Ryan comments DW

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Me:

1. Need to clear up model → we have a story and we need a simpler way to present it in a model.
2. Susanto: ID ass. doesn't pertain uniquely to endog. growth.
3. Would be easier to sell as a sol. to BS but wanna cater to a broader audience.

Gap btwn question & VAR.

(1) ICTs innovation
- distinguishing IT-specific "news shocks" from classical ones (Vito) is more promising.
- model we use is about the generation of ideas
  → that's not equal to IT! 40%
- suppose TFP: F(K, L, ideas) 40%
  a separate technology for ideas

→ in that world, a shock to TFP is
a demand shock to K, L, ideas
→ rel. prices stay

- a shock to prod. ideas moves RP

But a bunch of issues once we
call the 3rd input ideas

1) stock vs. flow
2) non-rivalness
3) ownership

but: price is clear (P^{IT})

2) model identifies the P^{IT} ??

3) measurement error in producing
ii in data and probably is endogenous
→ going to be a limitation
can't really take care of it.

⇨ Decision tree

a little toy model can address these issues (not blelly)

complete the paper
↳ change the story-telling
"identify prod. shocks in different sectors and tell what they look like and how important they are."
↳ do that first
Fisher 2006. benchmark against that and show how similar and how different

A work on is there endogenous components to TFP would be a home run
→ would be a great topic for a thesis but hard.

$$K_t^{\phi_k} L_t^{\phi_L} \Pi_t^{\phi_i} (\bar{IT}_t)^{\sigma} A_t$$

↑ average IT in econ
↳ can do RBC analysis w/ this

↳ could tell whether rel. prices do what we want
but hard time to convince audience that this is the PF!

↳ but to support this you need to use all Lit. you can, arguing that someone famous has written it down or done cross-sectional work empirical one is.

But: such a model may be so simple that you should work it out first!

Issues:

1.) Measurement issue: how is agg. output measured in the econ b/c that may confound things: what is GDP here?

2) Timing: news about IT prod or current IT prod.

→ can solve if IT is the stock but adj cost makes the rel. price more complicated

⇒ work it out in 3 slides and bring it to Basu.

If you can convince him w/ extra evidence "i.e. IRFs look like we expected them to" then you might proceed, w/ some refinements

to the empirical stuff.

But: conclusion may be: "$\gamma = 0$ is what works" i.e. $\gamma > 0$ doesn't work and then you need to go back to Ryan's story of simply talking about two sector-specific shocks

PF for IT:

$$IT_t = k_T^{i\,\top} \Phi_k \, L_t^{\top} \, \Phi_i \, \Psi_t$$

One way to measure GDP is in terms of value-added:

$$GDP = R(K_t + K_t^i) + w(h_t + L_t^i)$$

can sub this in the PF.

HHs acc. IT stock and rent it out to firms. So HHs acc $K = K^{reg} + K^{IT}$

In this environment, pc prod. externality leads to endog. component in TFP, but this isn't a story of innovation.

This is a model you can handle & write 2 propositions. 1 tells us what the ideally measured Solow-resid consists of: an endog & exog component.
2 Under what conditions the rel. price doesn't move to a news shock but lifts A_t.

Gather evidence for $\gamma \neq 0$. If you can convince Basu, you're home. Other than "$\gamma \neq 0$", he doesn't have facts of Basu's complaints.

2 weeks. Wanna discover the ceiling quickly - if not high, then wrap up!