Table 1: Results from posterior maximization (parameters)

	Prior			Posterior	
	Dist.	Mean	Stdev	Mode	Stdev
α	norm	0.300	0.0500	0.2123	0.0276
ψ	beta	0.500	0.1500	0.3971	0.1391
Φ	norm	1.250	0.1250	1.4865	0.1173
ι_w	beta	0.500	0.1500	0.5732	0.1399
ξ_w	beta	0.500	0.1000	0.7434	0.0796
ι_p	beta	0.500	0.1500	0.3708	0.1679
ξ_p	beta	0.500	0.1000	0.5583	0.0598
σ_c	norm	1.500	0.3750	1.1106	0.3164
σ_l	norm	2.000	0.7500	1.9156	0.7097
λ	beta	0.700	0.1000	0.7143	0.0976
φ	norm	4.000	1.5000	3.9275	1.4102
μ_w	beta	0.500	0.2000	0.7201	0.1276
μ_p	beta	0.500	0.2000	0.6649	0.1358
$\bar{\gamma}$	norm	0.400	0.1000	0.3534	0.0520
$100(\beta^{-1}-1)$	gamm	0.250	0.1000	0.2304	0.0923
$\bar{\pi}$	gamm	0.625	0.1000	0.8725	0.1365
$\bar{l}$	norm	0.000	2.0000	3.8575	0.8443
r_π	norm	1.500	0.2500	1.8342	0.1862
$r_{\Delta y}$	norm	0.125	0.0500	0.2114	0.0339
r_y	norm	0.125	0.0500	0.0933	0.0681
ρ	beta	0.750	0.1000	0.7813	0.0394
ρ_a	beta	0.500	0.2000	0.8572	0.0845
ρ_{ga}	norm	0.500	0.2500	0.5637	0.1077
ρ_b	beta	0.500	0.2000	0.4845	0.5013
ρ_g	beta	0.500	0.2000	0.9131	0.0447
ρ_i	beta	0.500	0.2000	0.8836	0.1091
ρ_r	beta	0.500	0.2000	0.1607	0.0960
ρ_p	beta	0.500	0.2000	0.8356	0.1101
ρ_w	beta	0.500	0.2000	0.8941	0.0668

Table 2: Results from posterior maximization (standard deviation of structural shocks)

	Prior			Posterior	
	Dist.	Mean	Stdev	Mode	Stdev
η^a	invg	0.100	2.0000	0.4640	0.0357
η^b	invg	0.100	2.0000	0.2334	0.1143
η^g	invg	0.100	2.0000	0.5314	0.0392
η^i	invg	0.100	2.0000	0.3418	0.0937
η^m	invg	0.100	2.0000	0.2884	0.0249
η^p	invg	0.100	2.0000	0.1606	0.0273
η^w	invg	0.100	2.0000	0.1730	0.0256

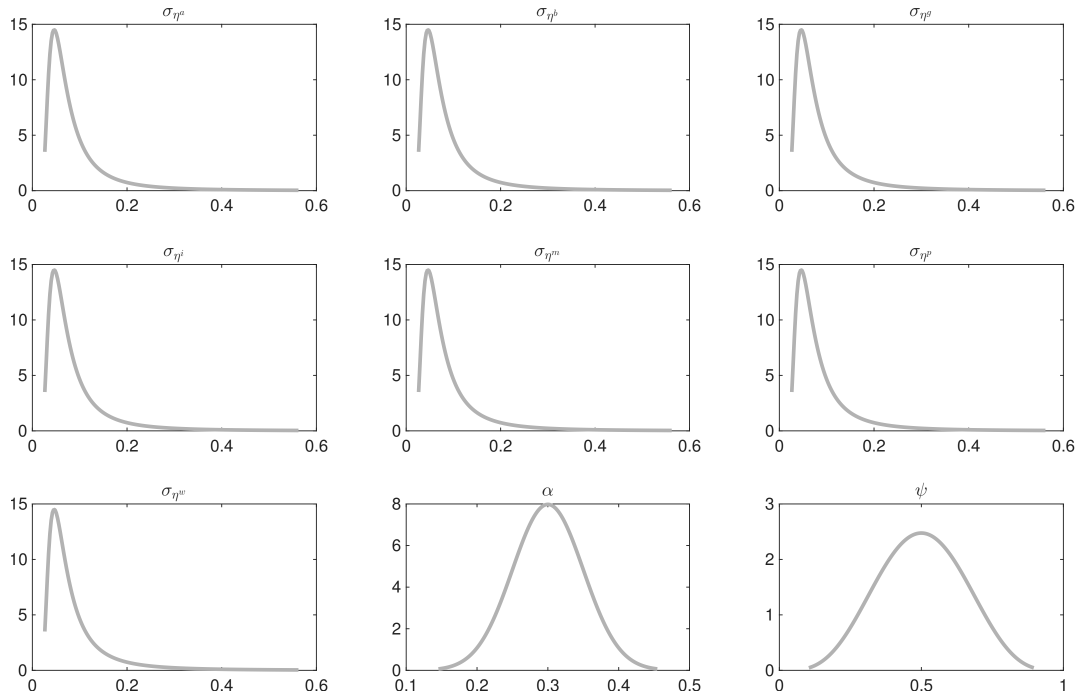

Figure 1: Priors.

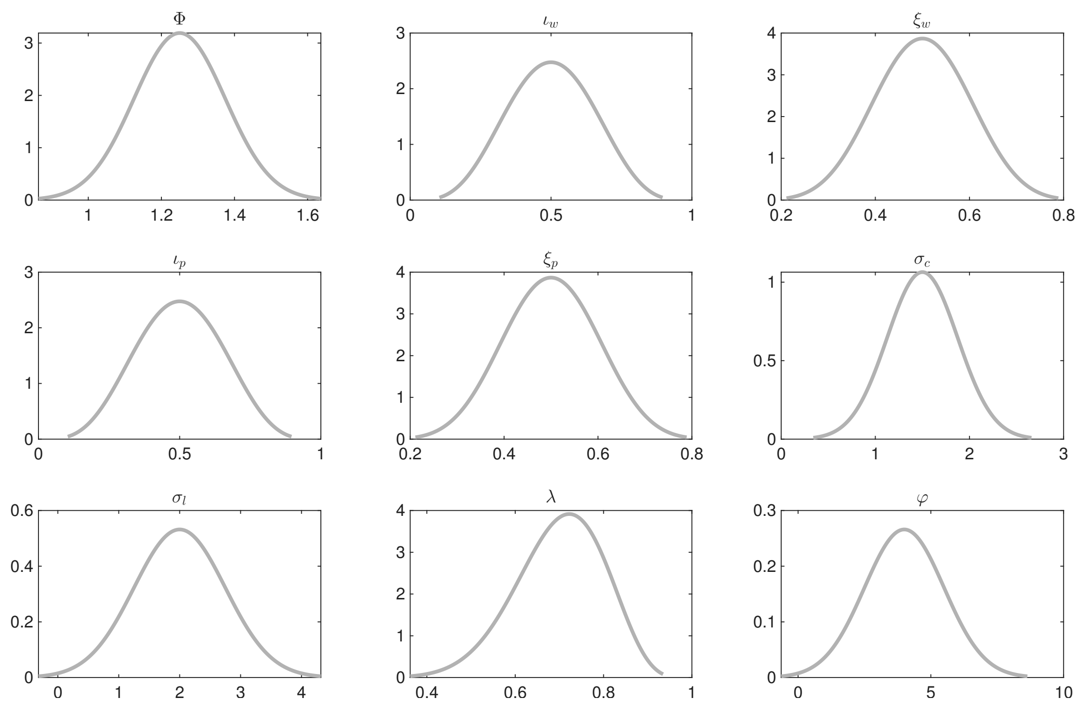

Figure 2: Priors.

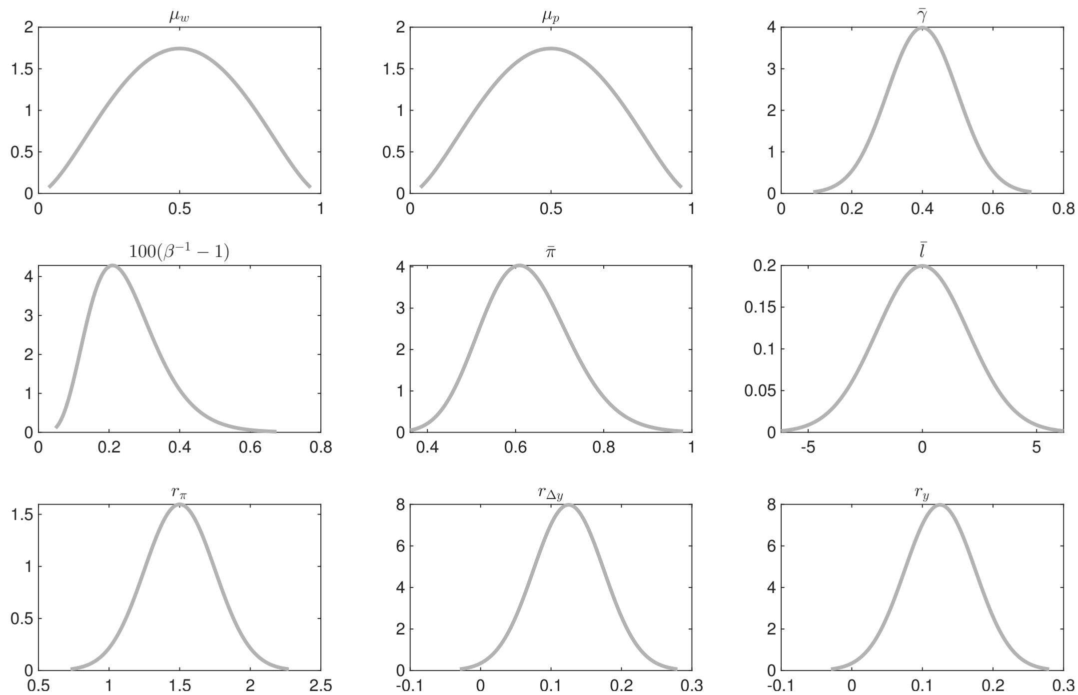

Figure 3: Priors.

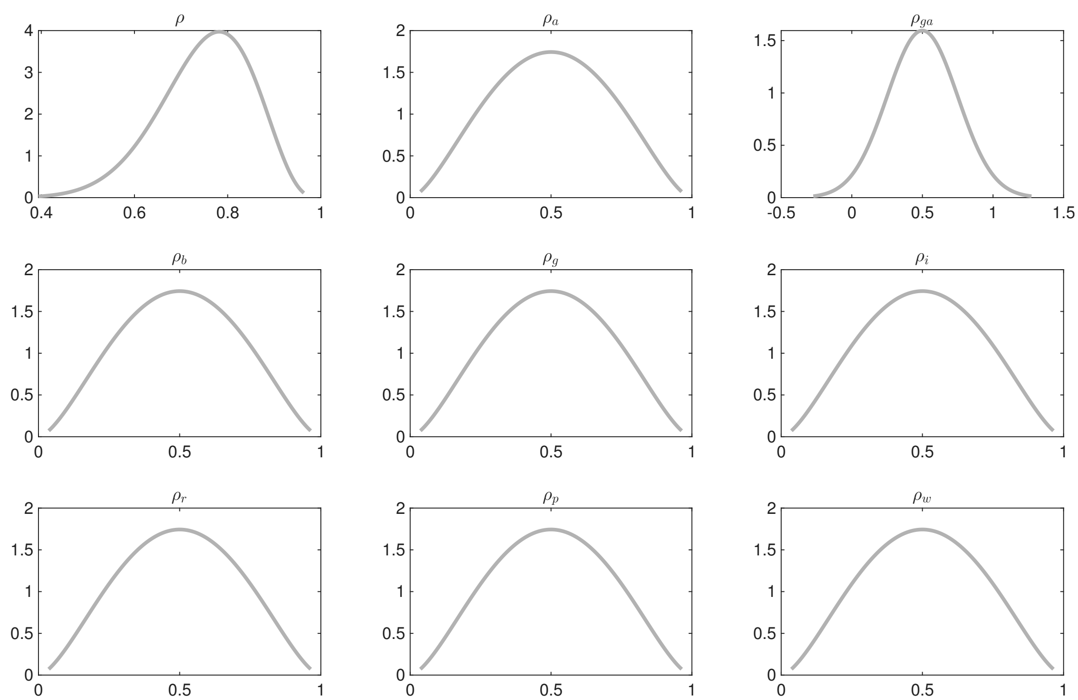

Figure 4: Priors.

Table 3: MATRIX OF COVARIANCE OF EXOGENOUS SHOCKS

$Variables$	η^a	η^b	η^g	η^i	η^m	η^p	η^w
η^a	0.215332	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
η^b	0.000000	0.054482	0.000000	0.000000	0.000000	0.000000	0.000000
η^g	0.000000	0.000000	0.282408	0.000000	0.000000	0.000000	0.000000
η^i	0.000000	0.000000	0.000000	0.116804	0.000000	0.000000	0.000000
η^m	0.000000	0.000000	0.000000	0.000000	0.083181	0.000000	0.000000
η^p	0.000000	0.000000	0.000000	0.000000	0.000000	0.025784	0.000000
η^w	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.029915

Table 4: Endogenous

Variable	$\LaTeX$	Description
`labobs`	$lHOURS$	log hours worked
`robs`	$FEDFUNDS$	Federal funds rate
`pinfobs`	dlP	Inflation
`dy`	$dlGDP$	Output growth rate
`dc`	$dlCONS$	Consumption growth rate
`dinve`	$dlINV$	Investment growth rate
`dw`	$dlWAG$	Wage growth rate
`ewma`	$\eta^{w,aux}$	Auxiliary wage markup moving average variable
`epinfma`	$\eta^{p,aux}$	Auxiliary price markup moving average variable
`zcapf`	z^{flex}	Capital utilization rate flex price economy
`rkf`	$r^{k,flex}$	rental rate of capital flex price economy
`kf`	$k^{s,flex}$	Capital services flex price economy
`pkf`	q^{flex}	real value of existing capital stock flex price economy
`cf`	c^{flex}	Consumption flex price economy
`invef`	i^{flex}	Investment flex price economy
`yf`	y^{flex}	Output flex price economy
`labf`	l^{flex}	hours worked flex price economy
`wf`	w^{flex}	real wage flex price economy
`rrf`	r^{flex}	real interest rate flex price economy
`mc`	μ_p	gross price markup
`zcap`	z	Capital utilization rate
`rk`	r^k	rental rate of capital
`k`	k^s	Capital services
`pk`	q	real value of existing capital stock
`c`	c	Consumption
`inve`	i	Investment
`y`	y	Output
`lab`	l	hours worked
`pinf`	π	Inflation
`w`	w	real wage
`r`	r	nominal interest rate
`a`	ε_a	productivity process
`b`	$c_2 * \varepsilon_t^b$	Scaled risk premium shock
`g`	ε^g	Exogenous spending
`qs`	ε^i	Investment-specific technology
`ms`	ε^r	Monetary policy shock process
`spinf`	ε^p	Price markup shock process
`sw`	ε^w	Wage markup shock process
`kpf`	k^{flex}	Capital stock flex price economy
`kp`	k	Capital stock
`muw`	μ_w	wage markup

Table 5: Exogenous

	Variable	LaTeX	Description
ea	η^a		productivity shock
eb	η^b		Investment-specific technology shock
eg	η^g		Spending shock
eqs	η^i		Investment-specific technology shock
em	η^m		Monetary policy shock
epinf	η^p		Price markup shock
ew	η^w		Wage markup shock

Table 6: Parameters

Variable	LaTeX	Description
curvw	ε_w	Curvature Kimball aggregator wages
cgy	ρ_{ga}	Feedback technology on exogenous spending
curvp	ε_p	Curvature Kimball aggregator prices
constelab	$\bar{l}$	steady state hours
constepinf	$\bar{\pi}$	steady state inflation rate
constebeta	$100(\beta^{-1}-1)$	time preference rate in percent
cmaw	μ_w	coefficient on MA term wage markup
cmap	μ_p	coefficient on MA term price markup
calfa	α	capital share
czcap	ψ	capacity utilization cost
csadjcost	φ	investment adjustment cost
ctou	δ	depreciation rate
csigma	σ_c	risk aversion
chabb	λ	external habit degree
cfc	Φ	fixed cost share
cindw	ι_w	Indexation to past wages
cprobw	ξ_w	Calvo parameter wages
cindp	ι_p	Indexation to past prices
cprobp	ξ_p	Calvo parameter prices
csigl	σ_l	Frisch elasticity
clandaw	ϕ_w	Gross markup wages
crpi	r_π	Taylor rule inflation feedback
crdy	$r_{\Delta y}$	Taylor rule output growth feedback
cry	r_y	Taylor rule output level feedback
crr	ρ	interest rate persistence
crhoa	ρ_a	persistence productivity shock
crhoas	d_2	Unused parameter
crhob	ρ_b	persistence risk premium shock
crhog	ρ_g	persistence spending shock
crhols	d_1	Unused parameter

Table 6 – Continued

Variable	$\LaTeX$	Description
`crhoqs`	ρ_i	persistence risk premium shock
`crhoms`	ρ_r	persistence monetary policy shock
`crhopinf`	ρ_p	persistence price markup shock
`crhow`	ρ_w	persistence wage markup shock
`ctrend`	$\bar{\gamma}$	net growth rate in percent
`cg`	$\frac{\bar{g}}{\bar{y}}$	steady state exogenous spending share

Table 7: Parameter Values

Parameter	Value	Description
ε_w	10.000	Curvature Kimball aggregator wages
ρ_{ga}	0.564	Feedback technology on exogenous spending
ε_p	10.000	Curvature Kimball aggregator prices
$\bar{l}$	3.857	steady state hours
$\bar{\pi}$	0.873	steady state inflation rate
$100(\beta^{-1}-1)$	0.230	time preference rate in percent
μ_w	0.720	coefficient on MA term wage markup
μ_p	0.665	coefficient on MA term price markup
α	0.212	capital share
ψ	0.397	capacity utilization cost
φ	3.928	investment adjustment cost
δ	0.025	depreciation rate
σ_c	1.111	risk aversion
λ	0.714	external habit degree
Φ	1.486	fixed cost share
ι_w	0.573	Indexation to past wages
ξ_w	0.743	Calvo parameter wages
ι_p	0.371	Indexation to past prices
ξ_p	0.558	Calvo parameter prices
σ_l	1.916	Frisch elasticity
ϕ_w	1.500	Gross markup wages
r_π	1.834	Taylor rule inflation feedback
$r_{\Delta y}$	0.211	Taylor rule output growth feedback
r_y	0.093	Taylor rule output level feedback
ρ	0.781	interest rate persistence
ρ_a	0.857	persistence productivity shock
d_2	1.000	Unused parameter
ρ_b	0.484	persistence risk premium shock
ρ_g	0.913	persistence spending shock
d_1	0.993	Unused parameter
ρ_i	0.884	persistence risk premium shock
ρ_r	0.161	persistence monetary policy shock
ρ_p	0.836	persistence price markup shock
ρ_w	0.894	persistence wage markup shock
$\bar{\gamma}$	0.353	net growth rate in percent
$\frac{\bar{g}}{\bar{y}}$	0.180	steady state exogenous spending share

Table 8: Prior information (parameters)

					Bounds*		90% HPDI	
	Distribution	Mean	Mode	Std.dev.	Lower	Upper	Lower	Upper
σ_{η^a}	Inv. Gamma	0.1000	0.0461	2.0000	0.0118	5595.7204	0.0326	0.2490
σ_{η^b}	Inv. Gamma	0.1000	0.0461	2.0000	0.0118	5595.7204	0.0326	0.2490
σ_{η^g}	Inv. Gamma	0.1000	0.0461	2.0000	0.0118	5595.7204	0.0326	0.2490
σ_{η^i}	Inv. Gamma	0.1000	0.0461	2.0000	0.0118	5595.7204	0.0326	0.2490
σ_{η^m}	Inv. Gamma	0.1000	0.0461	2.0000	0.0118	5595.7204	0.0326	0.2490
σ_{η^p}	Inv. Gamma	0.1000	0.0461	2.0000	0.0118	5595.7204	0.0326	0.2490
σ_{η^w}	Inv. Gamma	0.1000	0.0461	2.0000	0.0118	5595.7204	0.0326	0.2490
α	Gaussian	0.3000	0.3000	0.0500	-0.0181	0.6181	0.2178	0.3822
ψ	Beta	0.5000	0.5000	0.1500	0.0040	0.9960	0.2526	0.7474
Φ	Gaussian	1.2500	1.2500	0.1250	0.4548	2.0452	1.0444	1.4556
ι_w	Beta	0.5000	0.5000	0.1500	0.0040	0.9960	0.2526	0.7474
ξ_w	Beta	0.5000	0.5000	0.1000	0.0471	0.9529	0.3351	0.6649
ι_p	Beta	0.5000	0.5000	0.1500	0.0040	0.9960	0.2526	0.7474
ξ_p	Beta	0.5000	0.5000	0.1000	0.0471	0.9529	0.3351	0.6649
σ_c	Gaussian	1.5000	1.5000	0.3750	-0.8855	3.8855	0.8832	2.1168
σ_l	Gaussian	2.0000	2.0000	0.7500	-2.7710	6.7710	0.7664	3.2336
λ	Beta	0.7000	0.7222	0.1000	0.1025	0.9960	0.5242	0.8525
φ	Gaussian	4.0000	4.0000	1.5000	-5.5420	13.5420	1.5327	6.4673
μ_w	Beta	0.5000	0.5000	0.2000	0.0001	0.9999	0.1718	0.8282
μ_p	Beta	0.5000	0.5000	0.2000	0.0001	0.9999	0.1718	0.8282
$\bar{\gamma}$	Gaussian	0.4000	0.4000	0.1000	-0.2361	1.0361	0.2355	0.5645
$100(\beta^{-1}-1)$	Gamma	0.2500	0.2100	0.1000	0.0031	1.4759	0.1111	0.4339
$\bar{\pi}$	Gamma	0.6250	0.6090	0.1000	0.1814	1.4844	0.4701	0.7981
$\bar{l}$	Gaussian	0.0000	0.0000	2.0000	-12.7227	12.7227	-3.2897	3.2897
r_π	Gaussian	1.5000	1.5000	0.2500	-0.0903	3.0903	1.0888	1.9112
$r_{\Delta y}$	Gaussian	0.1250	0.1250	0.0500	-0.1931	0.4431	0.0428	0.2072
r_y	Gaussian	0.1250	0.1250	0.0500	-0.1931	0.4431	0.0428	0.2072
ρ	Beta	0.7500	0.7817	0.1000	0.1073	0.9991	0.5701	0.8971
ρ_a	Beta	0.5000	0.5000	0.2000	0.0001	0.9999	0.1718	0.8282
ρ_{ga}	Gaussian	0.5000	0.5000	0.2500	-1.0903	2.0903	0.0888	0.9112
ρ_b	Beta	0.5000	0.5000	0.2000	0.0001	0.9999	0.1718	0.8282
ρ_g	Beta	0.5000	0.5000	0.2000	0.0001	0.9999	0.1718	0.8282
ρ_i	Beta	0.5000	0.5000	0.2000	0.0001	0.9999	0.1718	0.8282
ρ_r	Beta	0.5000	0.5000	0.2000	0.0001	0.9999	0.1718	0.8282
ρ_p	Beta	0.5000	0.5000	0.2000	0.0001	0.9999	0.1718	0.8282
ρ_w	Beta	0.5000	0.5000	0.2000	0.0001	0.9999	0.1718	0.8282

Note: Displayed bounds are after applying a prior truncation of options_.prior_trunc=1.00e-10

Table 9: COEFFICIENTS OF AUTOCORRELATION

Order	1	2	3	4	5
y	0.9630	0.9040	0.8362	0.7663	0.6978
c	0.9709	0.9201	0.8635	0.8076	0.7548
i	0.9865	0.9541	0.9090	0.8555	0.7971
π	0.8282	0.6680	0.5282	0.4106	0.3141
r	0.8916	0.7529	0.6241	0.5136	0.4216
w	0.9662	0.9195	0.8643	0.8045	0.7434
k^s	0.9916	0.9773	0.9595	0.9398	0.9188
l	0.9488	0.8743	0.7924	0.7106	0.6322

Table 10: MATRIX OF CORRELATIONS

$Variables$	y	c	i	π	r	w	k^s	l
y	1.0000	0.5493	0.7998	-0.0239	0.0764	0.3051	0.6782	0.8685
c	0.5493	1.0000	0.1912	-0.2407	-0.3022	0.2816	0.6138	0.3721
i	0.7998	0.1912	1.0000	0.1112	0.2915	0.2920	0.6727	0.6910
π	-0.0239	-0.2407	0.1112	1.0000	0.6251	0.3018	0.0729	0.0164
r	0.0764	-0.3022	0.2915	0.6251	1.0000	0.2133	0.1539	0.1395
w	0.3051	0.2816	0.2920	0.3018	0.2133	1.0000	0.6642	-0.0359
k^s	0.6782	0.6138	0.6727	0.0729	0.1539	0.6642	1.0000	0.3847
l	0.8685	0.3721	0.6910	0.0164	0.1395	-0.0359	0.3847	1.0000

Table 11: THEORETICAL MOMENTS

$VARIABLE$	$MEAN$	$STD.DEV.$	$VARIANCE$
y	0.0000	4.0789	16.6373
c	0.0000	3.4979	12.2350
i	0.0000	16.5616	274.2878
π	0.0000	0.5970	0.3564
r	0.0000	0.7109	0.5054
w	0.0000	1.7593	3.0953
k^s	0.0000	4.8061	23.0983
l	0.0000	2.5720	6.6154

Table 12: VARIANCE DECOMPOSITION (in percent)

	η^a	η^b	η^g	η^i	η^m	η^p	η^w
y	12.69	10.53	4.33	25.47	5.24	4.97	36.77
c	2.92	15.32	3.17	30.70	5.60	3.05	39.22
i	2.09	1.14	1.74	76.56	1.13	1.57	15.76
π	5.14	4.34	0.68	10.56	6.61	25.16	47.51
r	7.36	24.22	2.20	28.16	15.22	4.61	18.22
w	10.28	1.91	0.50	28.32	1.93	27.70	29.36
k^s	2.42	2.59	1.47	69.30	1.82	4.66	17.72
l	2.20	13.16	6.28	22.52	6.22	4.14	45.48

$$cpie = 1 + \frac{\bar{\pi}}{100}$$

$$cgamma = 1 + \frac{\bar{\gamma}}{100}$$

$$cbeta = \frac{1}{1 + \frac{100(\beta^{-1} - 1)}{100}}$$

$$clandap = \Phi$$

$$cbetabar = cbeta\, cgamma^{(-\sigma_c)}$$

$$cr = \frac{cpie}{cbeta\, cgamma^{(-\sigma_c)}}$$

$$crk = cbeta^{(-1)}\, cgamma^{\sigma_c} - (1 - \delta)$$

$$cw = \left(\frac{\alpha^{\alpha}\ (1 - \alpha)^{1-\alpha}}{clandap\, crk^{\alpha}} \right)^{\frac{1}{1-\alpha}}$$

$$cikbar = 1 - \frac{1 - \delta}{cgamma}$$

$$cik = cgamma\ \left(1 - \frac{1 - \delta}{cgamma}\right)$$

$$clk = \frac{1 - \alpha}{\alpha}\, \frac{crk}{cw}$$

$$cky = \Phi\, clk^{\alpha - 1}$$

$$ciy = cik\, cky$$

$$ccy = 1 - \frac{\bar{g}}{\bar{y}} - cik\, cky$$

$$crkky = crk\, cky$$

$$cwhlc = \frac{cky\, crk\, \frac{(1-\alpha)\ \frac{1}{\phi_w}}{\alpha}}{ccy}$$

$$cwly = 1 - crk\, cky$$

$$conster = 100\, (cr - 1)$$

$$c1 = \frac{\frac{\lambda}{cgamma}}{1 + \frac{\lambda}{cgamma}}$$

$$c2 = \frac{(\sigma_c - 1)\, cwhlc}{\sigma_c \left(1 + \frac{\lambda}{cgamma}\right)}$$

$$c3 = \frac{1 - \frac{\lambda}{cgamma}}{\sigma_c \left(1 + \frac{\lambda}{cgamma}\right)}$$

$$i1 = \frac{1}{1 + cgamma\, cbetabar}$$

$$i2 = \frac{1}{1 + cgamma\, cbetabar}\, \frac{1}{cgamma^2\, \varphi}$$

$$q1 = \frac{1 - \delta}{1 - \delta + crk}$$

$$q2 = \frac{1}{\frac{1 - \frac{\lambda}{cgamma}}{\sigma_c \left(1 + \frac{\lambda}{cgamma}\right)}}$$

$$k1 = 1 - cikbar$$

$$k2 = \varphi\, cgamma^2\, cikbar$$

$$pi1 = \iota_p\, \frac{1}{1 + cgamma\, cbetabar\, \iota_p}$$

$$pi2 = cgamma\, cbetabar\, \frac{1}{1 + cgamma\, cbetabar\, \iota_p}$$

$$pi3 = \frac{\frac{1}{1 + cgamma\, cbetabar\, \iota_p}\, \frac{(1 - \xi_p)\, (1 - cgamma\, cbetabar\, \xi_p)}{\xi_p}}{1 + (\Phi - 1)\, \varepsilon_p}$$

$$w1 = \frac{1}{1 + cgamma\, cbetabar}$$

$$w2 = \frac{1 + cgamma\, cbetabar\, \iota_w}{1 + cgamma\, cbetabar}$$

$$w3 = \frac{\iota_w}{1 + cgamma\, cbetabar}$$

$$w4 = \frac{(1 - \xi_w)\ (1 - cgamma\, cbetabar\, \xi_w)}{(1 + cgamma\, cbetabar)\ \xi_w}\, \frac{1}{1 + (\phi_w - 1)\ \varepsilon_w}$$

$$w5 = \frac{1}{1 - \frac{\lambda}{cgamma}}$$

$$w6 = \frac{\frac{\lambda}{cgamma}}{1 - \frac{\lambda}{cgamma}}$$

$$\varepsilon_{at} = \alpha\, {r^{k,flex}}_t + (1 - \alpha)\ {w^{flex}}_t \tag{1}$$

$${z^{flex}}_t = {r^{k,flex}}_t\, \frac{1}{\frac{\psi}{1-\psi}} \tag{2}$$

$${r^{k,flex}}_t = {w^{flex}}_t + {l^{flex}}_t - {k^{s,flex}}_t \tag{3}$$

$${k^{s,flex}}_t = {z^{flex}}_t + {k^{flex}}_{t-1} \tag{4}$$

$${i^{flex}}_t = i1\, {i^{flex}}_{t-1} + (1 - i1)\ {i^{flex}}_{t+1} + i2\, {q^{flex}}_t + {\varepsilon^i}_t \tag{5}$$

$${q^{flex}}_t = q1\, {q^{flex}}_{t+1} + (1 - q1)\ {r^{k,flex}}_{t+1} + q2\, c_2 * \varepsilon^b_{t\,t} - {r^{flex}}_t \tag{6}$$

$${c^{flex}}_t = c_2 * \varepsilon^b_{t\,t} + c1\, {c^{flex}}_{t-1} + (1 - c1)\ {c^{flex}}_{t+1} + c2\ \left({l^{flex}}_t - {l^{flex}}_{t+1}\right) - {r^{flex}}_t\, c3 \tag{7}$$

$${y^{flex}}_t = ccy\, {c^{flex}}_t + {i^{flex}}_t\, ciy + {\varepsilon^g}_t + {z^{flex}}_t\, crkky \tag{8}$$

$${y^{flex}}_t = \Phi\ \left(\varepsilon_{at} + \alpha\, {k^{s,flex}}_t + (1 - \alpha)\ {l^{flex}}_t\right) \tag{9}$$

$${w^{flex}}_t = {l^{flex}}_t\, \sigma_l + {c^{flex}}_t\, w5 - {c^{flex}}_{t-1}\, w6 \tag{10}$$

$$k^{flex}{}_{t} = k^{flex}{}_{t-1}\, k1 + i^{flex}{}_{t}\, (1 - k1) + \varepsilon^{i}{}_{t}\, k2 \tag{11}$$

$$\mu_{p_t} = \alpha\, r^{k}{}_{t} + (1 - \alpha)\, w_t - \varepsilon_{at} \tag{12}$$

$$z_t = \frac{1}{\frac{\psi}{1-\psi}}\, r^{k}{}_{t} \tag{13}$$

$$r^{k}{}_{t} = w_t + l_t - k^{s}{}_{t} \tag{14}$$

$$k^{s}{}_{t} = z_t + k_{t-1} \tag{15}$$

$$k_t = \varepsilon^{i}{}_{t}\, k2 + k1\, k_{t-1} + (1 - k1)\, i_t \tag{16}$$

$$i_t = \varepsilon^{i}{}_{t} + i1\, i_{t-1} + (1 - i1)\, i_{t+1} + i2\, q_t \tag{17}$$

$$q_t = q2\, c_2 * \varepsilon^{b}_{t\,t} + q1\, q_{t+1} + (1 - q1)\, r^{k}{}_{t+1} - (r_t - \pi_{t+1}) \tag{18}$$

$$c_t = c_2 * \varepsilon^{b}_{t\,t} + c1\, c_{t-1} + (1 - c1)\, c_{t+1} + c2\, (l_t - l_{t+1}) - c3\, (r_t - \pi_{t+1}) \tag{19}$$

$$y_t = \varepsilon^{g}{}_{t} + ccy\, c_t + ciy\, i_t + crkky\, z_t \tag{20}$$

$$y_t = \Phi\, (\varepsilon_{at} + \alpha\, k^{s}{}_{t} + (1 - \alpha)\, l_t) \tag{21}$$

$$\pi_t = pi1\, \pi_{t-1} + \pi_{t+1}\, pi2 + \mu_{p_t}\, pi3 + \varepsilon^{p}{}_{t} \tag{22}$$

$$w_t = w1\, w_{t-1} + (1 - w1)\, (\pi_{t+1} + w_{t+1}) - \pi_t\, w2 + \pi_{t-1}\, w3 - w4\, \mu_{wt} + \varepsilon^{w}{}_{t} \tag{23}$$

$$\mu_{wt} = w_t - \left(\sigma_l\, l_t + \frac{1}{1 - \frac{\lambda}{cgamma}}\, \left(c_t - \frac{\lambda}{cgamma}\, c_{t-1}\right)\right) \tag{24}$$

$$r_t = \pi_t\, r_\pi\, (1 - \rho) + (1 - \rho)\, r_y\, \left(y_t - y^{flex}{}_{t}\right) + r_{\Delta y}\, \left(y_t - y^{flex}{}_{t} - y_{t-1} + y^{flex}{}_{t-1}\right) + \rho\, r_{t-1} + \varepsilon^{r}{}_{t} \tag{25}$$

$$\varepsilon_{at} = \rho_a\, \varepsilon_{at-1} + \eta^{a}{}_{t} \tag{26}$$

$$c_2 * \varepsilon^{b}_{t\,t} = \rho_b\, c_2 * \varepsilon^{b}_{t\,t-1} + \eta^{b}{}_{t} \tag{27}$$

$$\varepsilon^{g}{}_{t} = \rho_g\, \varepsilon^{g}{}_{t-1} + \eta^{g}{}_{t} + \eta^{a}{}_{t}\, \rho_{ga} \tag{28}$$

$$\varepsilon^{i}{}_{t} = \rho_i\, \varepsilon^{i}{}_{t-1} + \eta^{i}{}_{t} \tag{29}$$

$$\varepsilon^r{}_t = \rho_r\, \varepsilon^r{}_{t-1} + \eta^m{}_t \tag{30}$$

$$\varepsilon^p{}_t = \rho_p\, \varepsilon^p{}_{t-1} + \eta^{p,aux}{}_t - \mu_p\, \eta^{p,aux}{}_{t-1} \tag{31}$$

$$\eta^{p,aux}{}_t = \eta^p{}_t \tag{32}$$

$$\varepsilon^w{}_t = \rho_w\, \varepsilon^w{}_{t-1} + \eta^{w,aux}{}_t - \mu_w\, \eta^{w,aux}{}_{t-1} \tag{33}$$

$$\eta^{w,aux}{}_t = \eta^w{}_t \tag{34}$$

$$dlGDP_t = \bar{\gamma} + y_t - y_{t-1} \tag{35}$$

$$dlCONS_t = \bar{\gamma} + c_t - c_{t-1} \tag{36}$$

$$dlINV_t = \bar{\gamma} + i_t - i_{t-1} \tag{37}$$

$$dlWAG_t = \bar{\gamma} + w_t - w_{t-1} \tag{38}$$

$$dlP_t = \bar{\pi} + \pi_t \tag{39}$$

$$FEDFUNDS_t = r_t + conster \tag{40}$$

$$lHOURS_t = l_t + \bar{l} \tag{41}$$

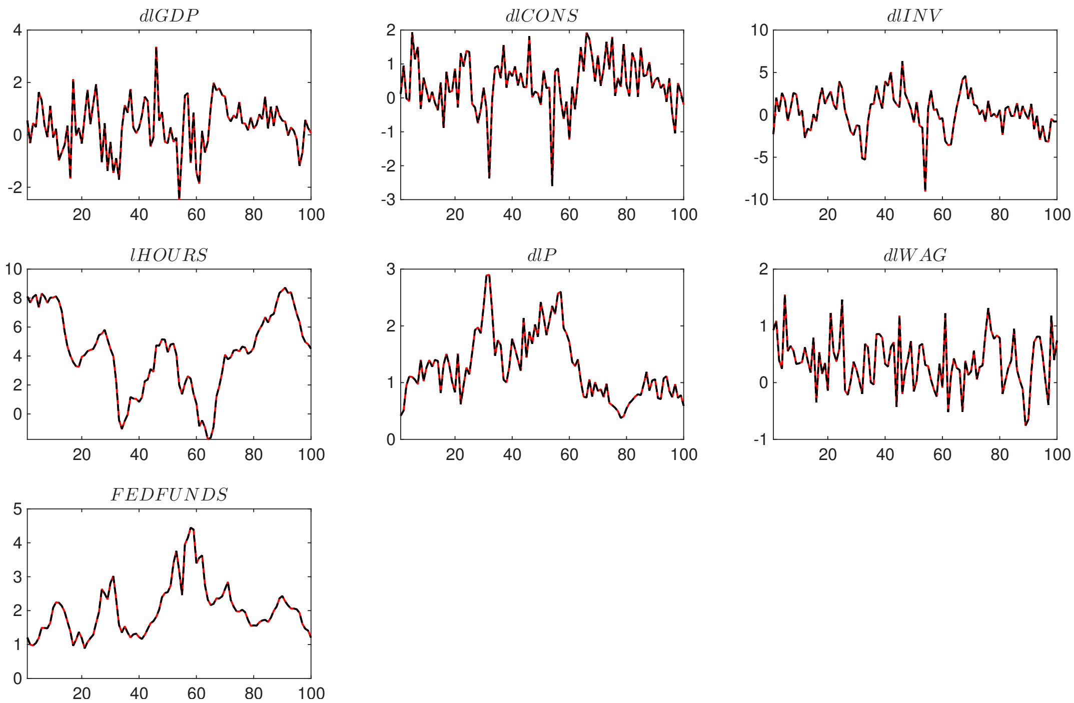

Figure 5: Historical and smoothed variables.

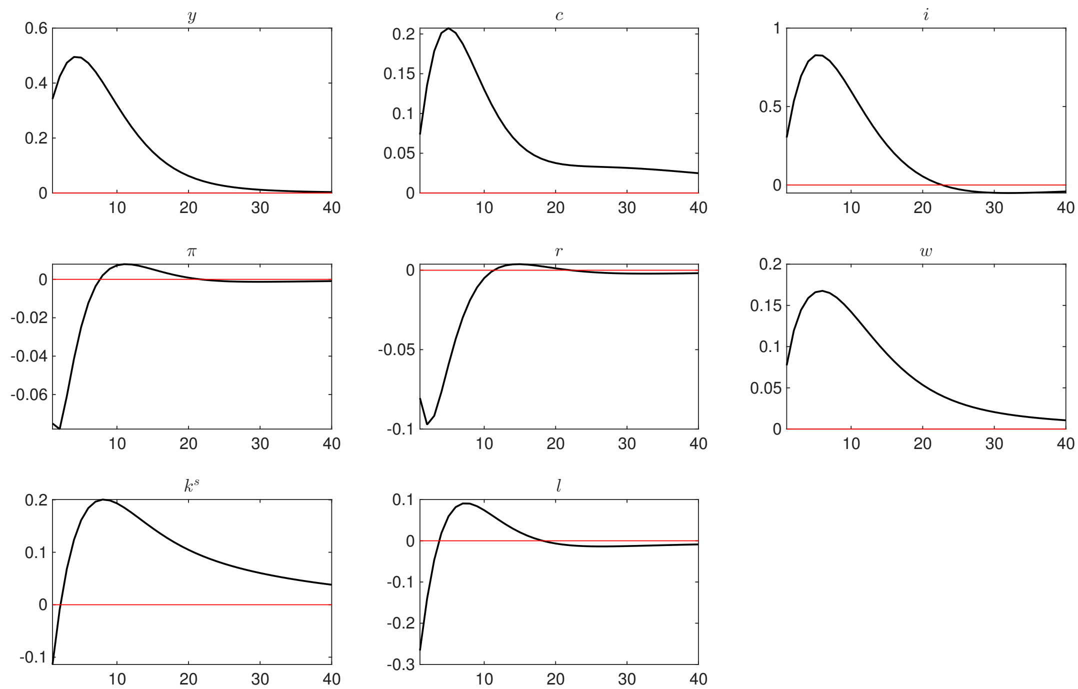

Figure 6: Impulse response functions (orthogonalized shock to η^a).

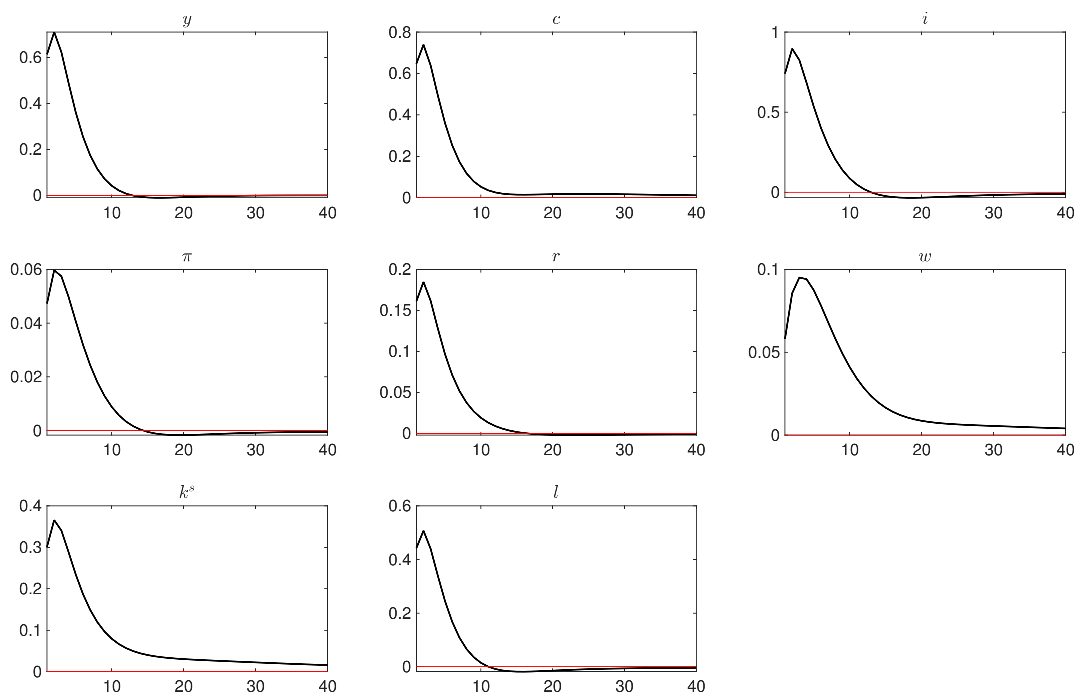

Figure 7: Impulse response functions (orthogonalized shock to η^b).

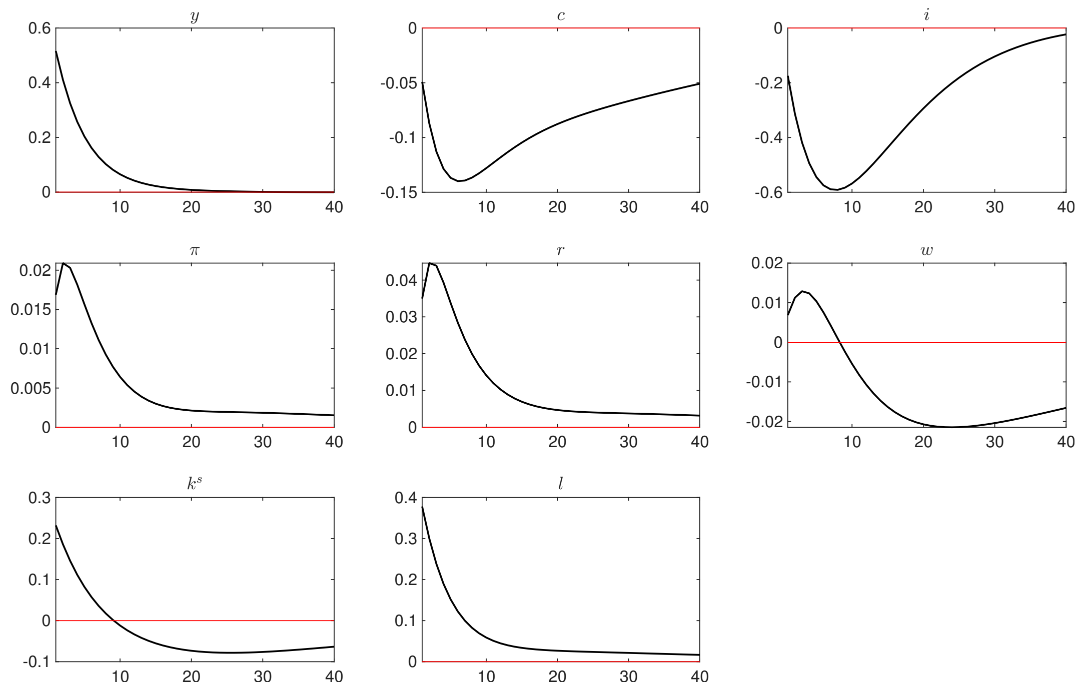

Figure 8: Impulse response functions (orthogonalized shock to η^g).

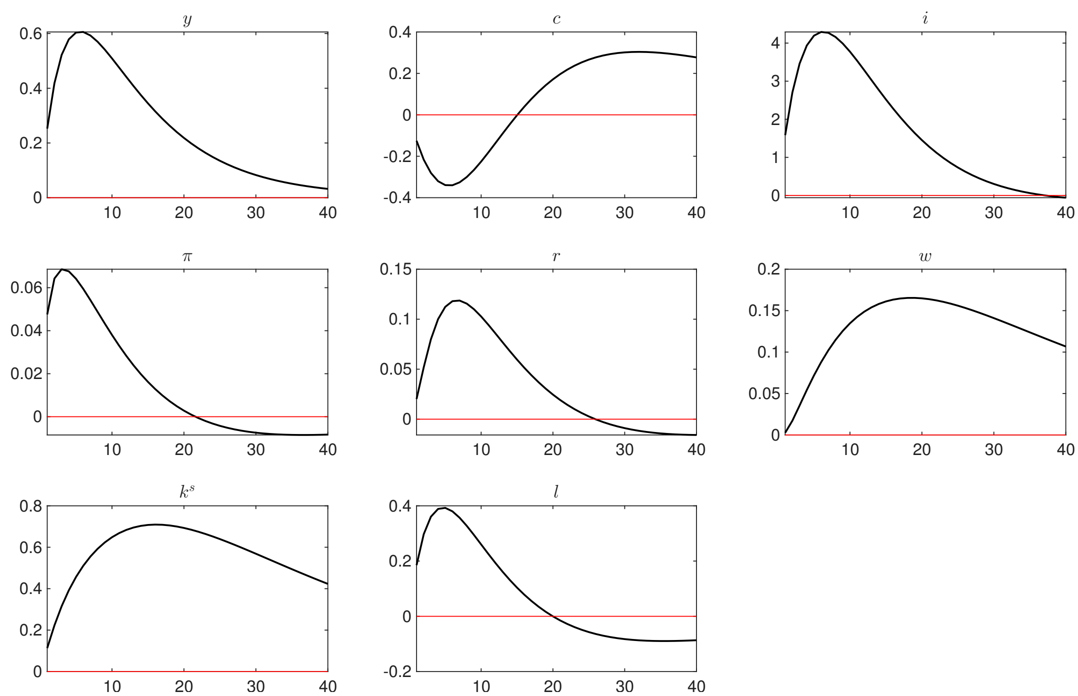

Figure 9: Impulse response functions (orthogonalized shock to η^i).

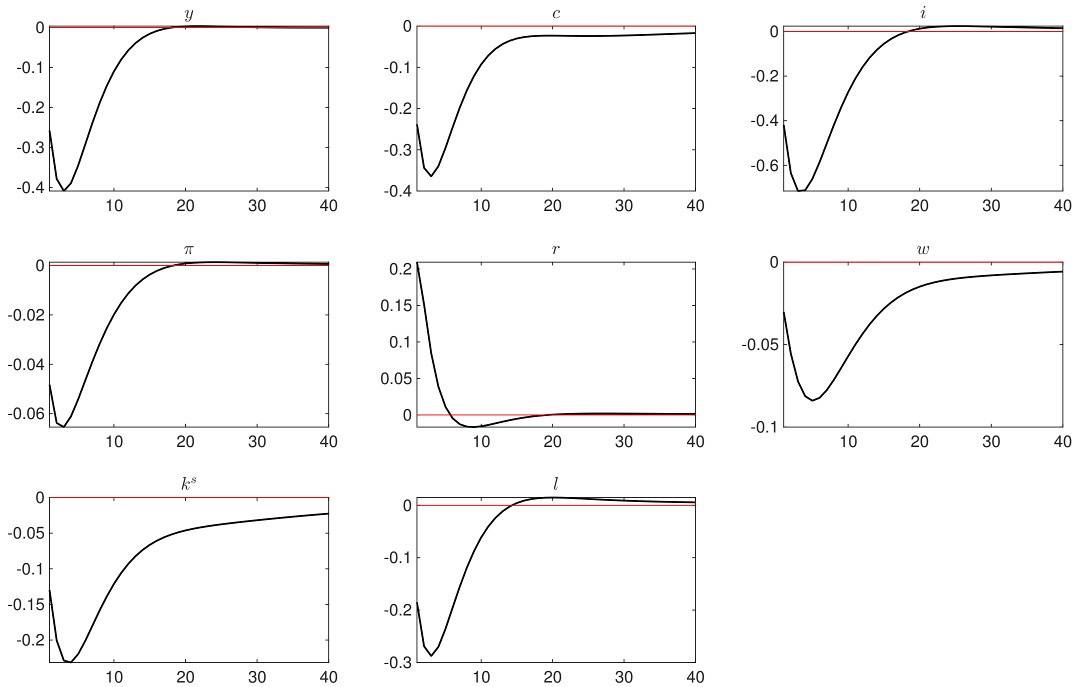

Figure 10: Impulse response functions (orthogonalized shock to η^m).

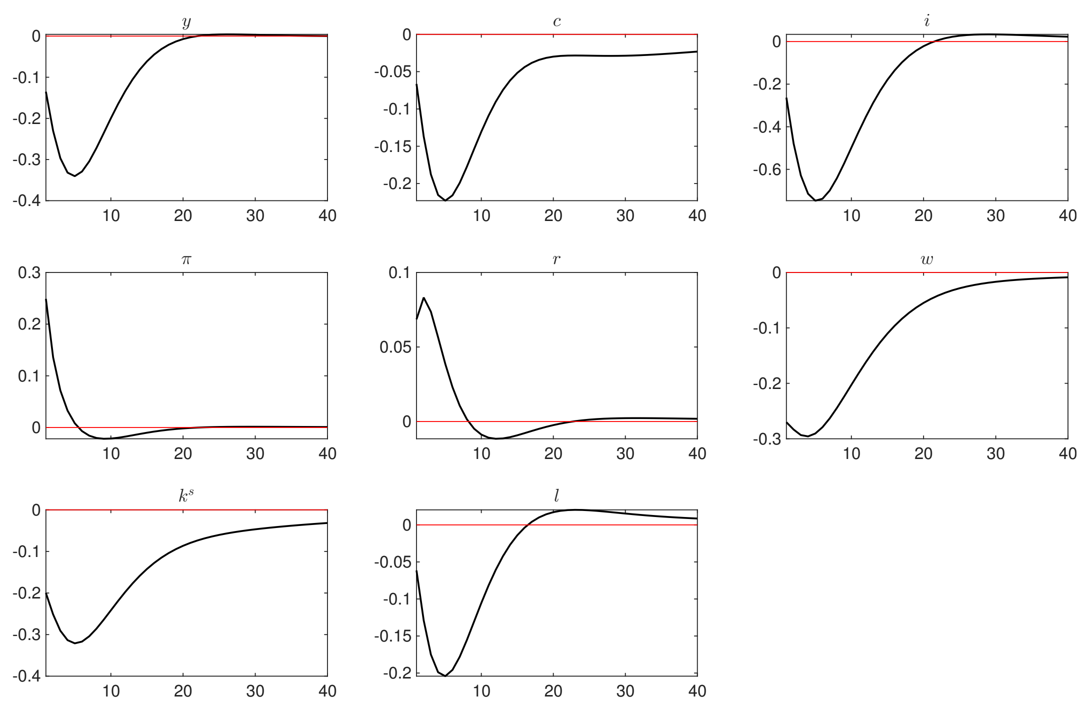

Figure 11: Impulse response functions (orthogonalized shock to η^p).

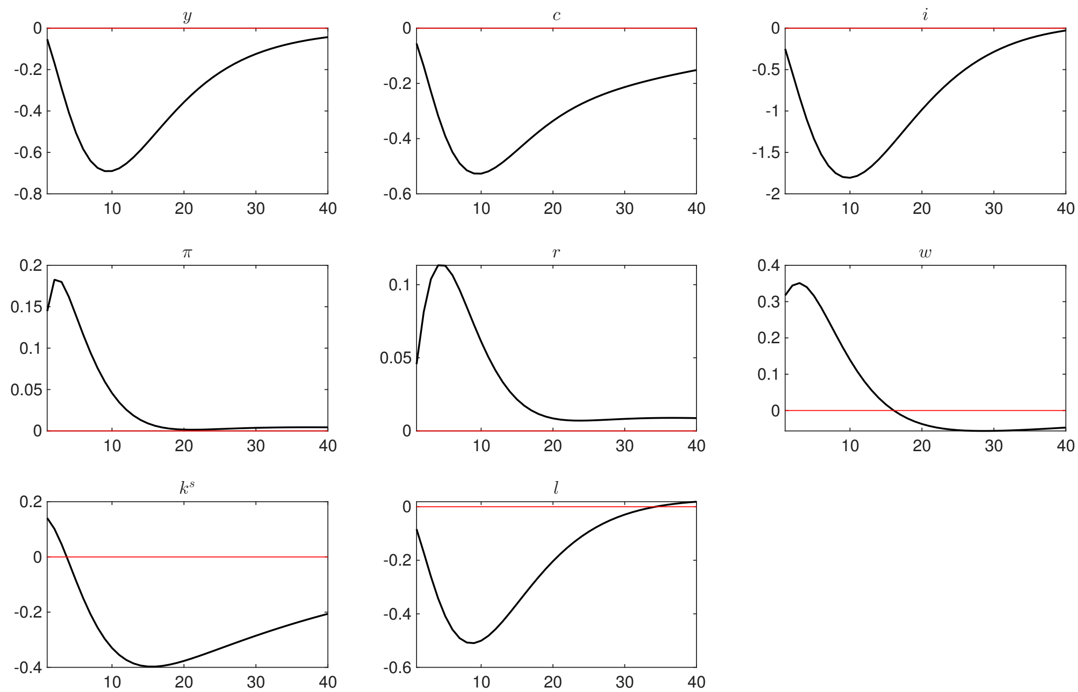

Figure 12: Impulse response functions (orthogonalized shock to η^w).

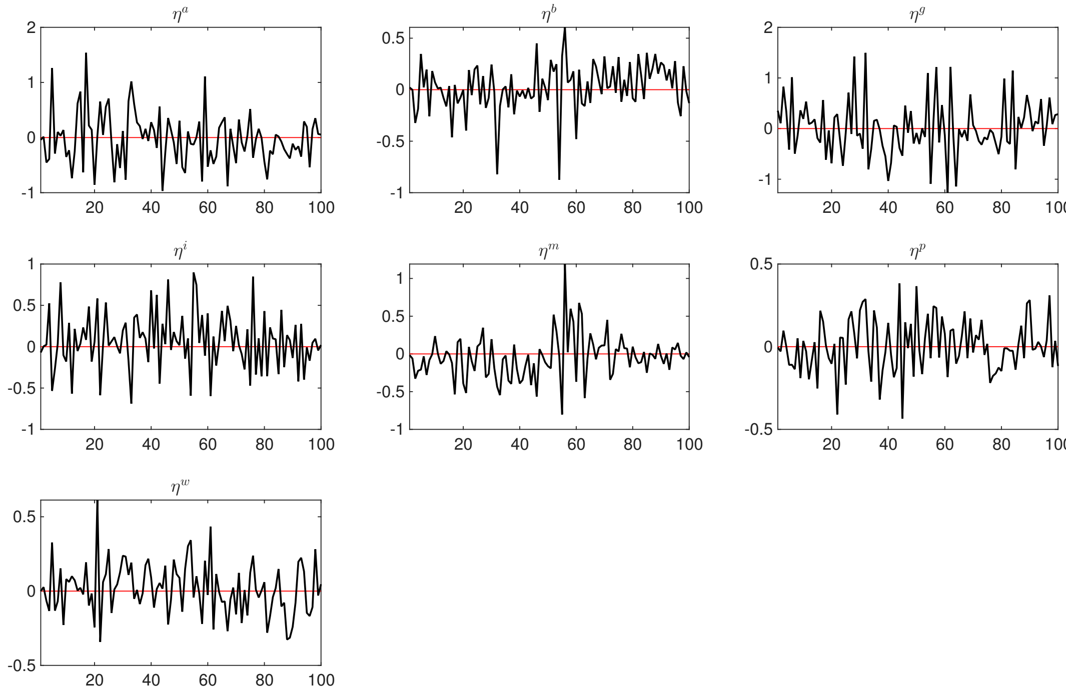

Figure 13: Smoothed shocks.