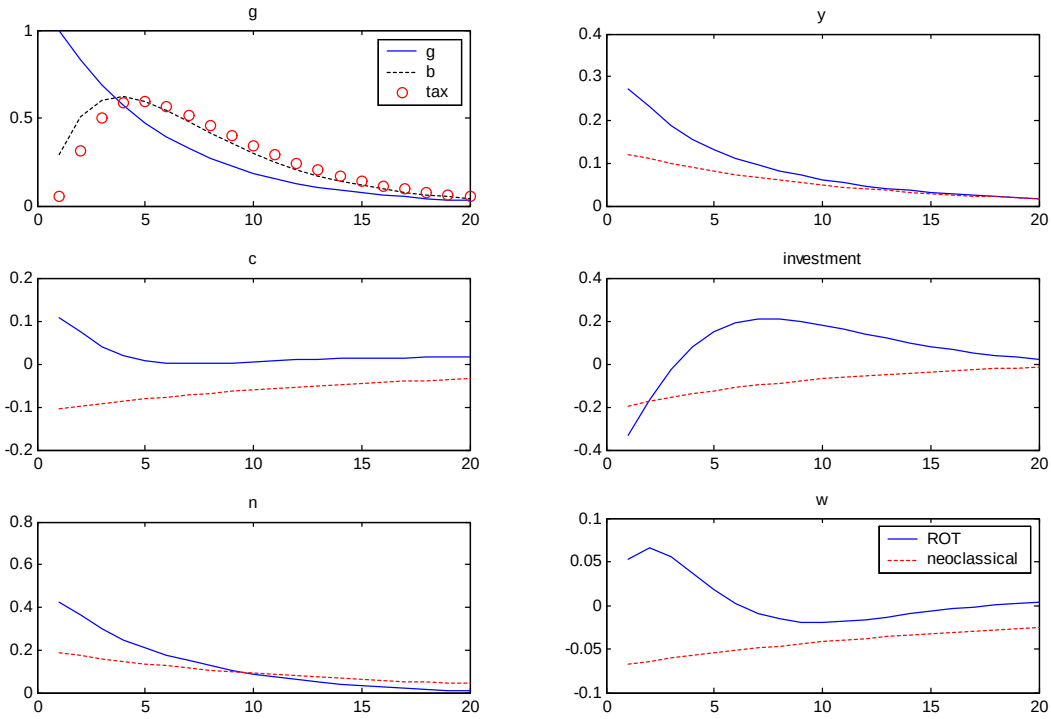

Figure 7

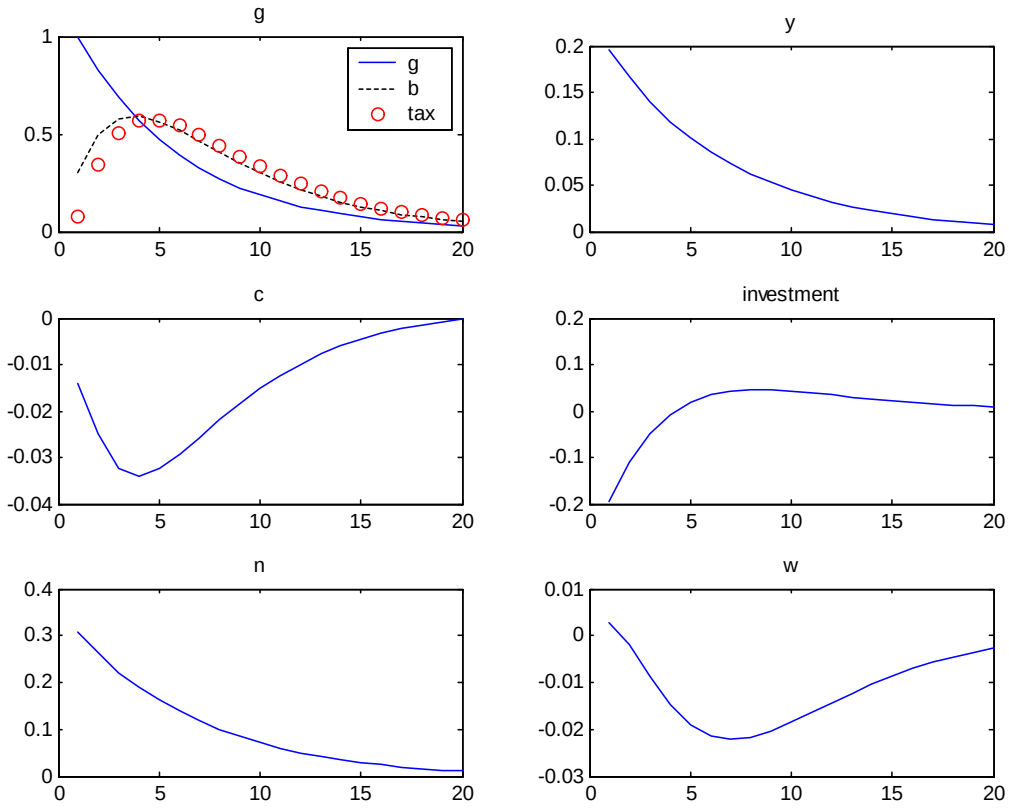

Figure 8

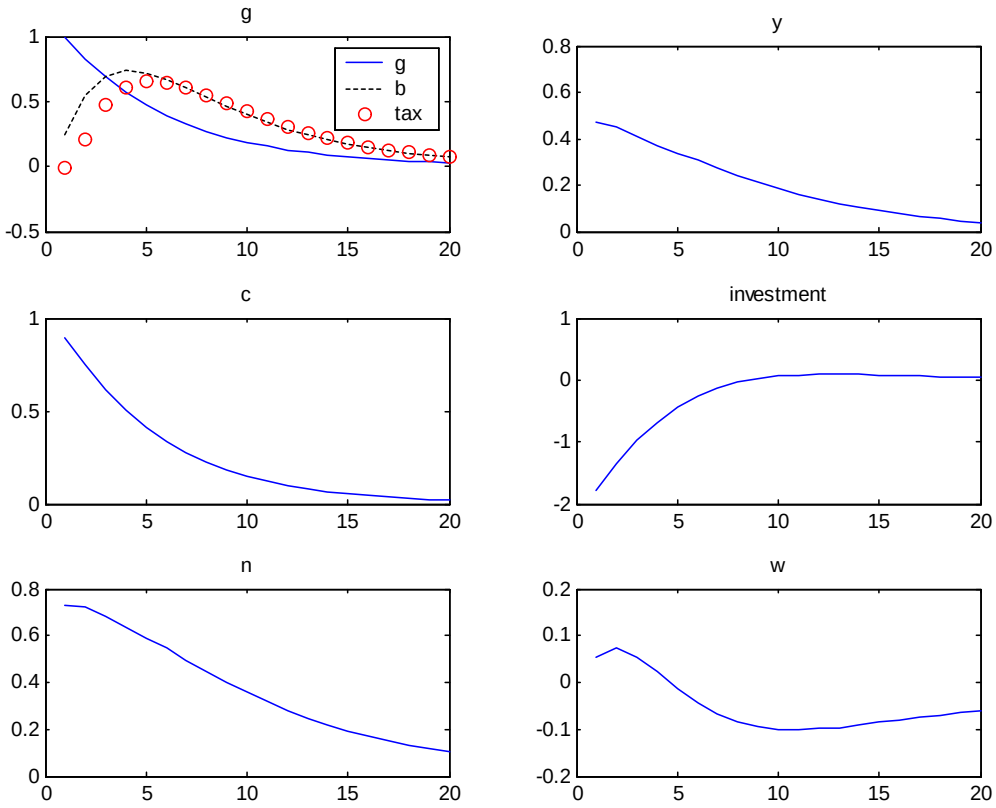

Figure 9

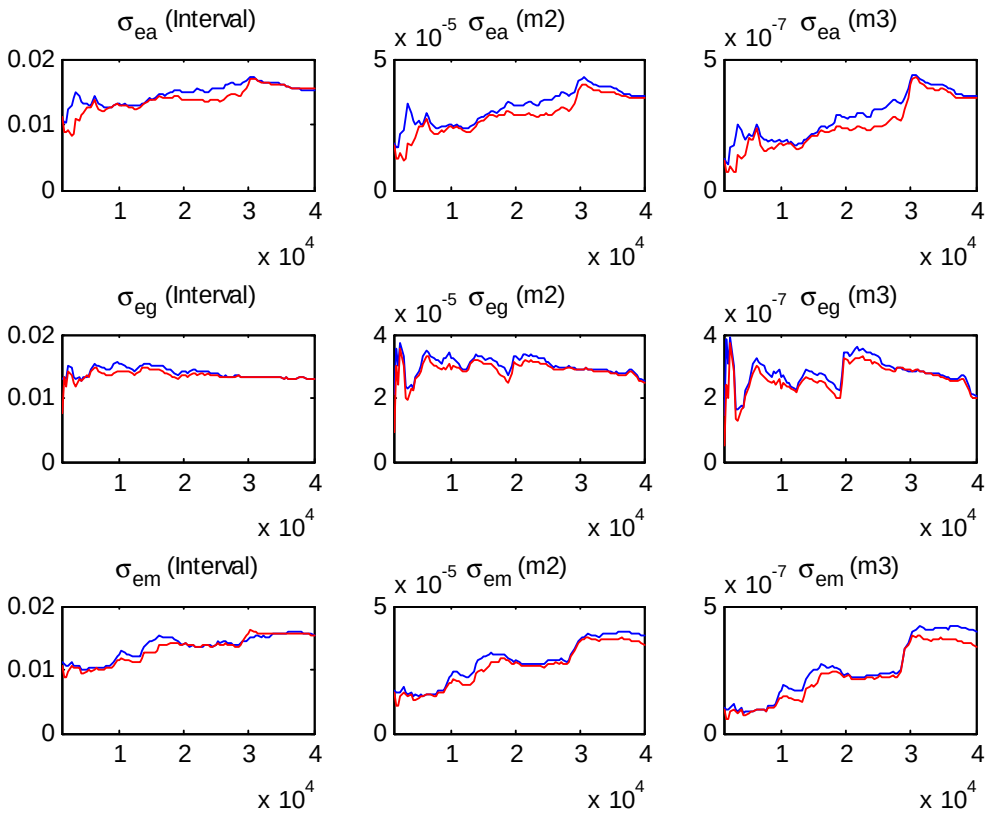

Figure 10: MCMC univariate diagnostic (Brooks and Gelman, 1998)

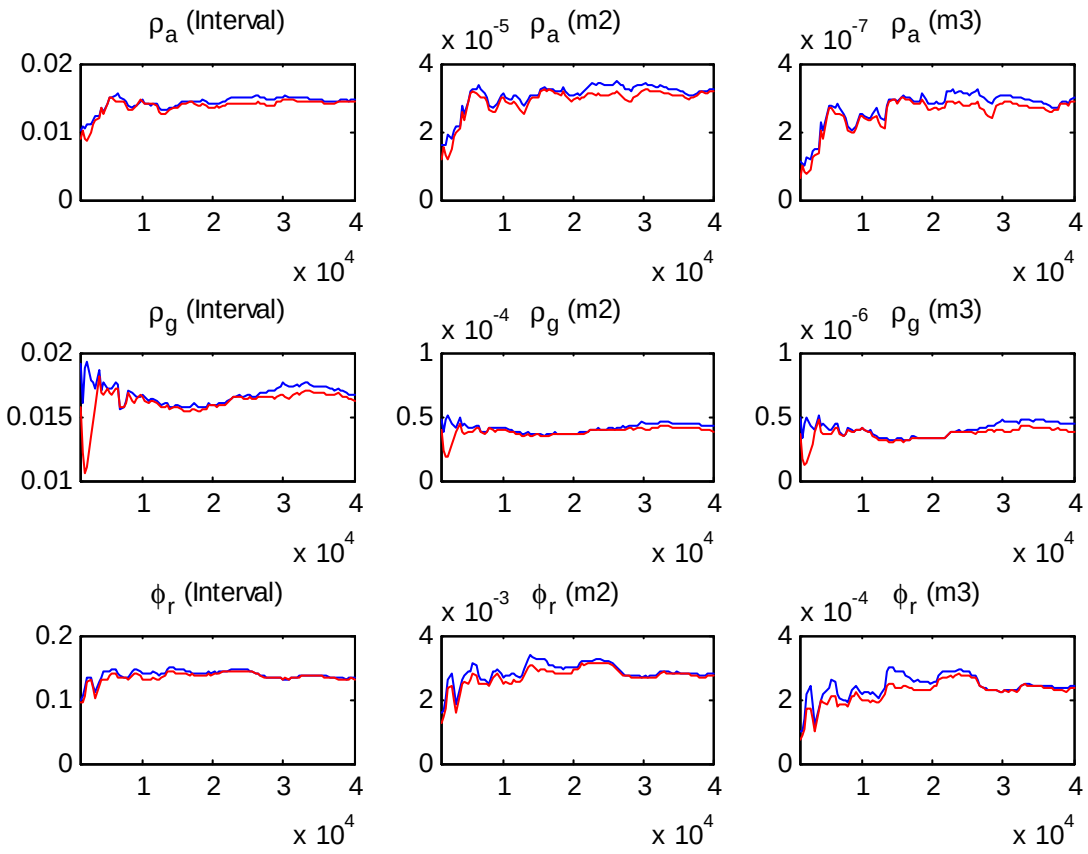

Figure 11: MCMC univariate diagnostic (Brooks and Gelman, 1998)

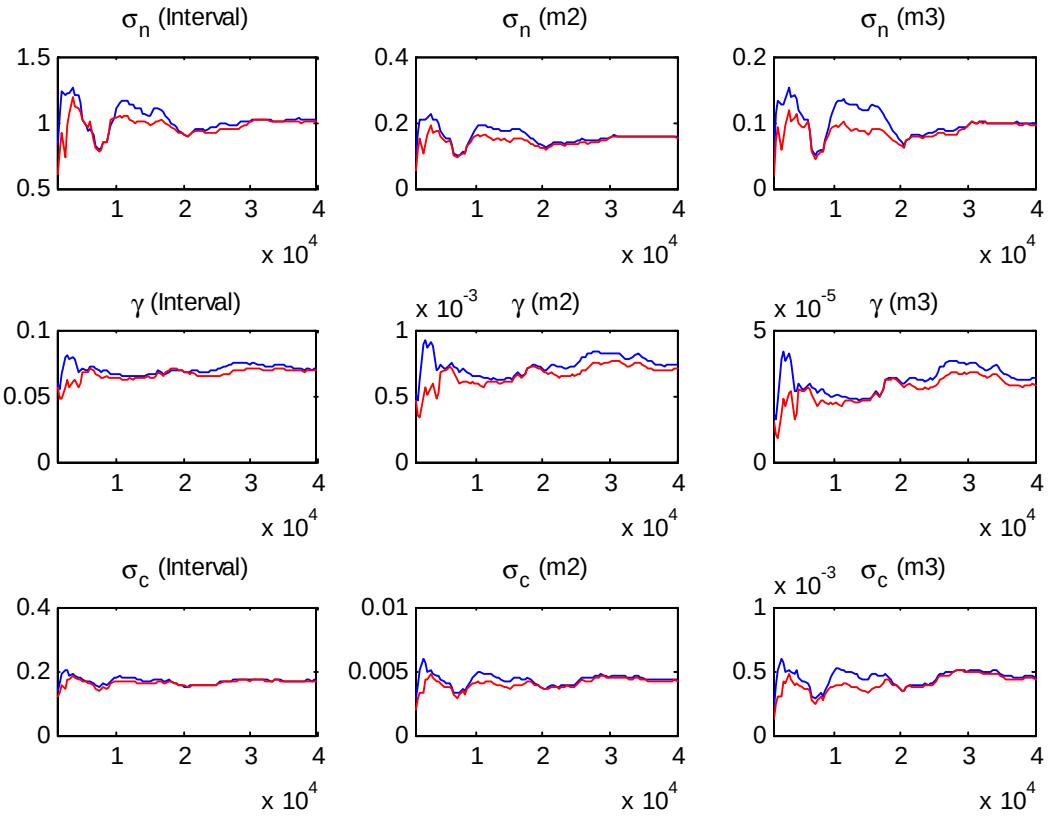

Figure 12: MCMC univariate diagnostic (Brooks and Gelman, 1998)

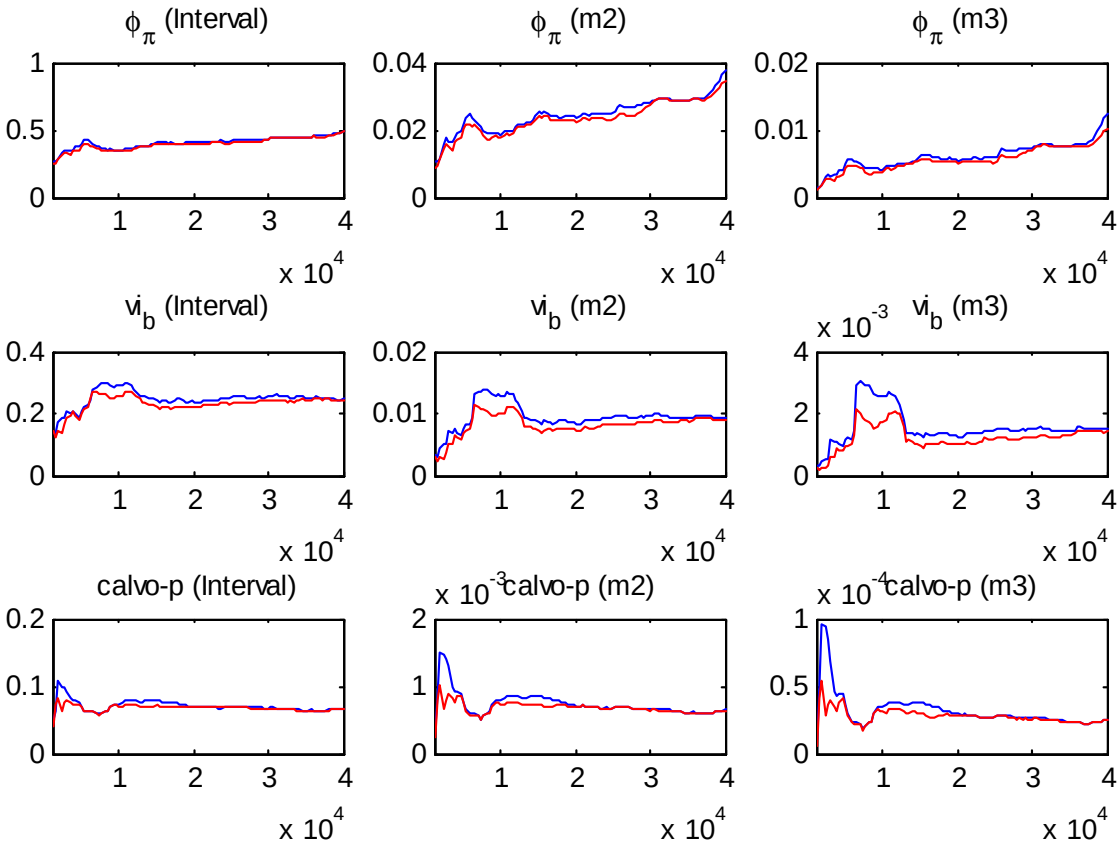

Figure 13: MCMC univariate diagnostic (Brooks and Gelman, 1998)

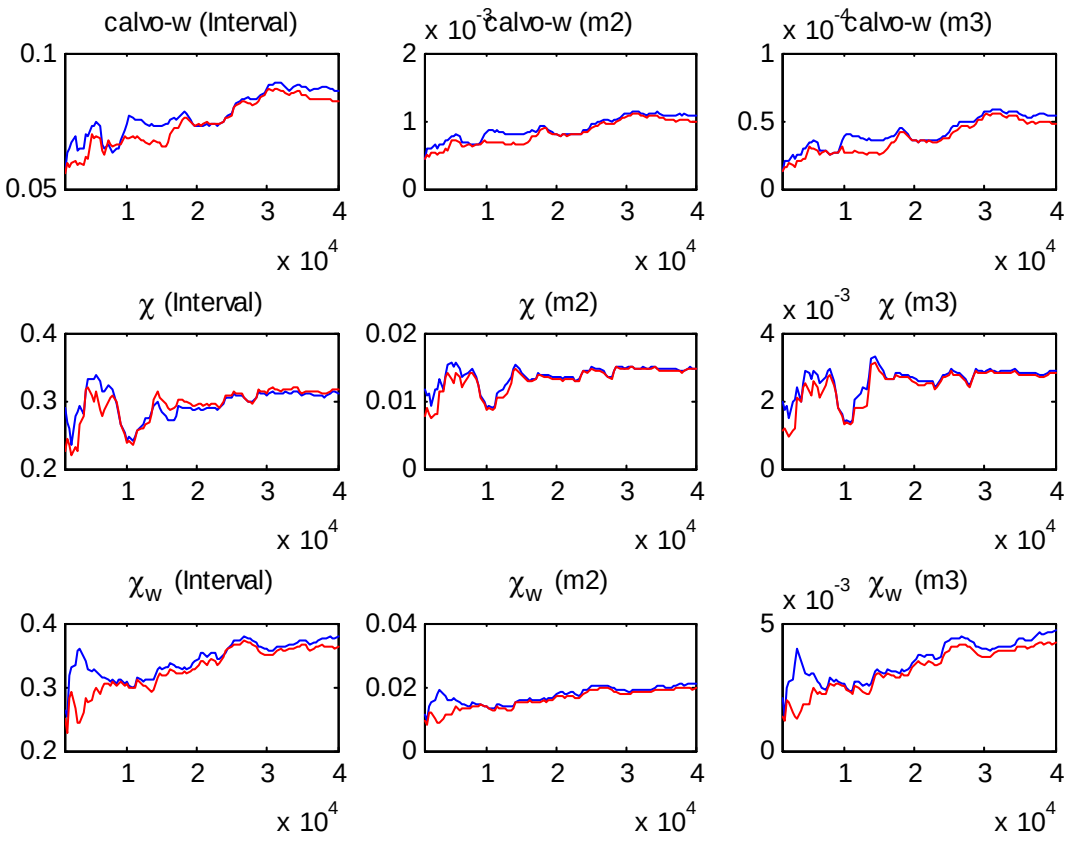

Figure 14: MCMC univariate diagnostic (Brooks and Gelman, 1998)

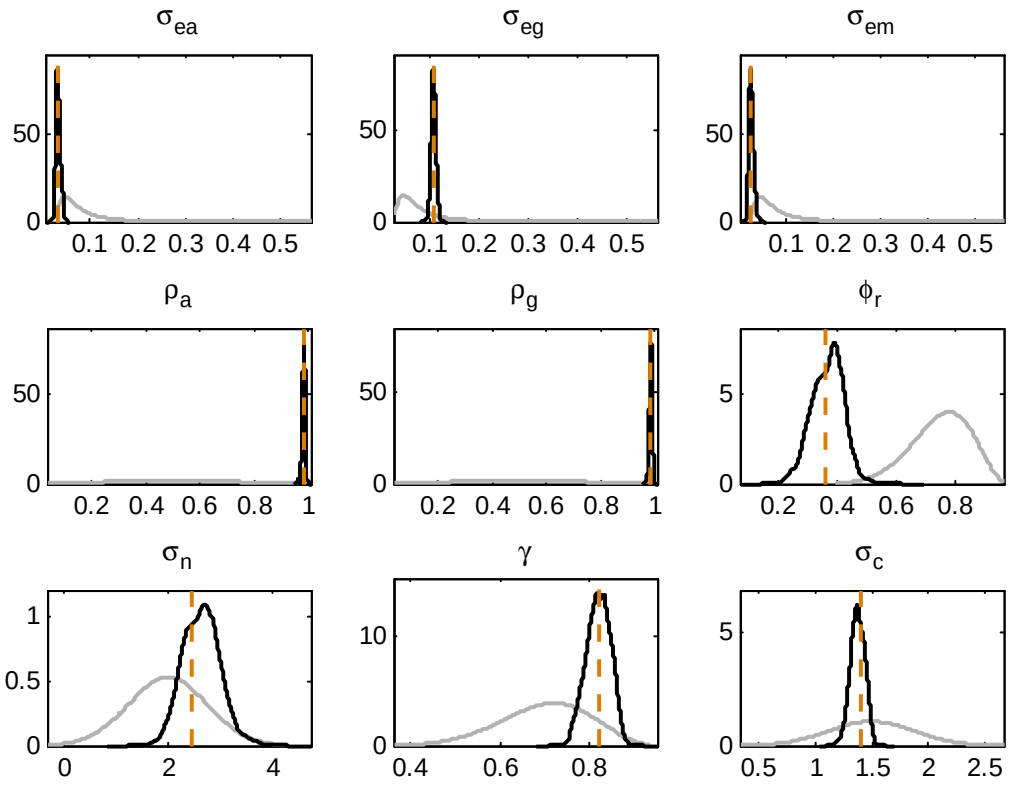

Figure 15: Priors and Posteriors

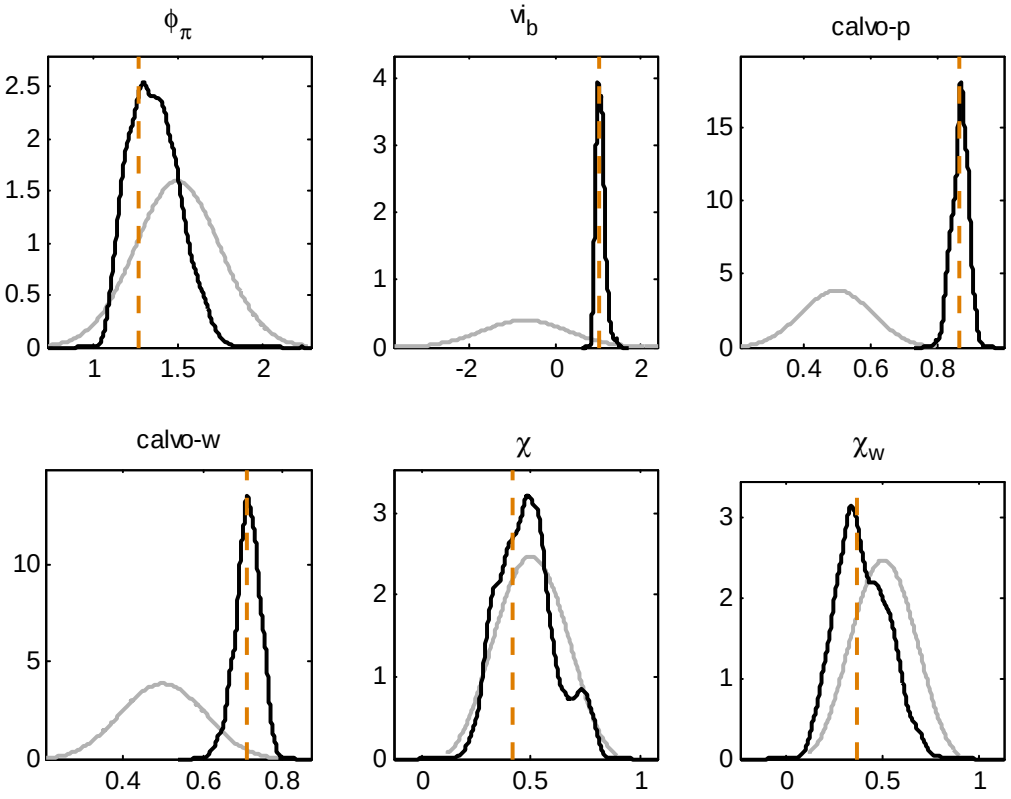

Figure 16: Priors and Posteriors

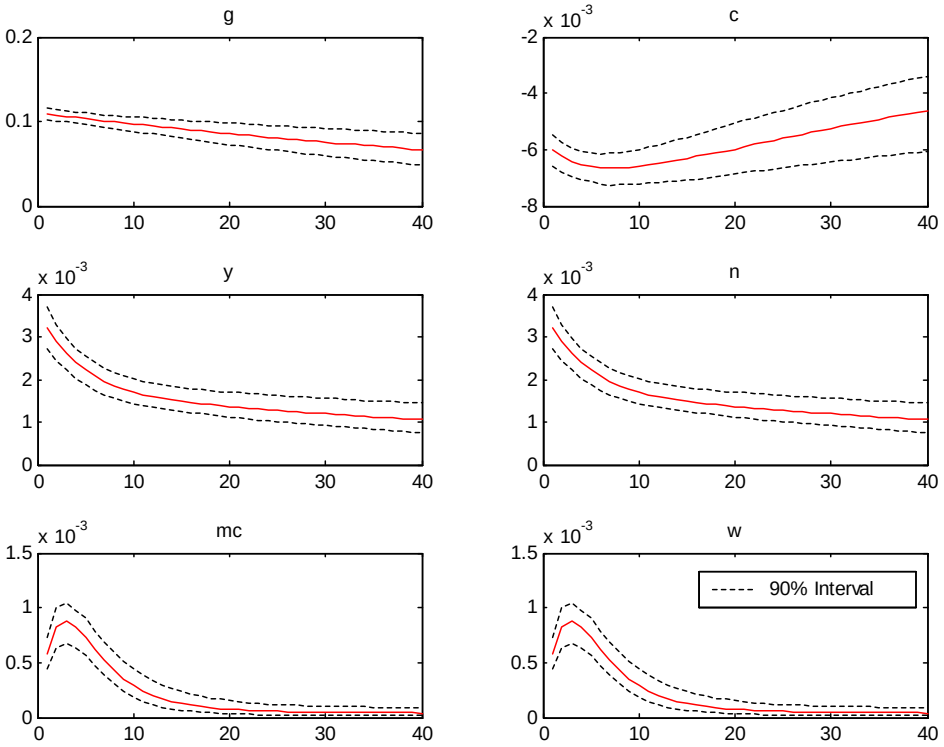

Figure 17: Bayesian IRF (one standard deviation shock)

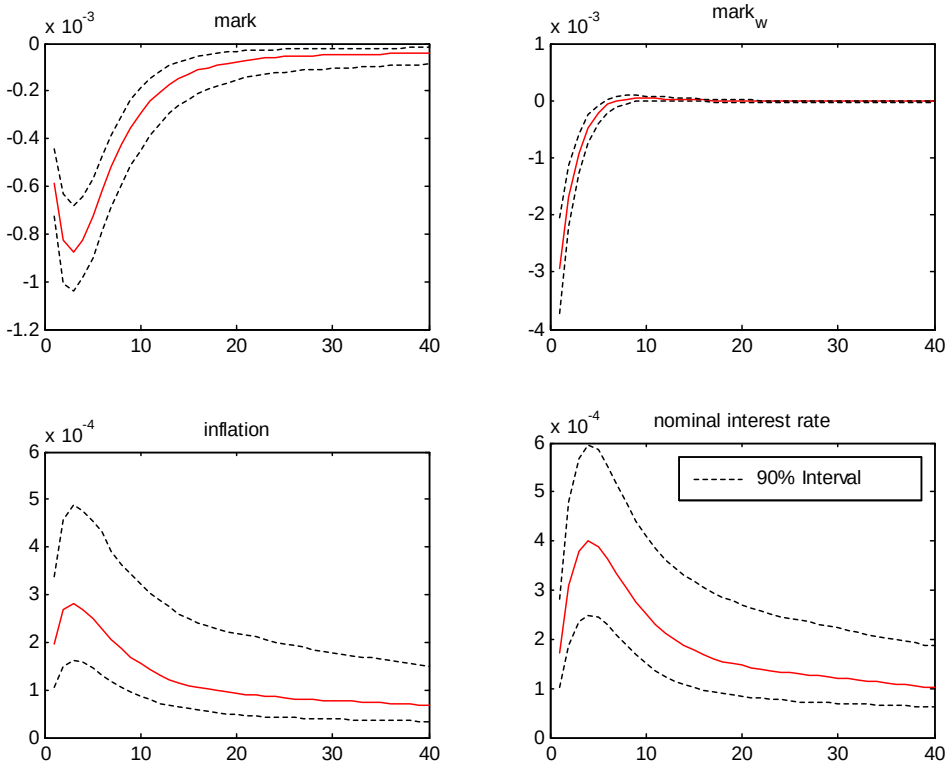

Figure 18: Bayesian IRF (one standard deviation shock)

2 Tables

Table 1

Symbol	Value	Description
ω	0	Fraction of non Ricardian households
ϕ	1	Weight of private consumption in the effective consumption index
β	0.9926	Subjective discount factor
α	0.36	Share of capital in added value
Φ	0.0592	Fixed cost parameter
δ	0.025	Depreciation rate
η	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
γ	0.65	Degree of habit persistence
σ_c	2	Preference parameter - elasticity of consumption
σ_n	1	Preference parameter - elasticity of labor
ψ	9.0255	Preference parameter
κ	4	Parameter governing investment adjustment costs
χ	1	Degree of price indexation
$\widetilde{\chi}$	1	Degree of wage indexation
γ_1	0.0324	Parameter governing capacity adjustment costs
γ_2	0.000324	Parameter governing capacity adjustment costs
π	1	Gross inflation target
a	1	Steady state value of technology shock
ρ_a	0.97	Serial correlation of the log of the technology shock
G/Y	0.2041	Steady state value of government spending
ρ_g	0.96	Serial correlation of the log of government spending
ϕ_π	1.5	Monetary policy parameter

Table 2

Symbol	Value	Description
ω	0.5	Fraction of non Ricardian households
ϕ	1	Weight of private consumption in the effective consumption index
β	0.99	Subjective discount factor
α	0.36	Share of capital in added value
Φ	0.0413	Fixed cost parameter
δ	0.025	Depreciation rate
η	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
γ	0	Degree of habit persistence
σ_c	1	Preference parameter
σ_n	0.2	Preference parameter
ϕ	1	Preference parameter - Share of private consumption
v	0.33	Preference parameter
ψ^o	2.1762	Preference parameter
ψ^r	6.7946	Preference parameter
χ	0	Degree of price indexation
$\widetilde{\chi}$	0	Degree of wage indexation
κ	4	Parameter governing investment adjustment costs
γ_1	0.0351	Parameter governing capacity adjustment costs
γ_2	0.0709	Parameter governing capacity adjustment costs

Table 2, cont'ed

Symbol	Value	Description
ϕ_r	0	Monetary policy parameter
ϕ_π	1.5	Monetary policy parameter
ϕ_b	0.33	Fiscal policy parameter
ϕ_g	0.1	Fiscal policy parameter
τ	0	Discretionary taxation
π	1	Gross inflation target
a	1	Steady state value of technology shock
ρ_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
ρ_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%
σ_a	*Invgamma*	0.10	2.00	0.0341	0.0341	0.0256	0.0411
σ_g	*Invgamma*	0.10	2.00	0.1087	0.1089	0.0995	0.1160
σ_m	*Invgamma*	0.10	2.00	0.0258	0.0278	0.0185	0.0344
ρ_a	*Beta*	0.50	0.20	0.9838	0.9840	0.9762	0.9926
ρ_g	*Beta*	0.50	0.20	0.9873	0.9849	0.9780	0.9949
σ_c	*Normal*	1.50	0.25	1.3972	1.3980	1.1269	1.5929
σ_n	*Normal*	2.00	0.75	2.4438	2.6237	2.0458	3.1906
γ	*Beta*	0.70	0.10	0.8220	0.8231	0.7761	0.8625
υ	*Normal*	0.70	1.00	1.0394	1.0613	0.8986	1.2232
ξ_p	*Beta*	0.50	0.10	0.8617	0.8657	0.8216	0.9006
ξ_w	*Beta*	0.50	0.10	0.7083	0.7159	0.6637	0.7631
χ	*Beta*	0.50	0.15	0.4130	0.4638	0.2750	0.7121
$\widetilde{\chi}$	*Beta*	0.50	0.15	0.3647	0.3932	0.1758	0.5983
ϕ_π	*Normal*	1.50	0.25	1.2666	1.3980	1.1269	1.5929
ϕ_r	*Beta*	0.75	0.10	0.3641	0.3775	0.2833	0.4528