NK\_CK08:

Christoffel and Kuester (2008)[[1]](#footnote-1) build a small New Keynesian with search and matching frictions in the labor market, and calibrate the model to the US economy. The model features a wage channel under which more rigid wages translate into a weaker response of inflation to aggregate shocks. At the same time the model generates unemployment fluctuations that are comparable in magnitude to what is observed in the US data. The authors show that the model implies a reasonable elasticity of steady-state unemployment with respect to changes in benefits. This is so because the calibration of the model

does not require a small gap between the value of working and the value of unemployment for the worker.

* The model is calibrated to US data from 1964:Q1 to 2006:Q3.
* There are four shocks:
  + An AR(1) technology shock identified from the resource constraint.
  + An iid monetary policy shock identified using a Taylor rule.
  + A government spending shock, modeled as an AR(1) process.
  + An AR(1) time-preference (demand) shock of correlation 0.9. The standard deviation of the innovations of this shock are set such that the model replicates the standard deviation of hp-filtered output.
* The published version of the model runs on a monthly frequency so as to match stocks and flows in the labor market.
* For comparability with the model base, the version for the model base has been recalibrated to a quarterly frequency – with only minor effects on the evolution of the economy at the quarterly frequency.

1. Christoffel, K., and Keith Kuester (2008), “**Resuscitating the Wage Channel in Models with Unemployment Fluctuations**,” Journal of Monetary Economics, 2008, 55(5), p. 865-887. [↑](#footnote-ref-1)