Table 1: MCMC Inefficiency factors per block

Parameter	*Block* 1	*Block* 2
σ_{η^a}	147.011	129.382
σ_{η^b}	300.260	228.638
σ_{η^g}	130.845	126.685
σ_{η^i}	197.092	111.644
σ_{η^m}	145.099	290.597
σ_{η^p}	156.731	208.500
σ_{η^w}	249.761	240.597
$\sigma_{\eta^{\sigma_w}}$	368.517	449.950
$\sigma_{\eta^{\pi_*}}$	273.172	265.481
α	172.172	212.004
ψ	165.303	133.742
Φ	154.042	136.295
ι_w	167.424	123.253
ξ_w	231.912	158.229
ι_p	139.219	259.053
ξ_p	228.254	189.079
σ_c	454.692	80.574
σ_l	193.860	90.004
λ	397.858	119.433
φ	431.472	120.740
r_π	141.673	233.274
r_y	204.999	149.455
$r_{\Delta y}$	148.359	112.258
ρ	254.141	270.722
n_*	263.318	308.824
γ	445.590	158.985
ζ_{sp}	130.656	297.340
$\bar{\pi}$	396.222	442.296
ρ_{ga}	213.661	135.147
ρ_a	249.076	308.800
ρ_b	202.028	292.044
ρ_g	80.384	255.898
ρ_i	140.682	255.348
ρ_r	227.285	187.888
ρ_p	334.319	206.687
ρ_w	364.342	260.885
ρ_{σ_w}	486.124	614.018
ρ_{π_*}	414.370	85.865
μ_p	215.902	193.069
μ_w	494.971	337.159

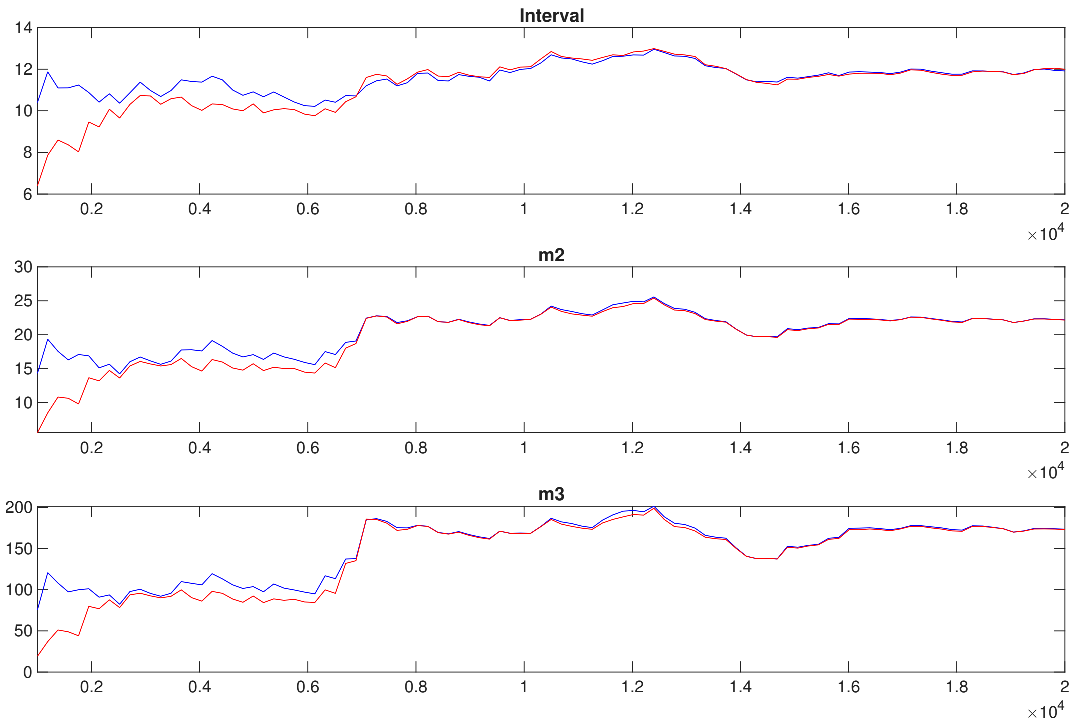

Figure 1: Multivariate convergence diagnostics for the Metropolis-Hastings. The first, second and third rows are respectively the criteria based on the eighty percent interval, the second and third moments. The different parameters are aggregated using the posterior kernel.

Table 2: Results from Metropolis-Hastings (parameters)

	Prior			Posterior			
	Dist.	Mean	Stdev.	Mean	Stdev.	HPD inf	HPD sup
α	norm	0.300	0.0500	0.268	0.0324	0.2133	0.3206
ψ	beta	0.500	0.1500	0.457	0.0677	0.3443	0.5632
Φ	norm	1.250	0.1250	1.438	0.0609	1.3448	1.5472
ι_w	beta	0.500	0.1500	0.294	0.0881	0.1442	0.4325
ξ_w	beta	0.500	0.1000	0.903	0.0156	0.8783	0.9287
ι_p	beta	0.500	0.1500	0.271	0.0812	0.1296	0.3928
ξ_p	beta	0.500	0.1000	0.686	0.0385	0.6264	0.7541
σ_c	norm	1.500	0.3750	1.533	0.1149	1.3544	1.7157
σ_l	norm	2.000	0.7500	1.807	0.5176	0.9566	2.6137
λ	beta	0.700	0.1000	0.524	0.0803	0.3862	0.6506
φ	norm	4.000	1.5000	0.093	0.0224	0.0560	0.1267
r_π	norm	1.500	0.2500	1.990	0.1803	1.6982	2.2941
r_y	norm	0.125	0.0500	0.165	0.0343	0.1081	0.2218
$r_{\Delta y}$	norm	0.125	0.0500	0.292	0.0252	0.2499	0.3327
ρ	beta	0.750	0.1000	0.847	0.0284	0.8028	0.8921
n_*	norm	0.000	2.0000	3.033	0.9386	1.5969	4.4266
γ	norm	0.400	0.1000	0.497	0.0878	0.3452	0.6405
ζ_{sp}	beta	0.050	0.0050	0.047	0.0050	0.0386	0.0544
$\bar{\pi}$	gamm	0.625	0.2000	0.272	0.0640	0.1714	0.3784
ρ_{ga}	beta	0.500	0.2000	0.693	0.1596	0.4447	0.9558
ρ_a	beta	0.500	0.2000	0.964	0.0133	0.9441	0.9846
ρ_b	beta	0.500	0.2000	0.864	0.0264	0.8244	0.9083
ρ_g	beta	0.500	0.2000	0.978	0.0094	0.9637	0.9935
ρ_i	beta	0.500	0.2000	0.995	0.0026	0.9906	0.9987
ρ_r	beta	0.500	0.2000	0.046	0.0241	0.0100	0.0815
ρ_p	beta	0.500	0.2000	0.879	0.0468	0.8064	0.9556
ρ_w	beta	0.500	0.2000	0.550	0.1573	0.2903	0.8060
ρ_{σ_w}	beta	0.750	0.1500	0.979	0.0190	0.9471	0.9998
ρ_{π_*}	beta	0.750	0.1500	0.995	0.0032	0.9912	0.9998
μ_p	beta	0.500	0.2000	0.699	0.0775	0.5734	0.8244
μ_w	beta	0.500	0.2000	0.782	0.1168	0.6288	0.9483

Table 3: Results from Metropolis-Hastings (standard deviation of structural shocks)

	Prior			Posterior			
	Dist.	Mean	Stdev.	Mean	Stdev.	HPD inf	HPD sup
η^a	invg	0.100	2.0000	0.471	0.0278	0.4280	0.5177
η^b	invg	0.100	2.0000	0.094	0.0127	0.0746	0.1156
η^g	invg	0.100	2.0000	2.832	0.1553	2.5627	3.0761
η^i	invg	0.100	2.0000	1.851	0.2797	1.3882	2.3008
η^m	invg	0.100	2.0000	0.244	0.0184	0.2129	0.2722
η^p	invg	0.100	2.0000	0.166	0.0129	0.1450	0.1881
η^w	invg	0.100	2.0000	0.321	0.0232	0.2824	0.3583
η^{σ_w}	invg	0.100	2.0000	0.085	0.0147	0.0604	0.1090
η^{π_*}	invg	0.100	2.0000	0.047	0.0124	0.0262	0.0670

Table 4: Results from posterior maximization (parameters)

	Prior			Posterior	
	Dist.	Mean	Stdev	Mode	Stdev
α	norm	0.300	0.0500	0.2652	0.0352
ψ	beta	0.500	0.1500	0.4425	0.0647
Φ	norm	1.250	0.1250	1.4276	0.0617
ι_w	beta	0.500	0.1500	0.2766	0.0947
ξ_w	beta	0.500	0.1000	0.9046	0.0159
ι_p	beta	0.500	0.1500	0.2625	0.0812
ξ_p	beta	0.500	0.1000	0.6859	0.0379
σ_c	norm	1.500	0.3750	1.5127	0.1009
σ_l	norm	2.000	0.7500	1.8145	0.4797
λ	beta	0.700	0.1000	0.5319	0.0773
φ	norm	4.000	1.5000	0.0850	0.0202
r_π	norm	1.500	0.2500	2.0297	0.1779
r_y	norm	0.125	0.0500	0.1584	0.0343
$r_{\Delta y}$	norm	0.125	0.0500	0.2888	0.0256
ρ	beta	0.750	0.1000	0.8554	0.0237
n_*	norm	0.000	2.0000	2.5347	0.8199
γ	norm	0.400	0.1000	0.5072	0.0846
ζ_{sp}	beta	0.050	0.0050	0.0459	0.0047
$\bar{\pi}$	gamm	0.625	0.2000	0.3016	0.0464
ρ_{ga}	beta	0.500	0.2000	0.7849	0.1553
ρ_a	beta	0.500	0.2000	0.9668	0.0118
ρ_b	beta	0.500	0.2000	0.8686	0.0218
ρ_g	beta	0.500	0.2000	0.9815	0.0084
ρ_i	beta	0.500	0.2000	0.9954	0.0026
ρ_r	beta	0.500	0.2000	0.0293	0.0221
ρ_p	beta	0.500	0.2000	0.8947	0.0410
ρ_w	beta	0.500	0.2000	0.6020	0.1553
ρ_{σ_w}	beta	0.750	0.1500	0.9945	0.0055
ρ_{π_*}	beta	0.750	0.1500	0.9967	0.0026
μ_p	beta	0.500	0.2000	0.7300	0.0736
μ_w	beta	0.500	0.2000	0.8117	0.0880

Table 5: Results from posterior maximization (standard deviation of structural shocks)

	Prior			Posterior	
	Dist.	Mean	Stdev	Mode	Stdev
η^a	invg	0.100	2.0000	0.4681	0.0298
η^b	invg	0.100	2.0000	0.0906	0.0113
η^g	invg	0.100	2.0000	2.7908	0.1603
η^i	invg	0.100	2.0000	1.8478	0.2825
η^m	invg	0.100	2.0000	0.2365	0.0170
η^p	invg	0.100	2.0000	0.1661	0.0129
η^w	invg	0.100	2.0000	0.3207	0.0232
η^{σ_w}	invg	0.100	2.0000	0.0714	0.0094
η^{π_*}	invg	0.100	2.0000	0.0360	0.0099

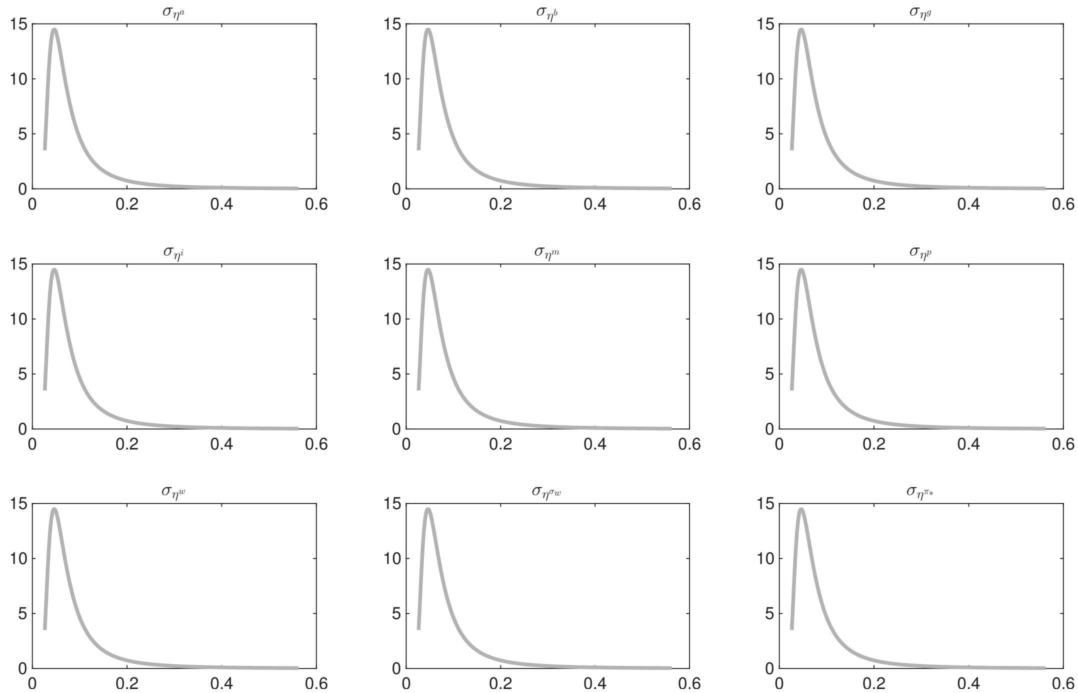

Figure 2: Priors.

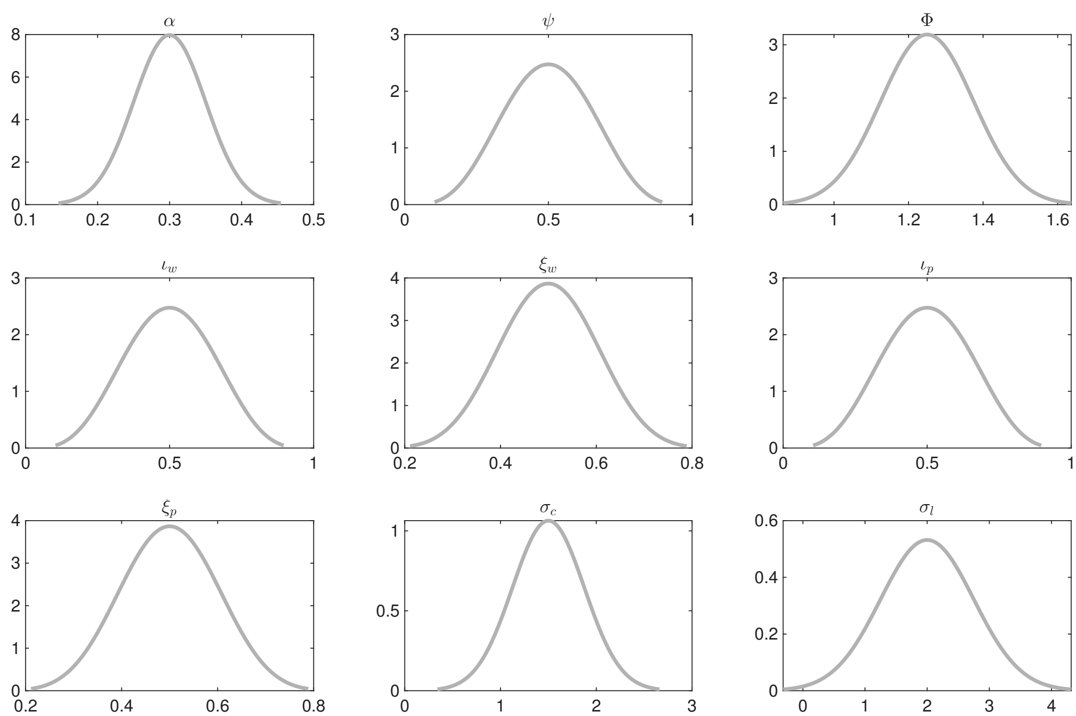

Figure 3: Priors.

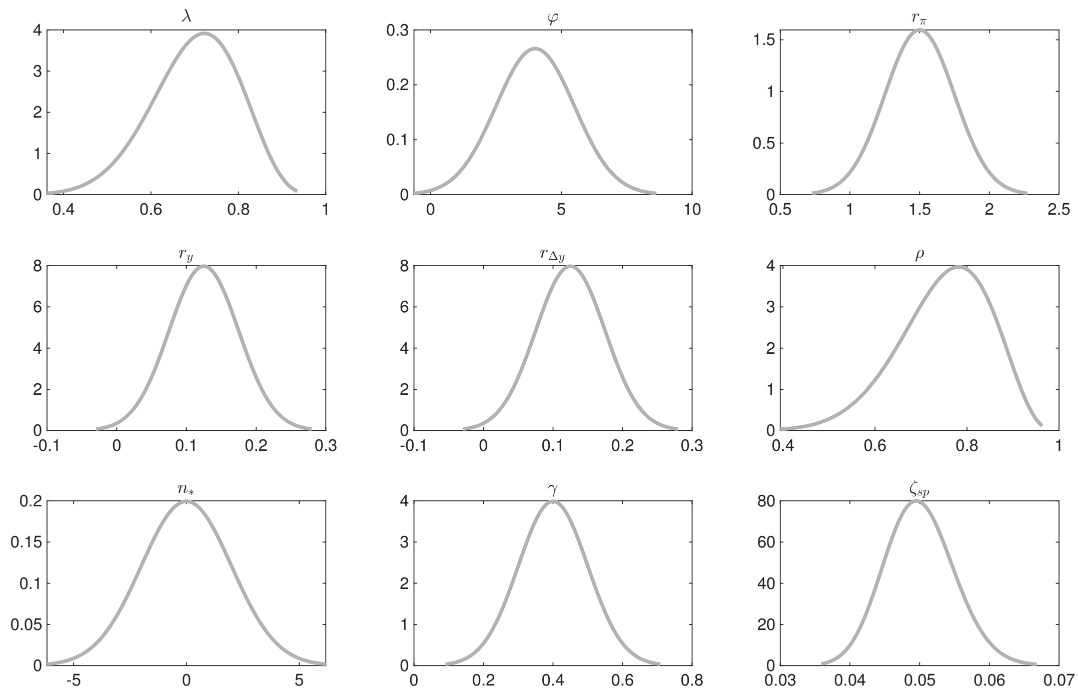

Figure 4: Priors.

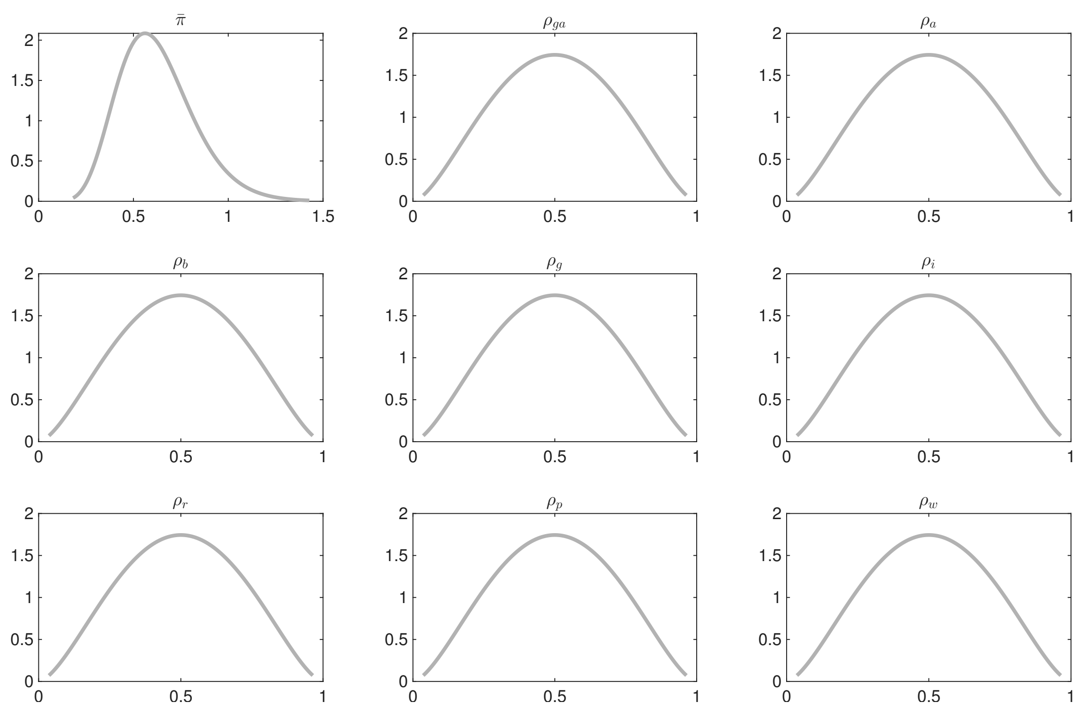

Figure 5: Priors.

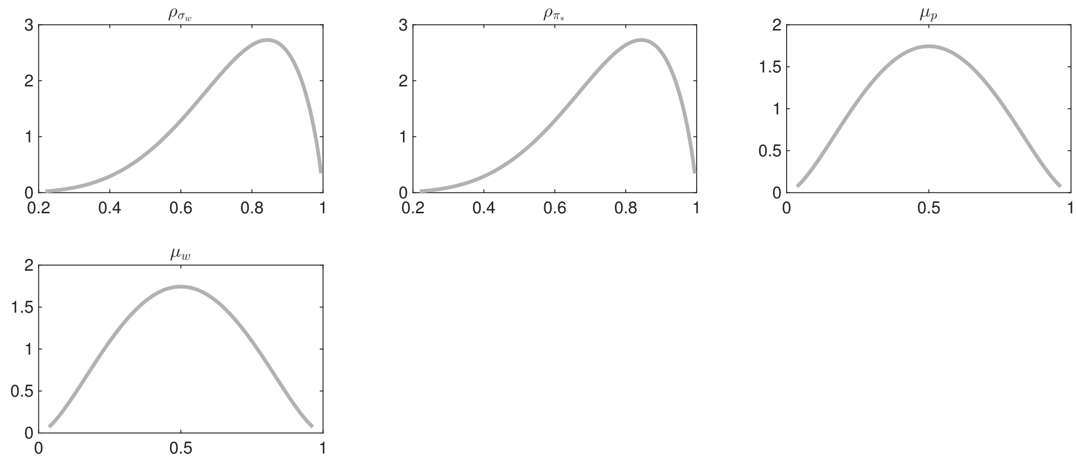

Figure 6: Priors.

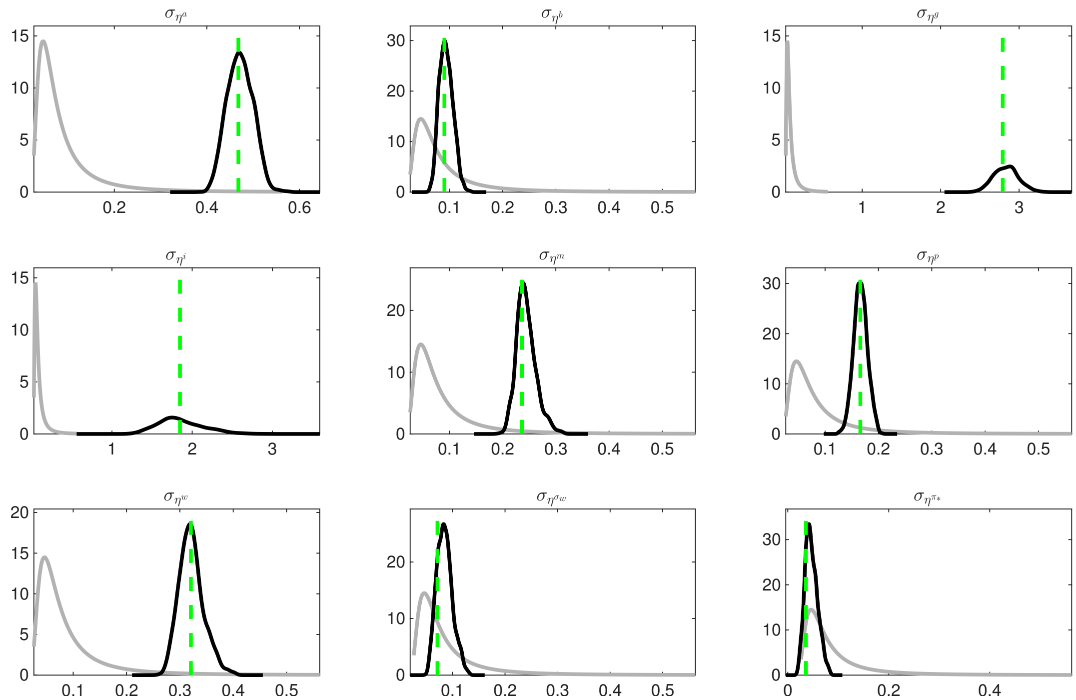

Figure 7: Priors and posteriors.

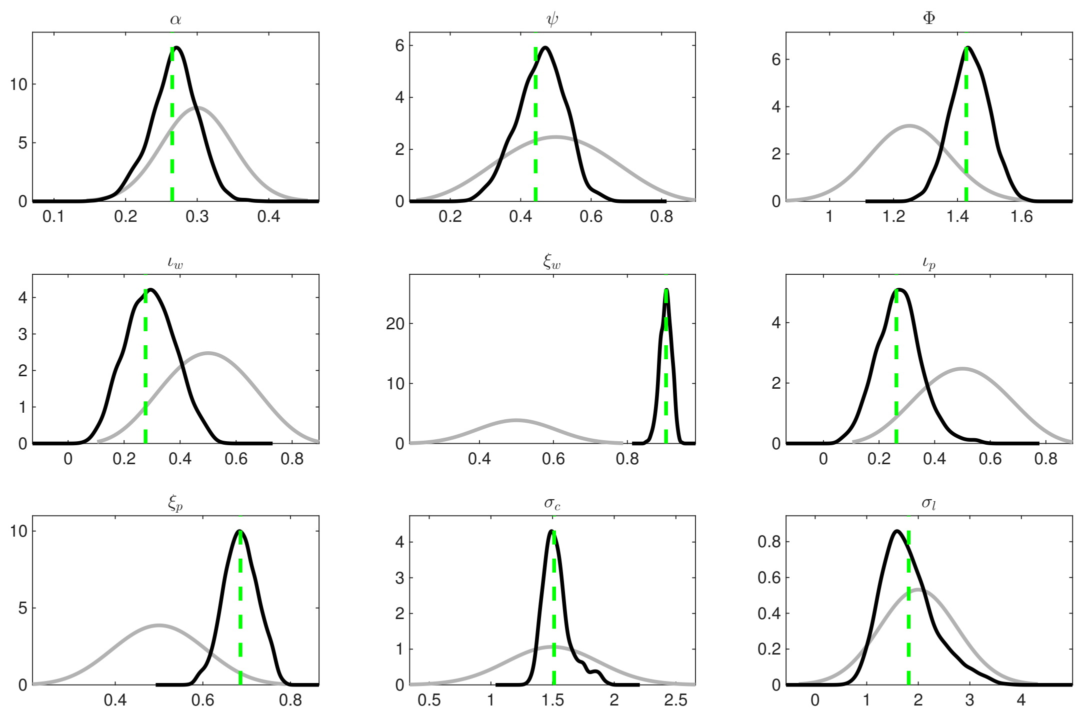

Figure 8: Priors and posteriors.

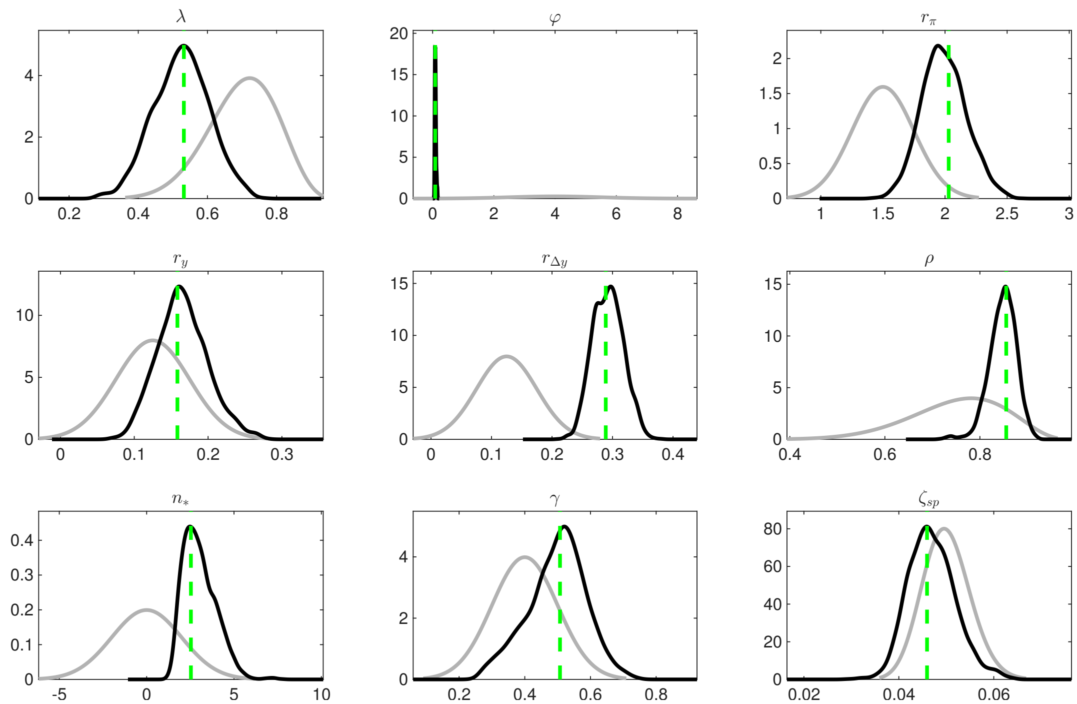

Figure 9: Priors and posteriors.

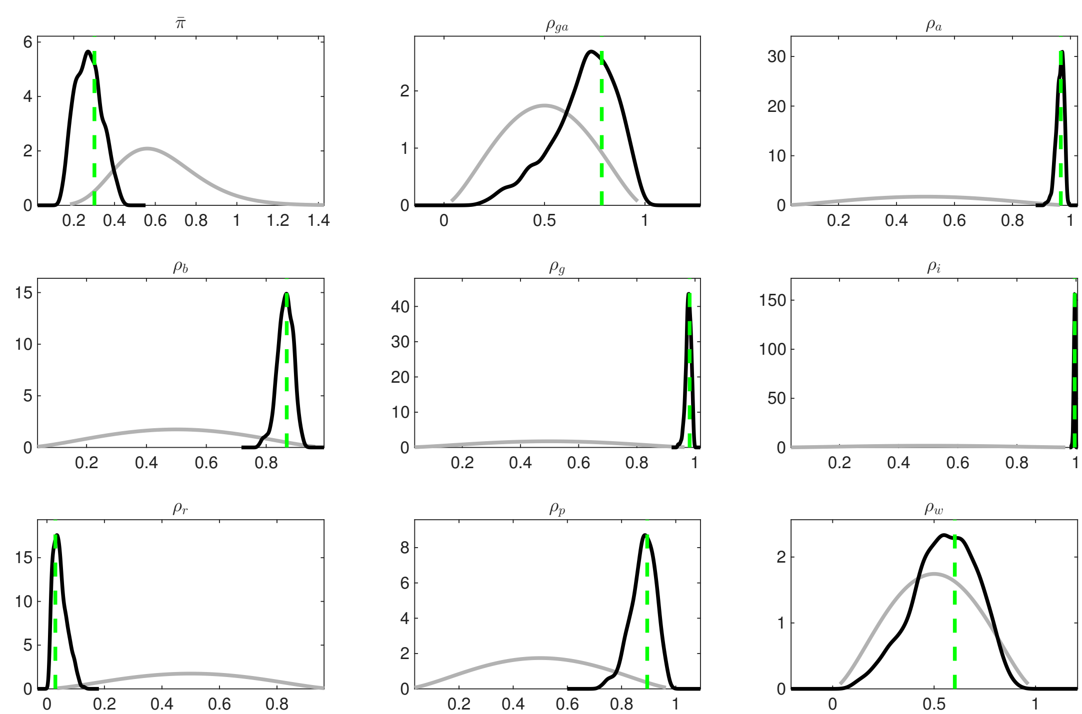

Figure 10: Priors and posteriors.

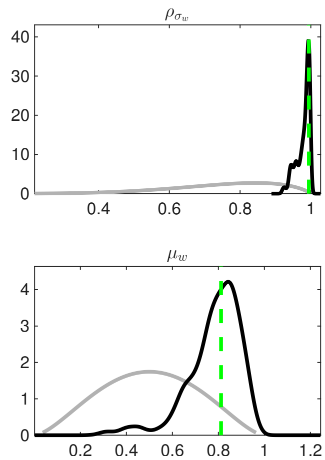

Figure 11: Priors and posteriors.

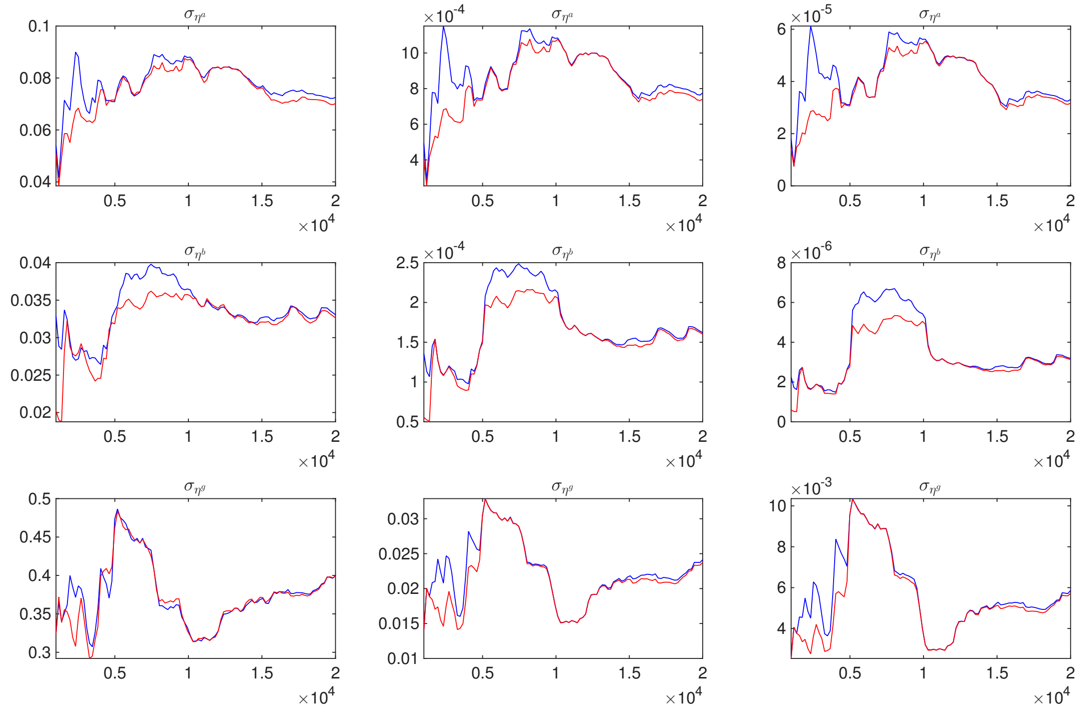

Figure 12: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

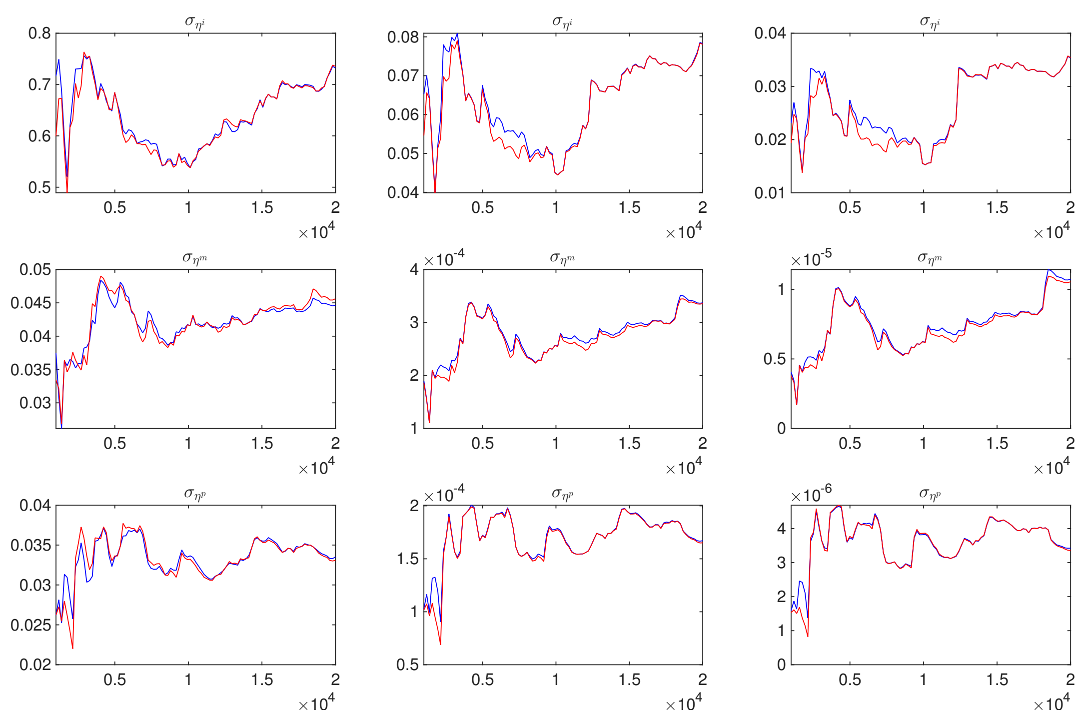

Figure 13: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

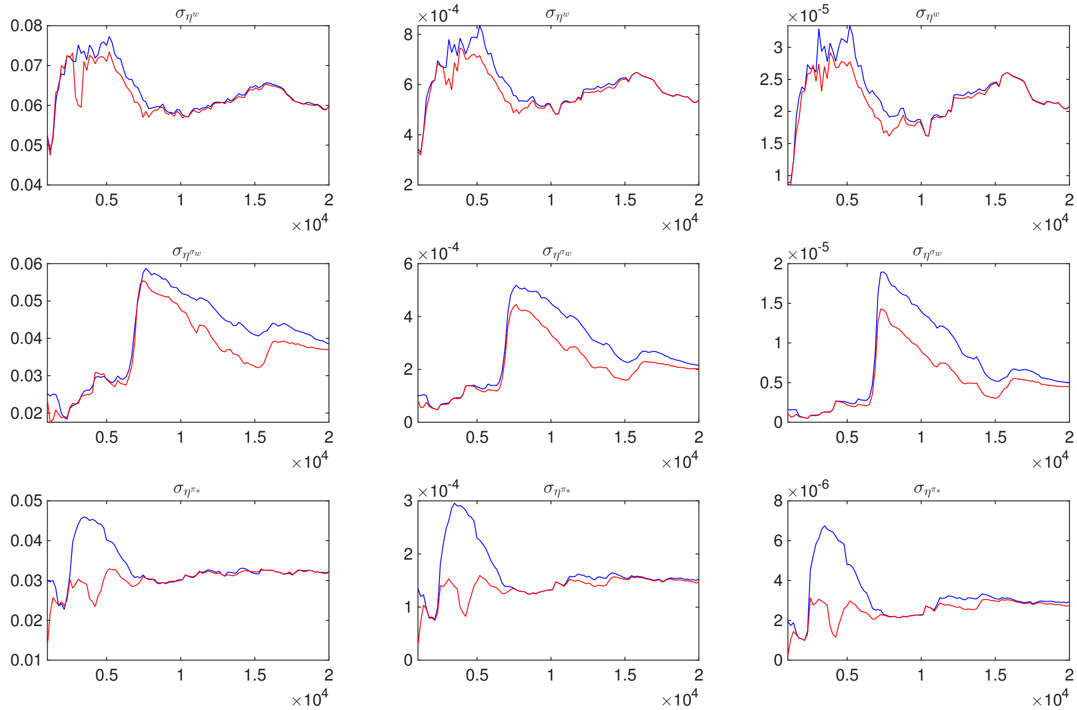

Figure 14: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

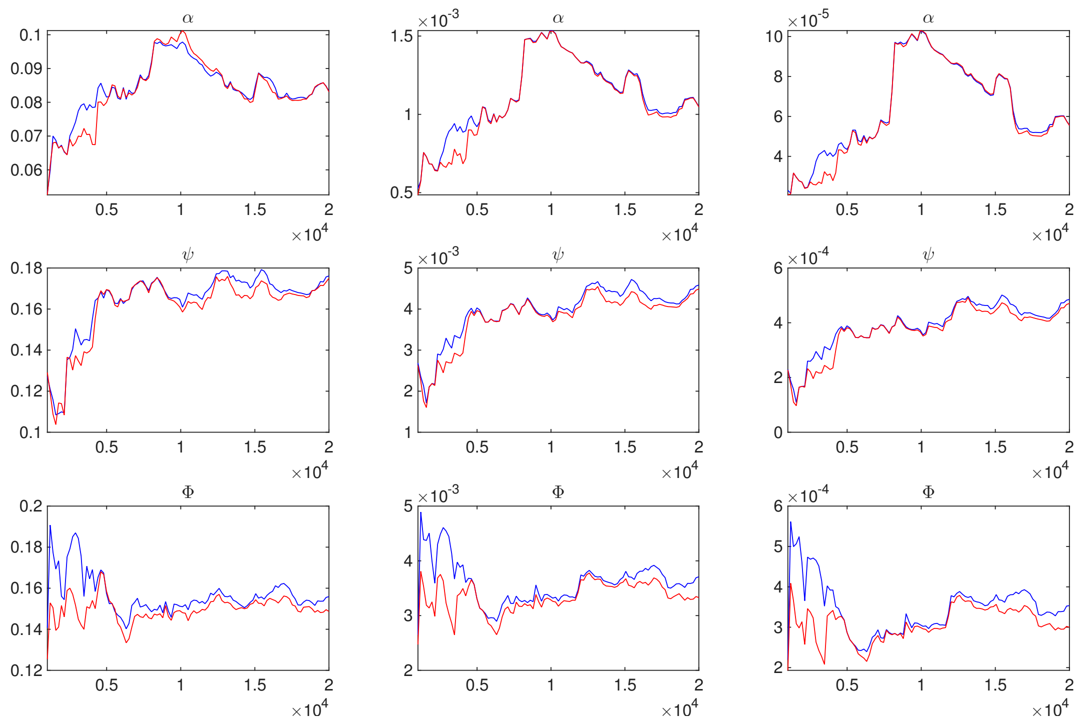

Figure 15: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

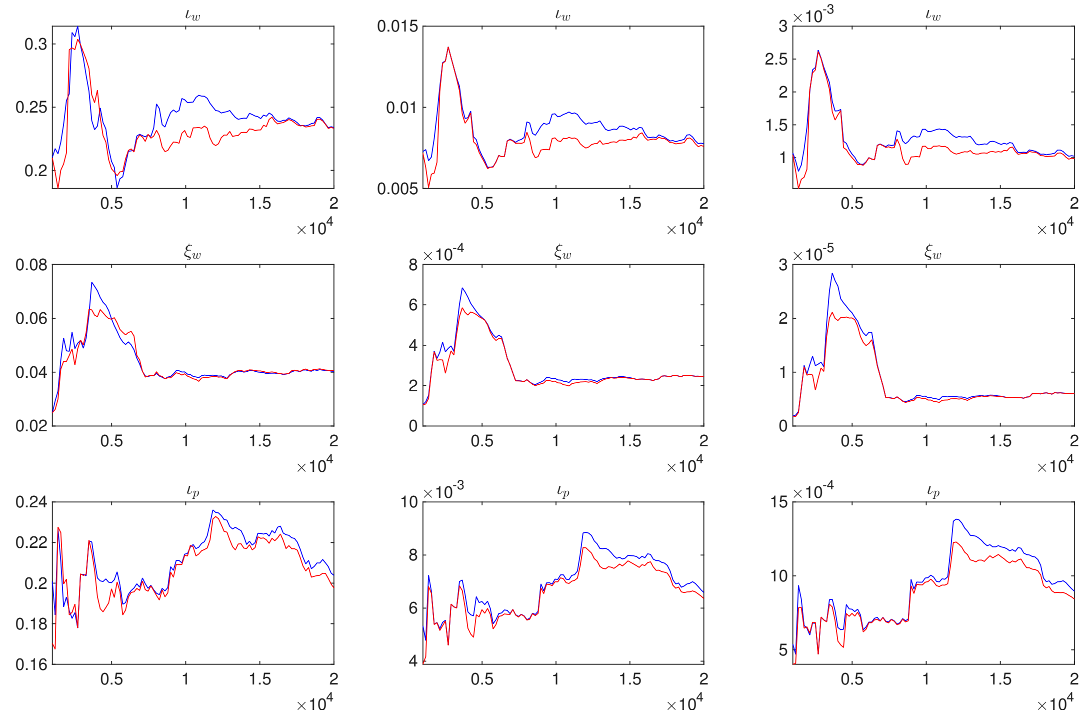

Figure 16: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

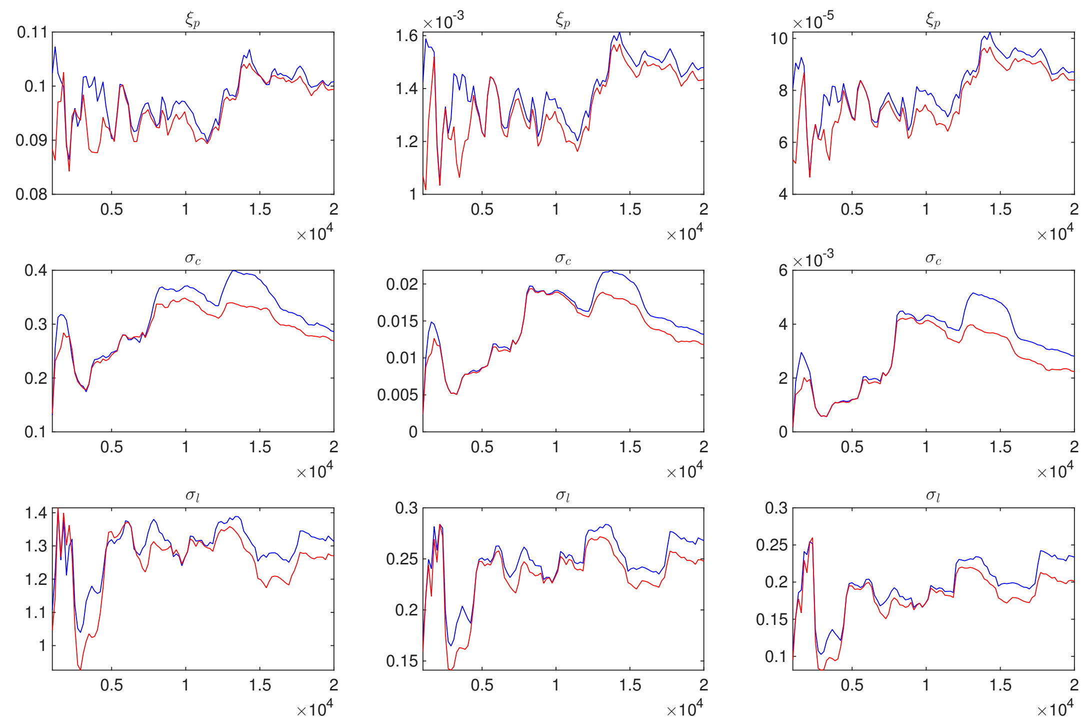

Figure 17: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

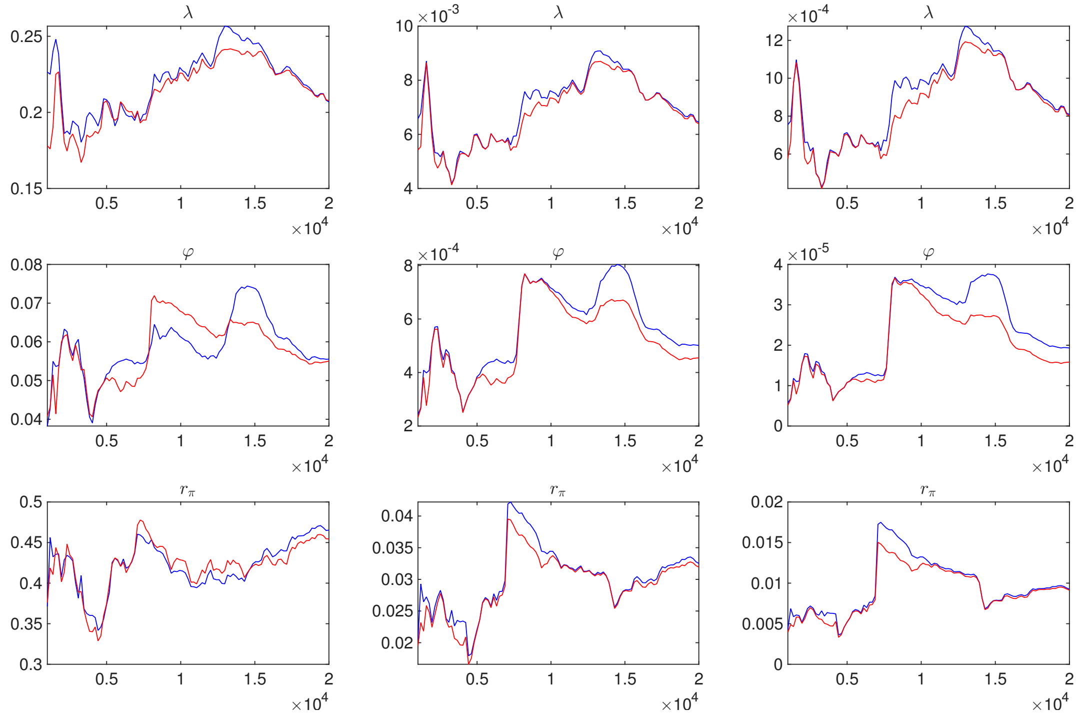

Figure 18: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

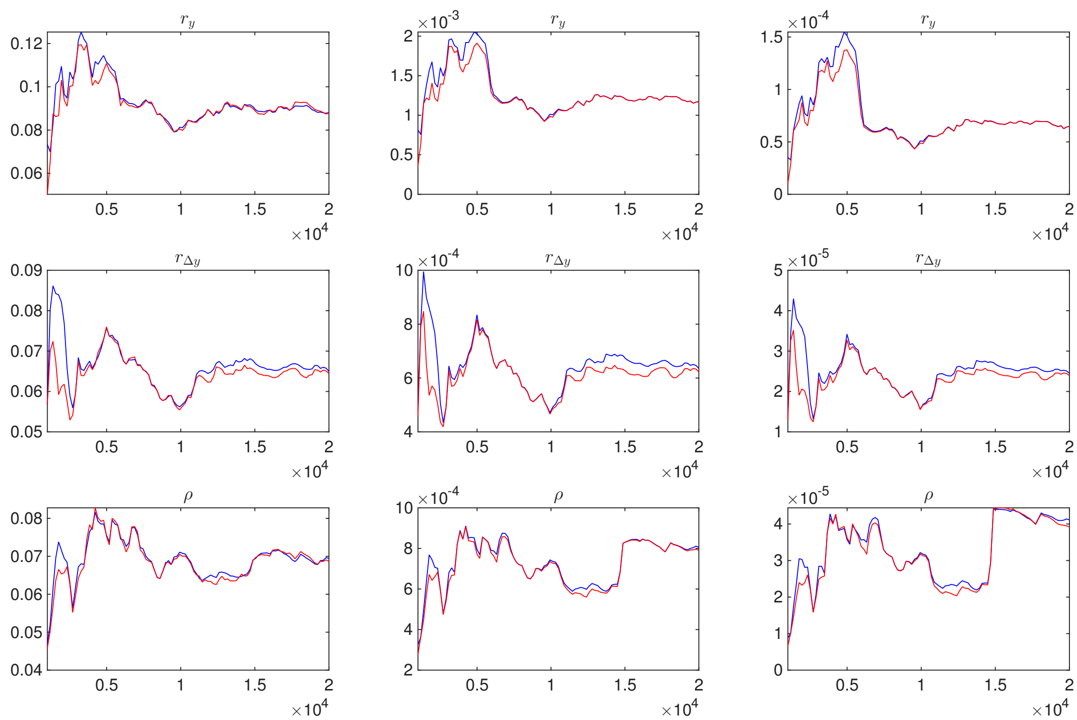

Figure 19: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

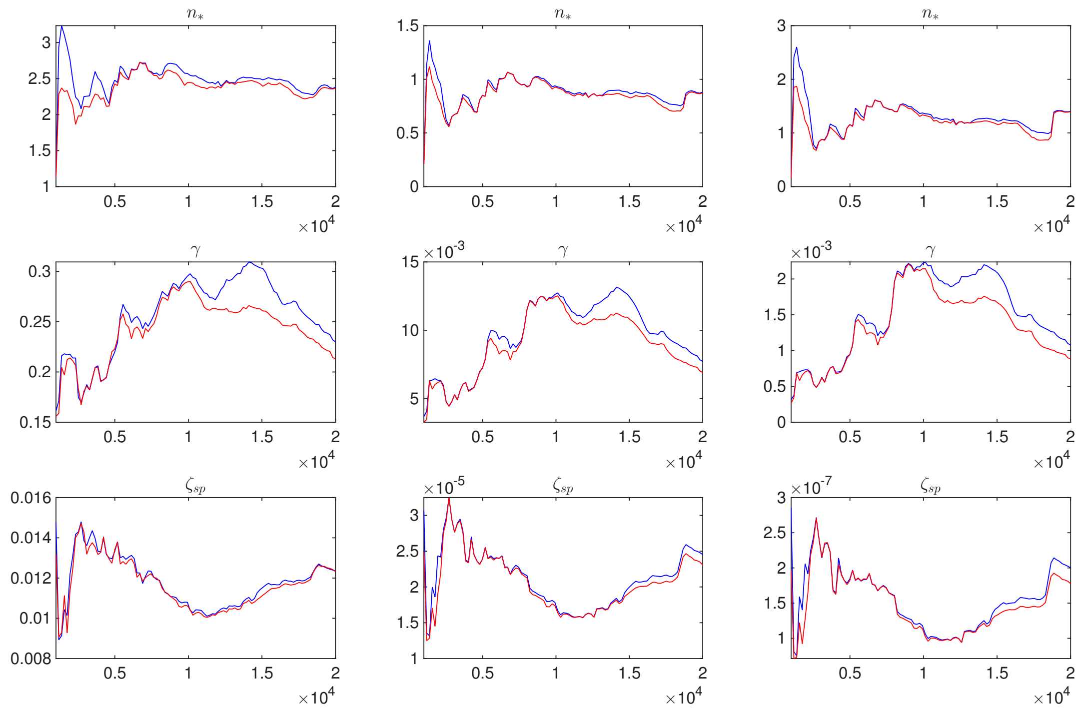

Figure 20: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

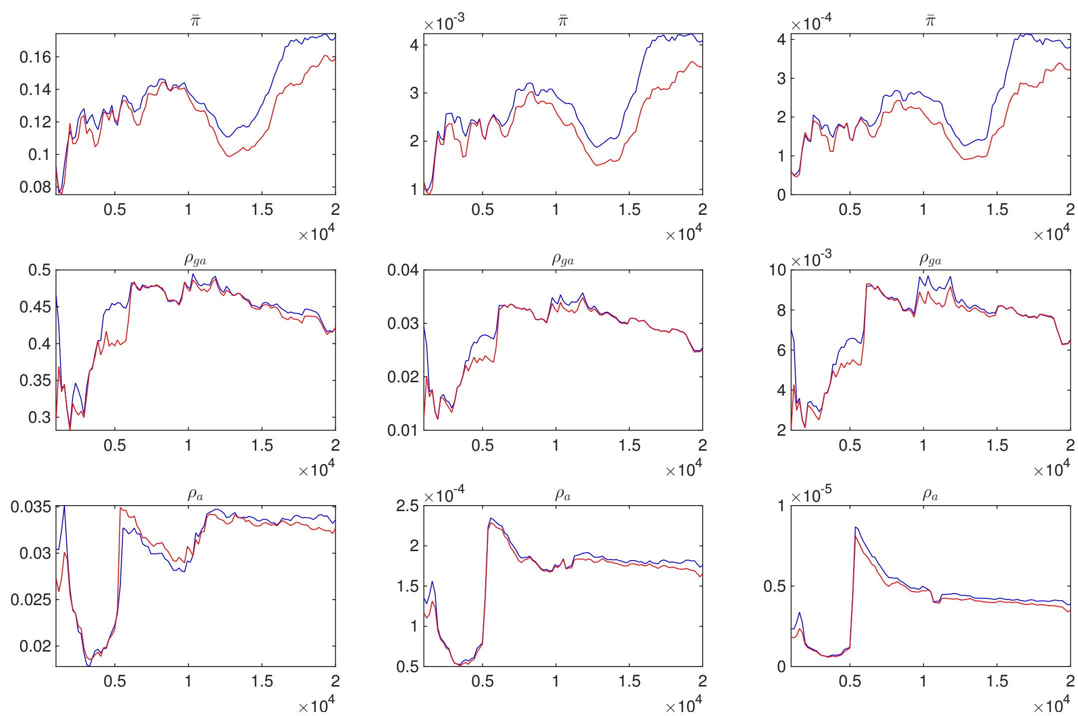

Figure 21: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

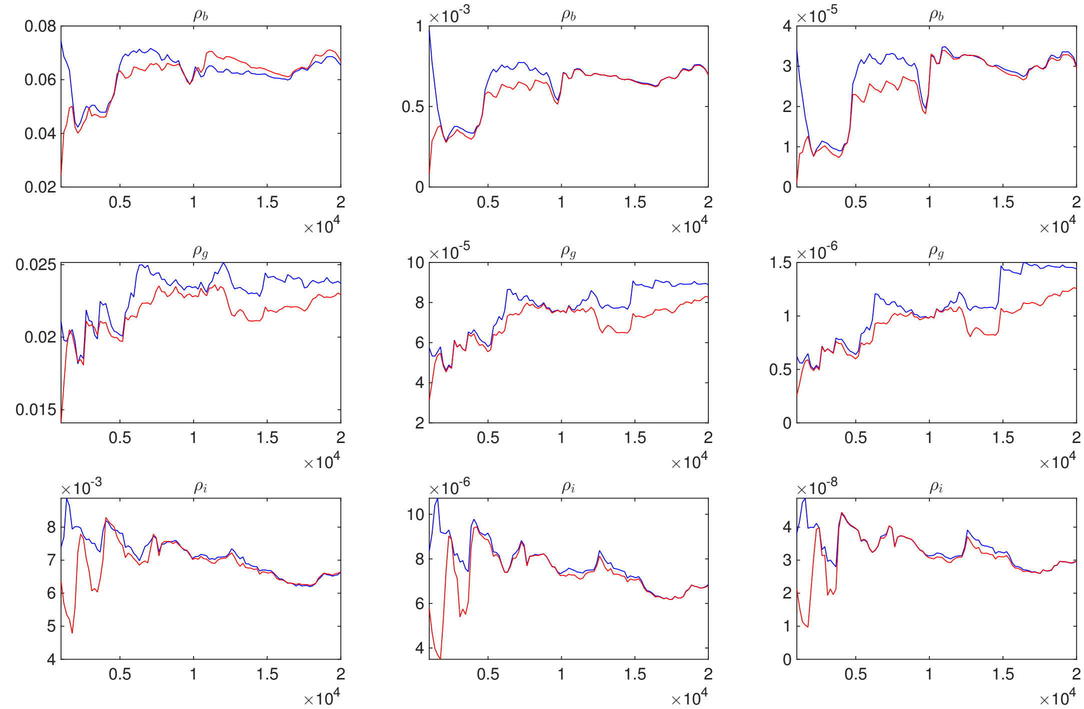

Figure 22: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

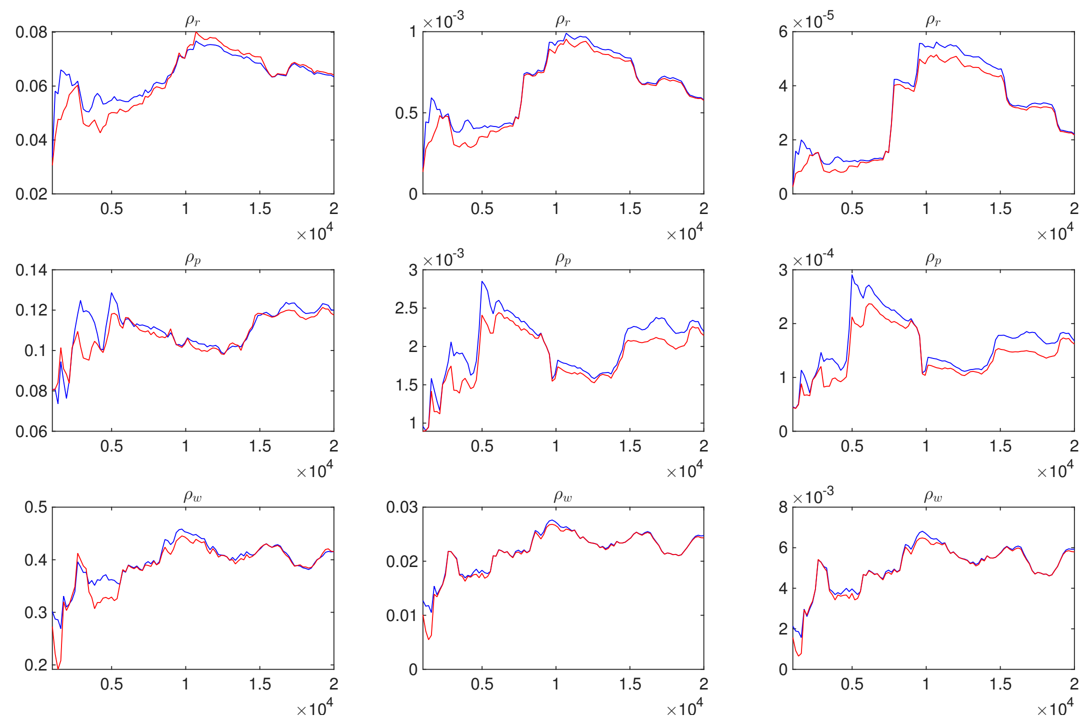

Figure 23: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

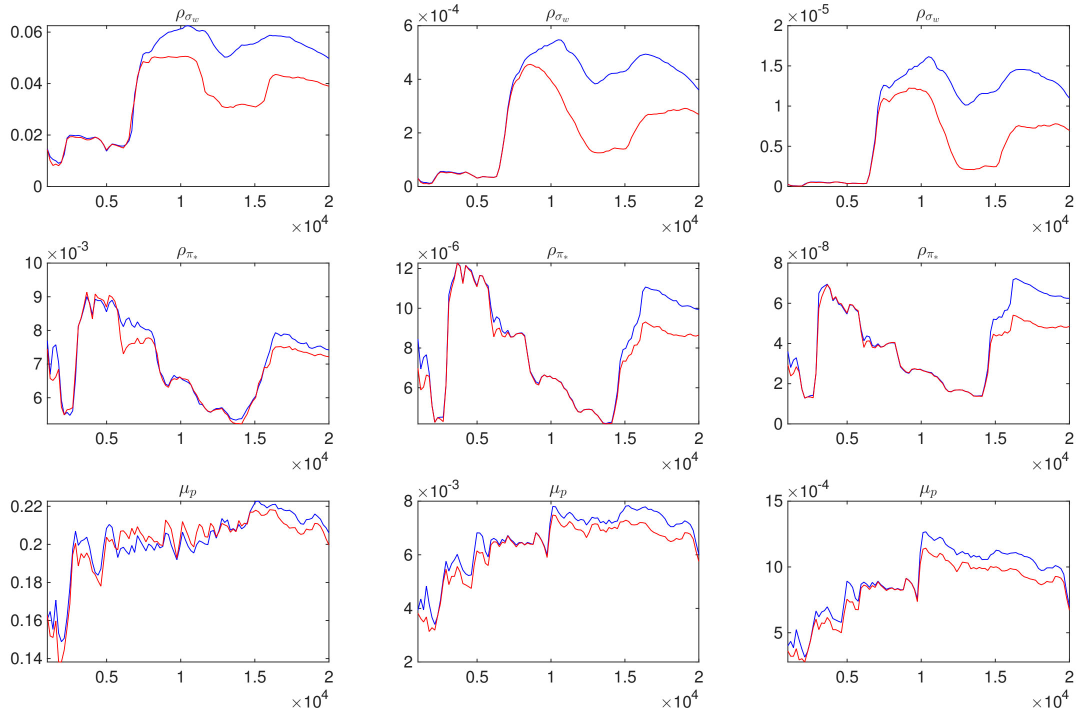

Figure 24: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

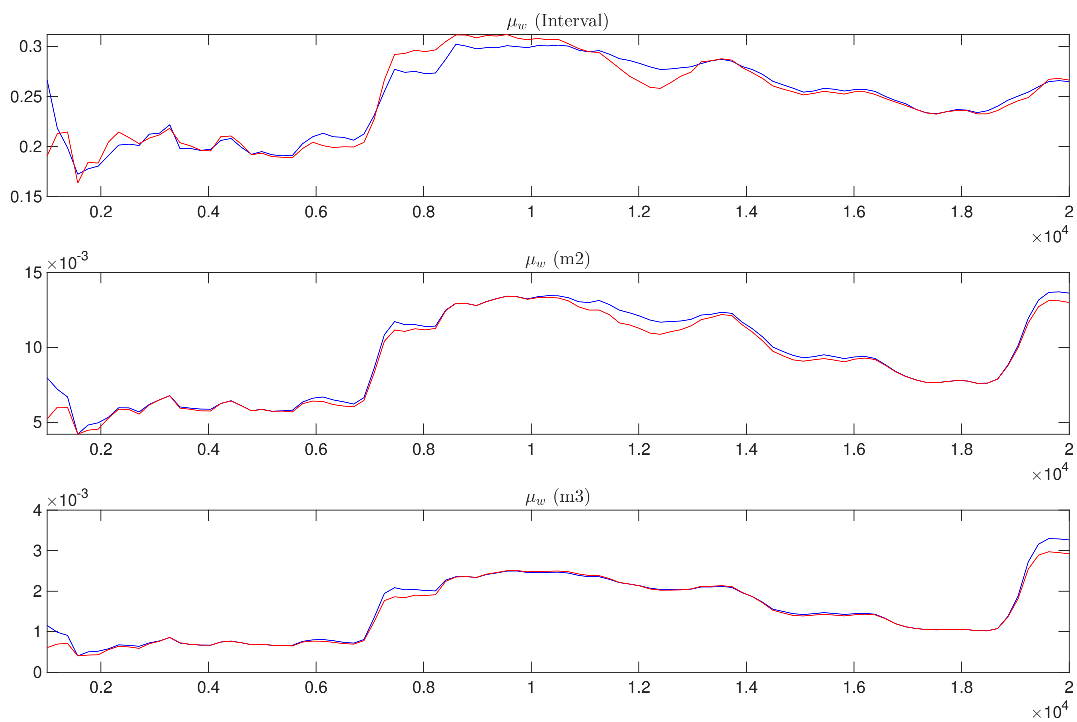

Figure 25: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third rows are respectively the criteria based on the eighty percent interval, the second and third moments.

Table 6: MATRIX OF COVARIANCE OF EXOGENOUS SHOCKS

$Variables$	η^a	η^b	η^g	η^i	η^m	η^p	η^w	η^{σ_w}	η^{π_*}	η^{z_p}
η^a	0.222201	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.00000	
η^b	0.000000	0.008788	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.00000	
η^g	0.000000	0.000000	8.019490	0.000000	0.000000	0.000000	0.000000	0.000000	0.00000	
η^i	0.000000	0.000000	0.000000	3.427586	0.000000	0.000000	0.000000	0.000000	0.00000	
η^m	0.000000	0.000000	0.000000	0.000000	0.059628	0.000000	0.000000	0.000000	0.00000	
η^p	0.000000	0.000000	0.000000	0.000000	0.000000	0.027632	0.000000	0.000000	0.00000	
η^w	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.103287	0.000000	0.00000	
η^{σ_w}	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.007209	0.00000	
η^{π_*}	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.00219	
η^{z_p}	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.00000	

Table 7: Geweke (1992) Convergence Tests, based on means of draws 10000 to 12000 vs 15000 to 20000 for chain 1. p-values are for χ^2-test for equality of means.

	Posterior		p-values			
Parameter	*Mean*	*Std*	*No Taper*	4% *Taper*	8% *Taper*	15% *Taper*
σ_{η^a}	0.4709	0.0288	0.0000	0.1153	0.1919	0.2172
σ_{η^b}	0.0931	0.0142	0.0000	0.2695	0.3372	0.3733
σ_{η^g}	2.8133	0.1522	0.0000	0.2078	0.2615	0.2549
σ_{η^i}	1.8310	0.2748	0.0000	0.5843	0.6537	0.6897
σ_{η^m}	0.2412	0.0177	0.0000	0.2106	0.2664	0.3168
σ_{η^p}	0.1650	0.0131	0.0000	0.2890	0.3514	0.3517
σ_{η^w}	0.3237	0.0244	0.0000	0.5882	0.6724	0.7211
$\sigma_{\eta^{\sigma w}}$	0.0806	0.0131	0.0000	0.0001	0.0029	0.0137
$\sigma_{\eta^{\pi *}}$	0.0471	0.0135	0.0000	0.1359	0.2236	0.2845
α	0.2672	0.0368	0.0000	0.0160	0.0353	0.0548
ψ	0.4511	0.0613	0.0000	0.0083	0.0280	0.0340
Φ	1.4318	0.0591	0.0456	0.8127	0.8455	0.8595
ι_w	0.2749	0.0853	0.0000	0.2039	0.2692	0.3025
ξ_w	0.8993	0.0193	0.0000	0.4863	0.5674	0.6162
ι_p	0.2576	0.0745	0.5318	0.9406	0.9492	0.9487
ξ_p	0.6897	0.0381	0.0000	0.1045	0.1828	0.2350
σ_c	1.5565	0.1364	0.0000	0.0005	0.0013	0.0007
σ_l	1.9209	0.5567	0.0000	0.0691	0.1491	0.2027
λ	0.5190	0.0900	0.0000	0.0000	0.0003	0.0010
φ	0.0976	0.0267	0.0000	0.0082	0.0193	0.0258
r_π	2.0206	0.1720	0.0974	0.8559	0.8798	0.8841
r_y	0.1680	0.0361	0.0000	0.0002	0.0015	0.0044
$r_{\Delta y}$	0.2898	0.0244	0.0000	0.0087	0.0276	0.0336
ρ	0.8471	0.0293	0.0000	0.5247	0.6108	0.6595
n_*	3.1073	1.0285	0.0000	0.0119	0.0399	0.0535
γ	0.4817	0.1043	0.0000	0.0000	0.0001	0.0003
ζ_{sp}	0.0457	0.0042	0.0358	0.7919	0.8143	0.8303
$\bar{\pi}$	0.2828	0.0561	0.0000	0.0000	0.0000	0.0000
ρ_{ga}	0.6858	0.1731	0.0000	0.0047	0.0280	0.0658
ρ_a	0.9667	0.0132	0.0000	0.0010	0.0083	0.0248
ρ_b	0.8651	0.0245	0.0000	0.4442	0.5051	0.5409
ρ_g	0.9791	0.0084	0.0000	0.1626	0.1778	0.1384
ρ_i	0.9942	0.0030	0.1607	0.8687	0.8913	0.9051
ρ_r	0.0511	0.0286	0.0000	0.6204	0.6988	0.7370
ρ_p	0.8797	0.0448	0.0000	0.2435	0.3223	0.3291
ρ_w	0.5340	0.1557	0.0000	0.5457	0.6365	0.6992
ρ_{σ_w}	0.9860	0.0112	0.0000	0.0000	0.0000	0.0000
ρ_{π_*}	0.9945	0.0034	0.0000	0.0265	0.0746	0.1345

(Continued on next page)

Table 7: (continued)

	Posterior		p-values			
Parameter	*Mean*	*Std*	*No Taper*	*4% Taper*	*8% Taper*	*15% Taper*
μ_p	0.6916	0.0788	0.0000	0.5773	0.6376	0.6246
μ_w	0.7690	0.1176	0.0016	0.7840	0.8377	0.8691

Table 8: Geweke (1992) Convergence Tests, based on means of draws 10000 to 12000 vs 15000 to 20000 for chain 2. p-values are for χ^2-test for equality of means.

	Posterior		p-values			
Parameter	*Mean*	*Std*	*No Taper*	4% *Taper*	8% *Taper*	15% *Taper*
σ_{η^a}	0.4712	0.0304	0.0000	0.0860	0.1432	0.1821
σ_{η^b}	0.0933	0.0117	0.0000	0.0748	0.1391	0.1577
σ_{η^g}	2.8172	0.1546	0.0000	0.3751	0.4295	0.4129
σ_{η^i}	1.8178	0.2499	0.0000	0.2027	0.2746	0.3259
σ_{η^m}	0.2423	0.0175	0.0000	0.0512	0.1247	0.1895
σ_{η^p}	0.1670	0.0126	0.0000	0.3922	0.4574	0.4858
σ_{η^w}	0.3204	0.0231	0.0000	0.0004	0.0052	0.0198
$\sigma_{\eta^{\sigma w}}$	0.0899	0.0197	0.0000	0.0000	0.0000	0.0000
$\sigma_{\eta^{\pi *}}$	0.0469	0.0119	0.0000	0.0000	0.0009	0.0031
α	0.2666	0.0306	0.0000	0.0209	0.0538	0.0909
ψ	0.4604	0.0669	0.0000	0.5966	0.6677	0.6962
Φ	1.4490	0.0619	0.0000	0.2137	0.2875	0.3058
ι_w	0.3032	0.0965	0.0000	0.3331	0.4108	0.4399
ξ_w	0.9029	0.0150	0.0000	0.6346	0.6899	0.7082
ι_p	0.2729	0.0878	0.0000	0.0090	0.0386	0.0757
ξ_p	0.6818	0.0373	0.1227	0.8571	0.8836	0.9001
σ_c	1.5068	0.0858	0.0000	0.0251	0.0512	0.0478
σ_l	1.7630	0.4354	0.0013	0.7015	0.7262	0.7027
λ	0.5368	0.0693	0.0000	0.4964	0.5684	0.5783
φ	0.0898	0.0183	0.0000	0.5828	0.6503	0.6951
r_π	2.0002	0.1832	0.0000	0.0764	0.1370	0.1776
r_y	0.1637	0.0349	0.0000	0.0295	0.0657	0.0636
$r_{\Delta y}$	0.2952	0.0251	0.0000	0.0737	0.1299	0.1492
ρ	0.8481	0.0262	0.0000	0.0976	0.1818	0.2367
n_*	3.0706	0.8623	0.0000	0.1156	0.1856	0.2247
γ	0.5174	0.0754	0.0000	0.0660	0.1327	0.1993
ζ_{sp}	0.0473	0.0052	0.0000	0.0003	0.0033	0.0082
$\bar{\pi}$	0.2512	0.0608	0.0000	0.0000	0.0000	0.0000
ρ_{ga}	0.6810	0.1576	0.0000	0.0741	0.1501	0.1872
ρ_a	0.9640	0.0121	0.0000	0.0000	0.0000	0.0000
ρ_b	0.8645	0.0266	0.0000	0.6276	0.7057	0.7418
ρ_g	0.9775	0.0095	0.0000	0.0000	0.0000	0.0000
ρ_i	0.9942	0.0025	0.0000	0.1075	0.1967	0.2590
ρ_r	0.0441	0.0212	0.0000	0.3815	0.4841	0.5278
ρ_p	0.8829	0.0483	0.0000	0.3599	0.4583	0.5141
ρ_w	0.5418	0.1518	0.0000	0.2715	0.3562	0.3945
ρ_{σ_w}	0.9708	0.0242	0.0000	0.0000	0.0000	0.0000
ρ_{π_*}	0.9956	0.0026	0.2489	0.8766	0.8945	0.9060

(Continued on next page)

Table 8: (continued)

	Posterior		p-values			
Parameter	*Mean*	*Std*	*No Taper*	4% *Taper*	8% *Taper*	15% *Taper*
μ_p	0.7070	0.0810	0.0000	0.1785	0.2287	0.2345
μ_w	0.7944	0.0957	0.0000	0.2153	0.2856	0.3289

Table 9: Endogenous

Variable	$\LaTeX$	Description
`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
`rk`	r^k	rental rate of capital
`k`	k^s	Capital services
`mc`	μ_p	gross price markup
`spinf`	ε^p	Price markup shock process
`sw`	ε^w	Wage markup shock process
`g`	ε^g	Exogenous spending
`b`	$c_2 * \varepsilon_t^b$	Scaled risk premium shock
`rkf`	$r^{k,flex}$	rental rate of capital flex price economy
`kf`	$k^{s,flex}$	Capital services 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
`sobs`	$Spread$	BBB-AAA Rate Spread
`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
`wh`	w^h	Marginal rate of substitution
`rktil`	r^{ktil}	Return to capital
`ztil`	z^{til}	Stationary Technology shock
`sigw`	σ_w	Financial shock
`pist`	π_*	Inflation Target
`og`	OG	OutputGap
`zp`	z_p	Permanent Technology shock
`n`	n	Entreprenurial Net Worth
`z`	w	Trend growth rate
`u`	u	Capital utilization rate
`mu`	ε^i	Investment-specific technology
`rm`	ε^r	Monetary policy shock process
`kbar`	k	Capital stock
`qk`	q	real value of existing capital stock
`rf`	r^{flex}	real interest rate flex price economy

Table 9 – Continued

Variable	LaTeX	Description
kbarf	k^{flex}	Capital stock flex price economy
uf	z^{flex}	Capital utilization rate flex price economy
qkf	q^{flex}	real value of existing capital stock flex price economy
AUX_EXO_LAG_52_0	$AUX\_EXO\_LAG\_52\_0$	AUX_EXO_LAG_52_0
AUX_EXO_LAG_53_0	$AUX\_EXO\_LAG\_53\_0$	AUX_EXO_LAG_53_0

Table 10: Exogenous

Variable	LaTeX	Description
ea	η^a	TFP shock
eb	η^b	Risk Premium 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
esigw	η^{σ_w}	Financial shock
epist	η^{π_*}	Inflation Target shock
ezp	η^{z_p}	Permanent technology shock

Table 11: Parameters

Variable	LaTeX	Description
cbeta	β	discount rate
cepsp	ε_w	Curvature Kimball aggregator wages
cepsw	ε_p	Curvature Kimball aggregator prices
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
crpi	r_π	Taylor rule inflation feedback
crdy	$r_{\Delta y}$	Taylor rule output growth feedback

Table 11 – Continued

Variable	LaTeX	Description
`cry`	r_y	Taylor rule output level feedback
`crr`	ρ	interest rate persistence
`czeta_spb`	ζ_{sp}	Spread elasticity
`cgammstar`	γ^*	Wealth parameter
`cvstar`	v^*	Wealth parameter
`cnstar`	n_*	SS Entrepreneurial wealth
`czeta_nRk`	ζ_{nRk}	Net Worth parameter
`czeta_nR`	ζ_{nR}	Net Worth parameter
`czeta_nsigw`	$\zeta_{n\sigma_w}$	Net Worth parameter
`czeta_spsigw`	$\zeta_{sp\sigma_w}$	Net Worth parameter
`czeta_nqk`	ζ_{nqk}	Net Worth parameter
`czeta_nn`	ζ_{nn}	Net Worth parameter
`cgy`	ρ_{ga}	Feedback technology on exogenous spending
`cmaw`	μ_w	coefficient on MA term wage markup
`cmap`	μ_p	coefficient on MA term price markup
`crhosigw`	ρ_{σ_w}	persistence Financial shock
`crhopist`	ρ_{π_*}	persistence Inflation Target shock
`crhozp`	ρ_{zp}	persistence permanent technology shock
`csigma_spinf`	σ_{map}	price markup MA scaling
`csigma_sw`	σ_{maw}	wage markup MA scaling
`crhoa`	ρ_a	persistence productivity shock
`crhob`	ρ_b	persistence risk premium shock
`crhog`	ρ_g	persistence spending shock
`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
`cgamma`	γ	Adjusted trend
`crkstar`	$\bar{rk}$	SS return on capital
`ckstar`	k^*	Capital-Output ratio
`ckbarstar`	$\bar{k}^*$	SS Capital-Output ratio
`cinvestar`	$\frac{\bar{i}}{\bar{y}}$	Private investment share in aggregate output
`cystar`	$\frac{yp}{\bar{y}}$	Private output share in aggregate output
`ccstar`	$\frac{\bar{c}}{\bar{y}}$	Private consumption share in aggregate output
`cwl_c`	wl_c	Consumption wage parameter
`conster`	$\bar{r}$	steady state interest rate
`constelab`	$\bar{l}$	steady state hours
`constepinf`	$\bar{\pi}$	steady state inflation rate
`ctrend`	$\bar{\gamma}$	net growth rate in percent
`cg`	$\frac{\bar{g}}{\bar{y}}$	steady state exogenous spending share

Table 12: Parameter Values

Parameter	Value	Description
β	0.999	discount rate
ε_w	10.000	Curvature Kimball aggregator wages
ε_p	10.000	Curvature Kimball aggregator prices
α	0.268	capital share
ψ	0.457	capacity utilization cost
φ	0.093	investment adjustment cost
δ	0.025	depreciation rate
σ_c	1.533	risk aversion
λ	0.524	external habit degree
Φ	1.438	fixed cost share
ι_w	0.294	Indexation to past wages
ξ_w	0.903	Calvo parameter wages
ι_p	0.271	Indexation to past prices
ξ_p	0.686	Calvo parameter prices
σ_l	1.807	Frisch elasticity
r_π	1.990	Taylor rule inflation feedback
$r_{\Delta y}$	0.292	Taylor rule output growth feedback
r_y	0.165	Taylor rule output level feedback
ρ	0.847	interest rate persistence
ζ_{sp}	0.047	Spread elasticity
γ^*	0.990	Wealth parameter
v^*	2.471	Wealth parameter
n_*	3.033	SS Entrepreneurial wealth
ζ_{nRk}	1.694	Net Worth parameter
ζ_{nR}	0.693	Net Worth parameter
$\zeta_{n\sigma_w}$	0.004	Net Worth parameter
$\zeta_{sp\sigma_w}$	0.028	Net Worth parameter
ζ_{nqk}	0.002	Net Worth parameter
ζ_{nn}	0.999	Net Worth parameter
ρ_{ga}	0.693	Feedback technology on exogenous spending
μ_w	0.782	coefficient on MA term wage markup
μ_p	0.699	coefficient on MA term price markup
ρ_{σ_w}	0.979	persistence Financial shock
ρ_{π_*}	0.995	persistence Inflation Target shock
ρ_{zp}	0.950	persistence permanent technology shock
σ_{map}	1.000	price markup MA scaling
σ_{maw}	1.000	wage markup MA scaling
ρ_a	0.964	persistence productivity shock
ρ_b	0.864	persistence risk premium shock
ρ_g	0.978	persistence spending shock
ρ_i	0.995	persistence risk premium shock
ρ_r	0.046	persistence monetary policy shock
ρ_p	0.879	persistence price markup shock

Table 12 – Continued

Parameter	**Value**	**Description**
ρ_w	0.550	persistence wage markup shock
$\underline{\gamma}$	0.497	Adjusted trend
$\bar{rk}$	0.036	SS return on capital
k^*	4.149	Capital-Output ratio
$\bar{k}^*$	4.165	SS Capital-Output ratio
$\frac{\bar{i}}{\bar{y}}$	0.120	Private investment share in aggregate output
$\frac{\bar{yp}}{\bar{y}}$	0.845	Private output share in aggregate output
$\frac{\bar{c}}{\bar{y}}$	0.573	Private consumption share in aggregate output
wl_c	0.808	Consumption wage parameter
$\bar{r}$	0.700	steady state interest rate
$\bar{l}$	0.000	steady state hours
$\bar{\pi}$	0.272	steady state inflation rate
$\bar{\gamma}$	0.400	net growth rate in percent
$\frac{\bar{g}}{\bar{y}}$	0.180	steady state exogenous spending share

Table 13: Prior information (parameters)

	Distribution	Mean	Mode	Std.dev.	Bounds* Lower	Bounds* Upper	90% HPDI Lower	90% HPDI 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
$\sigma_{\eta^{\sigma_w}}$	Inv. Gamma	0.1000	0.0461	2.0000	0.0118	5595.7204	0.0326	0.2490
$\sigma_{\eta^{\pi_*}}$	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
r_π	Gaussian	1.5000	1.5000	0.2500	-0.0903	3.0903	1.0888	1.9112
r_y	Gaussian	0.1250	0.1250	0.0500	-0.1931	0.4431	0.0428	0.2072
$r_{\Delta y}$	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
n_*	Gaussian	0.0000	0.0000	2.0000	-12.7227	12.7227	-3.2897	3.2897
γ	Gaussian	0.4000	0.4000	0.1000	-0.2361	1.0361	0.2355	0.5645
ζ_{sp}	Beta	0.0500	0.0495	0.0050	0.0243	0.0881	0.0421	0.0585
$\bar{\pi}$	Gamma	0.6250	0.5610	0.2000	0.0280	2.8267	0.3362	0.9862
ρ_{ga}	Beta	0.5000	0.5000	0.2000	0.0001	0.9999	0.1718	0.8282
ρ_a	Beta	0.5000	0.5000	0.2000	0.0001	0.9999	0.1718	0.8282
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
ρ_{σ_w}	Beta	0.7500	0.8438	0.1500	0.0114	1.0000	0.4671	0.9519

*Displayed bounds are after applying a prior truncation of options˙.trunc=0.000

(Continued on next page)

Table 13: (continued)

	Distribution	Mean	Mode	Std.dev.	Bounds* Lower	Bounds* Upper	90% HPDI Lower	90% HPDI Upper
ρ_{π_*}	Beta	0.7500	0.8438	0.1500	0.0114	1.0000	0.4671	0.9519
μ_p	Beta	0.5000	0.5000	0.2000	0.0001	0.9999	0.1718	0.8282
μ_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 14: COEFFICIENTS OF AUTOCORRELATION

Order	1	2	3	4	5
y	0.9920	0.9792	0.9640	0.9475	0.9303
c	0.9952	0.9876	0.9785	0.9687	0.9582
i	0.9891	0.9671	0.9396	0.9097	0.8790
π	0.9507	0.9165	0.8857	0.8555	0.8251
r	0.9671	0.9255	0.8836	0.8434	0.8055
w	0.9901	0.9769	0.9609	0.9423	0.9216
k^s	0.9963	0.9919	0.9870	0.9816	0.9758
l	0.9916	0.9780	0.9615	0.9433	0.9237
q	0.9932	0.9871	0.9814	0.9758	0.9704
n	0.9941	0.9881	0.9817	0.9750	0.9680
r^{ktil}	0.4448	0.4511	0.4447	0.4326	0.4182
OG	0.9891	0.9706	0.9490	0.9260	0.9024

Table 15: MATRIX OF CORRELATIONS

$Variables$	y	c	i	π	r	w	k^s	l	q	n	r^{ktil}	OG
y	1.0000	0.9071	0.7978	-0.2717	-0.2180	-0.1386	0.5288	0.8258	-0.3745	0.0776		
c	0.9071	1.0000	0.7403	-0.2121	-0.2044	-0.0344	0.6100	0.6749	-0.4376	0.1657		
i	0.7978	0.7403	1.0000	-0.2355	-0.1707	0.0249	0.6601	0.4899	-0.5838	0.3183		
π	-0.2717	-0.2121	-0.2355	1.0000	0.8739	0.8061	0.2924	-0.5063	-0.0301	0.3511		
r	-0.2180	-0.2044	-0.1707	0.8739	1.0000	0.7490	0.2713	-0.4183	-0.0435	0.2901		
w	-0.1386	-0.0344	0.0249	0.8061	0.7490	1.0000	0.6501	-0.5787	-0.3635	0.6125		
k^s	0.5288	0.6100	0.6601	0.2924	0.2713	0.6501	1.0000	-0.0206	-0.7629	0.7009		
l	0.8258	0.6749	0.4899	-0.5063	-0.4183	-0.5787	-0.0206	1.0000	0.0527	-0.3575		
q	-0.3745	-0.4376	-0.5838	-0.0301	-0.0435	-0.3635	-0.7629	0.0527	1.0000	-0.3794		
n	0.0776	0.1657	0.3183	0.3511	0.2901	0.6125	0.7009	-0.3575	-0.3794	1.0000		
r^{ktil}	-0.1696	-0.1335	-0.1598	0.7120	0.6040	0.5690	0.2148	-0.3350	-0.0300	0.2589		
OG	0.8831	0.7967	0.5790	-0.1757	-0.1111	-0.2106	0.2546	0.8939	0.0078	-0.1097		

Table 16: THEORETICAL MOMENTS

$VARIABLE$	$MEAN$	$STD.DEV.$	$VARIANCE$
y	0.0000	7.5079	56.3688
c	0.0000	8.9448	80.0087
i	0.0000	17.3983	302.6994
π	0.0000	0.9409	0.8853
r	0.0000	1.0998	1.2095
w	0.0000	6.6214	43.8435
k^s	0.0000	10.7149	114.8087
l	0.0000	5.9582	35.4998
q	0.0000	7.8677	61.9003
n	0.0000	15.2930	233.8757
r^{ktil}	0.0000	1.2939	1.6742
OG	0.0000	6.2405	38.9440

Table 17: VARIANCE DECOMPOSITION (in percent)

	η^a	η^b	η^g	η^i	η^m	η^p	η^w	η^{σ_w}	η^{π_*}	η^{z_p}	
y	2.39	4.86	2.07	15.56	4.33	1.39	0.03	0.89	30.72	37.75	
c	0.79	5.14	4.77	22.18	2.08	0.44	0.02	0.59	33.60	30.38	
i	4.28	6.38	0.61	39.71	7.60	2.03	0.06	13.73	6.82	18.78	
π	1.51	0.57	0.01	0.09	0.18	9.61	0.11	0.03	7.91	79.97	
r	1.95	17.45	0.44	0.54	1.09	1.06	0.05	1.61	5.52	70.29	
w	3.55	0.32	0.13	16.16	0.32	5.50	0.46	0.36	5.37	67.84	
k^s	2.14	1.65	0.08	72.90	1.63	1.41	0.04	2.11	14.01	4.02	
l	0.98	4.34	2.75	2.60	3.53	0.74	0.05	0.60	18.12	66.29	
q	0.02	0.08	0.00	99.69	0.10	0.01	0.00	0.07	0.00	0.02	
n	1.75	8.83	0.02	59.06	1.06	0.13	0.00	6.01	6.82	16.33	
r^{ktil}	1.28	4.13	0.21	37.83	4.14	5.95	0.06	2.37	4.43	39.60	
OG	1.15	7.03	0.32	0.13	6.27	2.02	0.04	1.28	44.47	37.28	

$$cbetabar = \beta\ \exp\left(\left(1-\sigma_c\right)\ \gamma\right)$$

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

$$crss = \frac{cpie}{cbetabar}$$

$$clandap = \Phi$$

$$c1 = \frac{\lambda\ \exp\left(\left(-\gamma\right)\right)}{1+\lambda\ \exp\left(\left(-\gamma\right)\right)}$$

$$c2 = \frac{1-\lambda\ \exp\left(\left(-\gamma\right)\right)}{\sigma_c\ \left(1+\lambda\ \exp\left(\left(-\gamma\right)\right)\right)}$$

$$c3 = \frac{1}{1+\lambda\ \exp\left(\left(-\gamma\right)\right)}$$

$$c4 = \frac{1}{1-\alpha}\ \left(\rho_a-1\right)$$

$$c5 = \frac{\left(\sigma_c-1\right)\ wl_c}{\sigma_c\ \left(1+\lambda\ \exp\left(\left(-\gamma\right)\right)\right)}$$

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

$$i2 = \frac{cbetabar}{1+cbetabar}$$

$$i3 = \left(1+cbetabar\right)\ \varphi\ \exp\left(2\,\gamma\right)$$

$$k1 = 1-\frac{\frac{\bar{i}}{\bar{y}}}{\bar{k}^*}$$

$$k2 = \frac{\frac{\bar{i}}{\bar{y}}}{\bar{k}^*}$$

$$k3 = \frac{\left(1+cbetabar\right)\ \exp\left(2\,\gamma\right)\ \varphi\ \frac{\bar{i}}{\bar{y}}}{\bar{k}^*}$$

$$u1 = \frac{1-\psi}{\psi}$$

$$pi1 = \frac{\left(1-cbetabar\,\xi_p\right)\,\left(1-\xi_p\right)}{\xi_p\,\left(1+\left(\Phi-1\right)\,\varepsilon_w\right)}$$

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

$$pi3 = \frac{\iota_p}{1+cbetabar\,\iota_p}$$

$$pi4 = \frac{cbetabar}{1+cbetabar\,\iota_p}$$

$$w1 = \frac{\left(1-cbetabar\,\xi_w\right)\,\left(1-\xi_w\right)}{\xi_w\,\left(1+0.5\,\varepsilon_p\right)}$$

$$w2 = \frac{1}{1+cbetabar}$$

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

$$w4 = \frac{cbetabar}{1+cbetabar}$$

$$y1 = \frac{\frac{\bar{c}}{\bar{y}}}{\frac{\bar{y}p}{\bar{y}}}$$

$$y2 = \frac{\frac{\bar{i}}{\bar{y}}}{\frac{\bar{y}p}{\bar{y}}}$$

$$y3 = r\bar{k}\,\frac{k^*}{\frac{\bar{y}p}{\bar{y}}}$$

$$ff1 = \frac{r\bar{k}}{1+r\bar{k}-\delta}$$

$$ff2 = \frac{1-\delta}{1+r\bar{k}-\delta}$$

$$ff3 = \frac{\sigma_c\ (1 + \lambda\ \exp((-\gamma)))}{1 - \lambda\ \exp((-\gamma))}$$

$$ff4 = \frac{\gamma^*\ \upsilon^*}{n_*}$$

$$mrs1 = \frac{1}{1 - \lambda\ \exp((-\gamma))}$$

$$c_t = (-c2)\ (r_t - \pi_{t+1}) + c_2 * \varepsilon^b_{t\,t} + c1\ (c_{t-1} - w_t) + c3\ \left(c_{t+1} + c4\, {z^{til}}_t\right) + c5\ (l_t - l_{t+1}) \tag{1}$$

$$q_t = i3\ \left(i_t - i1\ (i_{t-1} - w_t) - i2\, i_{t+1} - {z^{til}}_t\, c4\, i2 - {\varepsilon^i}_t\right) \tag{2}$$

$$k_t = k1\ (k_{t-1} - w_t) + i_t\, k2 + {\varepsilon^i}_t\, k3 \tag{3}$$

$${k^s}_t = k_{t-1} + u_t - w_t \tag{4}$$

$$u_t = u1\, {r^k}_t \tag{5}$$

$$\mu_{p_t} = w_t + \alpha\, l_t - \alpha\, {k^s}_t \tag{6}$$

$${k^s}_t = l_t + w_t - {r^k}_t \tag{7}$$

$$y_t = {k^s}_t\, \Phi\, \alpha + l_t\, \Phi\ (1 - \alpha) + {z^{til}}_t\, \frac{\Phi - 1}{1 - \alpha} \tag{8}$$

$$y_t = \frac{\bar{g}}{\bar{y}}\, {\varepsilon^g}_t + c_t\, y1 + i_t\, y2 + u_t\, y3 - {z^{til}}_t\, c4\, \frac{\bar{g}}{\bar{y}} \tag{9}$$

$$\pi_t = \mu_{p_t}\, pi1\, pi2 + pi3\, \pi_{t-1} + \pi_{t+1}\, pi4 + {\varepsilon^p}_t \tag{10}$$

$$w_t = w1\, w2\ \left({w^h}_t - w_t\right) - \pi_t\, w3 + w2\ (w_{t-1} - w_t + \iota_w\, \pi_{t-1}) + w4\ \left(\pi_{t+1} + c4\, {z^{til}}_t + w_{t+1}\right) + {\varepsilon^w}_t \tag{11}$$

$${w^h}_t = mrs1\ (c_t - \lambda\ \exp((-\gamma))\ c_{t-1} + \lambda\ \exp((-\gamma))\ w_t) + l_t\, \sigma_l \tag{12}$$

$$\begin{aligned} r_t = {} & \rho\, r_{t-1} + (1 - \rho)\ r_\pi\ (\pi_t - \pi_{*t}) + (1 - \rho)\ r_y\ \left(y_t - {y^{flex}}_t\right) \\ & + r_{\Delta y}\ \left(y_t - {y^{flex}}_t - \left(y_{t-1} - {y^{flex}}_{t-1}\right)\right) + {\varepsilon^r}_t \end{aligned} \tag{13}$$

$${r^{ktil}}_t = \pi_t + {r^k}_t\, ff1 + q_t\, ff2 - q_{t-1} \tag{14}$$

$$r^{ktil}{}_{t+1} = r_t - c_2 * \varepsilon^b_{t\,t}\, ff3 + \zeta_{sp}\, \left(q_t + k_t - n_t\right) + \sigma_{wt} \tag{15}$$

$$n_t = \zeta_{nRk}\, \left(r^{ktil}{}_t - \pi_t\right) - \zeta_{nR}\, \left(r_{t-1} - \pi_t\right) + \zeta_{nqk}\, \left(k_{t-1} + q_{t-1}\right) + \zeta_{nn}\, n_{t-1} - \frac{\zeta_{n\sigma_w}}{\zeta_{sp\sigma_w}}\, \sigma_{wt-1} - w_t\, ff4 \tag{16}$$

$$c^{flex}{}_t = c_2 * \varepsilon^b_{t\,t} + (-c2)\; r^{flex}{}_t + c1\, \left(c^{flex}{}_{t-1} - w_t\right) + c3\, \left(c4\, z^{til}{}_t + c^{flex}{}_{t+1}\right) + c5\, \left(l^{flex}{}_t - l^{flex}{}_{t+1}\right) \tag{17}$$

$$q^{flex}{}_t = i3\, \left(i^{flex}{}_t - i1\, \left(i^{flex}{}_{t-1} - w_t\right) - i2\, i^{flex}{}_{t+1} - z^{til}{}_t\, c4\, i2 - \varepsilon^i{}_t\right) \tag{18}$$

$$k^{flex}{}_t = \varepsilon^i{}_t\, k3 + k1\, \left(k^{flex}{}_{t-1} - w_t\right) + k2\, i^{flex}{}_t \tag{19}$$

$$k^{s,flex}{}_t = k^{flex}{}_{t-1} + z^{flex}{}_t - w_t \tag{20}$$

$$z^{flex}{}_t = u1\, r^{k,flex}{}_t \tag{21}$$

$$w^{flex}{}_t = l^{flex}{}_t\, (-\alpha) + \alpha\, k^{s,flex}{}_t \tag{22}$$

$$k^{s,flex}{}_t = l^{flex}{}_t + w^{flex}{}_t - r^{k,flex}{}_t \tag{23}$$

$$y^{flex}{}_t = z^{til}{}_t\, \frac{\Phi - 1}{1 - \alpha} + \Phi\, \alpha\, k^{s,flex}{}_t + \Phi\, (1 - \alpha)\; l^{flex}{}_t \tag{24}$$

$$y^{flex}{}_t = \frac{\bar{g}}{\bar{y}}\, \varepsilon^g{}_t + y1\, c^{flex}{}_t + y2\, i^{flex}{}_t + y3\, z^{flex}{}_t - z^{til}{}_t\, c4\, \frac{\bar{g}}{\bar{y}} \tag{25}$$

$$w^{flex}{}_t = mrs1\, \left(\lambda\, \exp\left((-\gamma)\right)\, w_t + c^{flex}{}_t - \lambda\, \exp\left((-\gamma)\right)\, c^{flex}{}_{t-1}\right) + \sigma_l\, l^{flex}{}_t \tag{26}$$

$$q^{flex}{}_t = c_2 * \varepsilon^b_{t\,t}\, ff3 + ff1\, r^{k,flex}{}_{t+1} + ff2\, q^{flex}{}_{t+1} - r^{flex}{}_t \tag{27}$$

$$OG_t = y_t - y^{flex}{}_t \tag{28}$$

$$w_t = c4\, z^{til}{}_{t-1} + \frac{1}{1 - \alpha}\, \eta^a{}_t + z_{p_t} \tag{29}$$

$$z^{til}{}_t = \eta^a{}_t + \rho_a\, z^{til}{}_{t-1} \tag{30}$$

$$\varepsilon^g{}_t = \rho_g\, \varepsilon^g{}_{t-1} + \eta^g{}_t + \eta^a{}_t\, \rho_{ga} \tag{31}$$

$$c_2 * \varepsilon^b_{t\,t} = \rho_b\, c_2 * \varepsilon^b_{t\,t-1} + \eta^b{}_t \tag{32}$$

$$\varepsilon^{i}{}_{t} = \rho_i \, \varepsilon^{i}{}_{t-1} + \eta^{i}{}_{t} \tag{33}$$

$$\varepsilon^{p}{}_{t} = \rho_p \, \varepsilon^{p}{}_{t-1} + \eta^{p}{}_{t} - \mu_p \, \sigma_{map} \, \eta^{p}{}_{t-1} \tag{34}$$

$$\varepsilon^{w}{}_{t} = \rho_w \, \varepsilon^{w}{}_{t-1} + \eta^{w}{}_{t} - \mu_w \, \sigma_{maw} \, \eta^{w}{}_{t-1} \tag{35}$$

$$\varepsilon^{r}{}_{t} = \rho_r \, \varepsilon^{r}{}_{t-1} + \eta^{m}{}_{t} \tag{36}$$

$$\sigma_{wt} = \sigma_{wt-1} \, \rho_{\sigma_w} + \eta^{\sigma_w}{}_{t} \tag{37}$$

$$\pi_{*t} = \rho_{\pi_*} \, \pi_{*t-1} + \eta^{\pi_*}{}_{t} \tag{38}$$

$$z_{p_t} = \rho_{zp} \, z_{p_{t-1}} + \eta^{z_p}{}_{t} \tag{39}$$

$$dlGDP_t = w_t + y_t - y_{t-1} + \bar{\gamma} \tag{40}$$

$$dlCONS_t = w_t + \bar{\gamma} + c_t - c_{t-1} \tag{41}$$

$$dlINV_t = w_t + \bar{\gamma} + i_t - i_{t-1} \tag{42}$$

$$dlWAG_t = w_t + \bar{\gamma} + w_t - w_{t-1} \tag{43}$$

$$lHOURS_t = l_t + \bar{l} \tag{44}$$

$$FEDFUNDS_t = r_t + \bar{r} \tag{45}$$

$$dlP_t = \bar{\pi} + \pi_t \tag{46}$$

$$Spread_t = 100 \, \left(r^{ktil}{}_{t} - r_t \right) + 0.02 \tag{47}$$

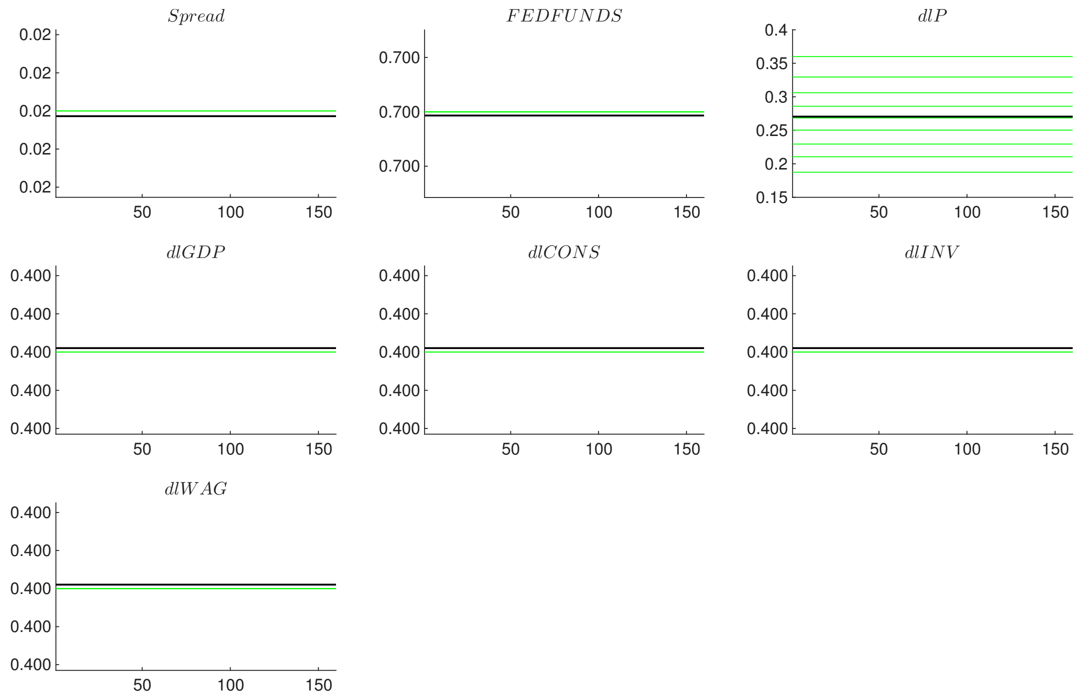

Figure 26: Smoothed constant

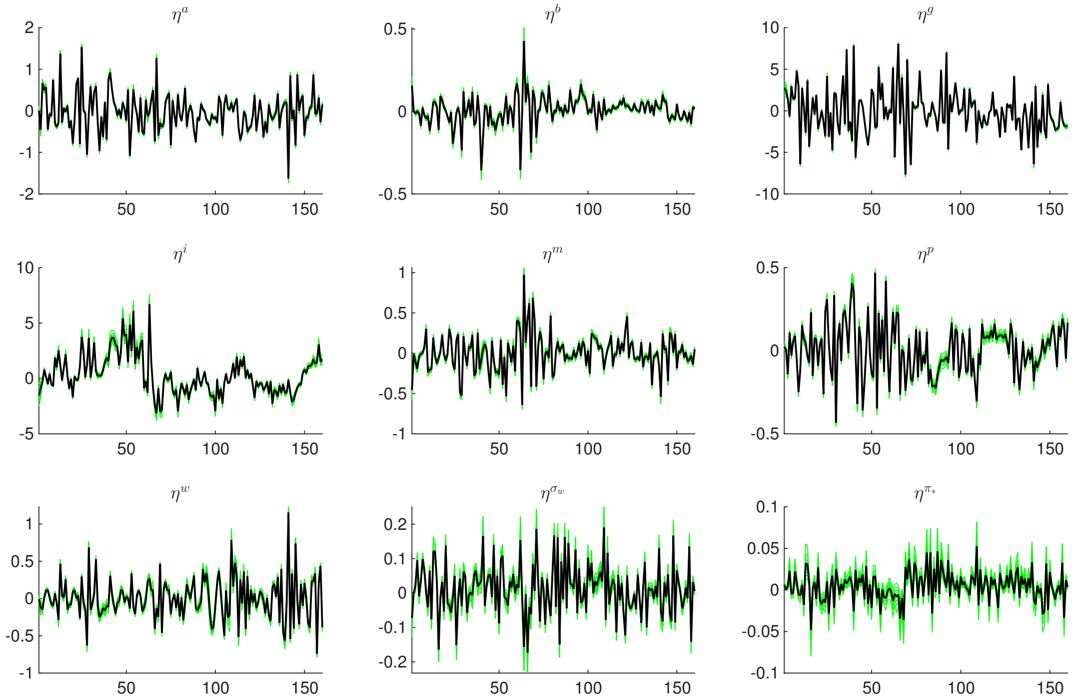

Figure 27: Smoothed shocks

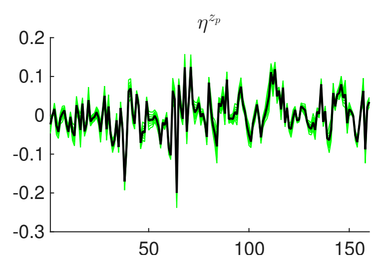

Figure 28: Smoothed shocks

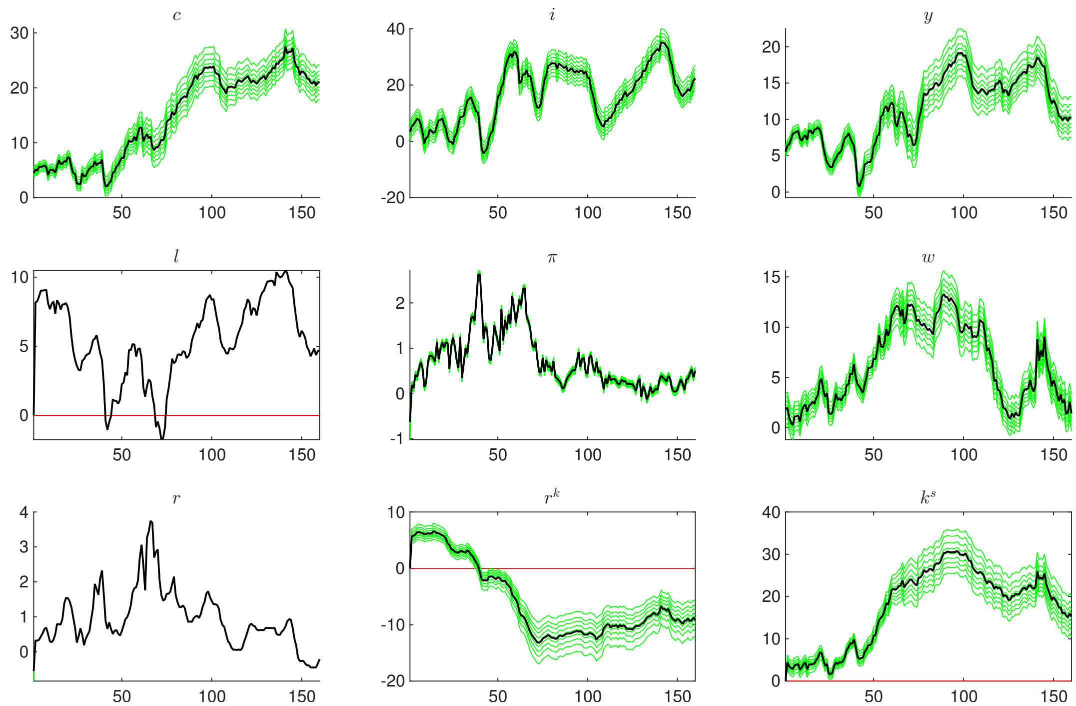

Figure 29: Smoothed variables

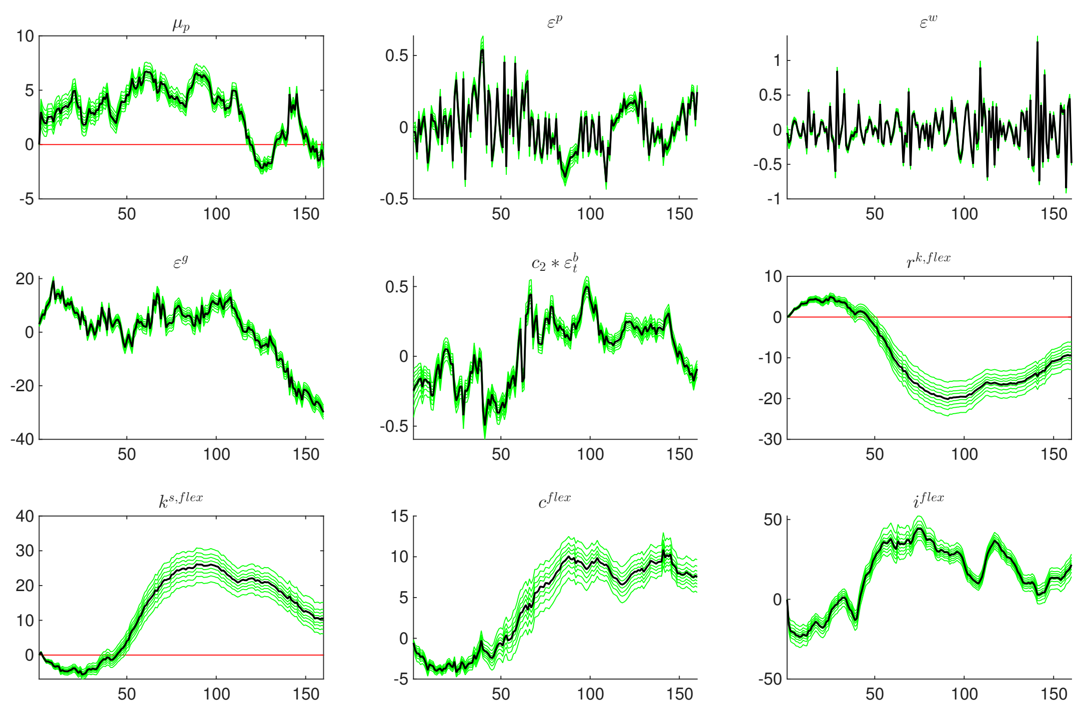

Figure 30: Smoothed variables

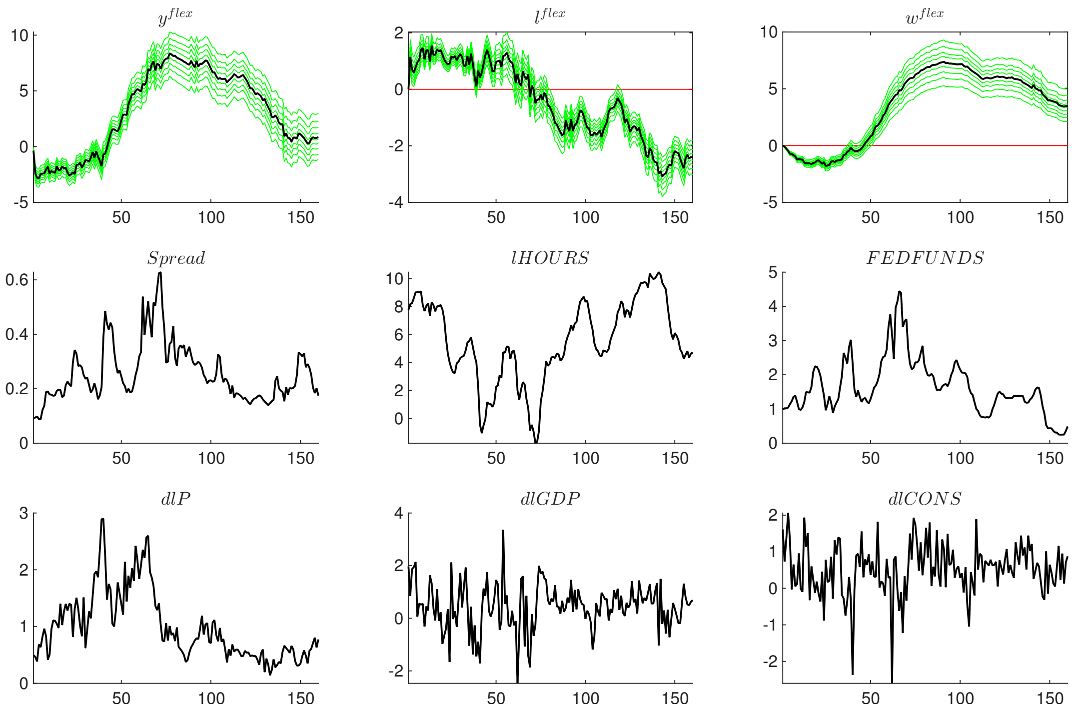

Figure 31: Smoothed variables

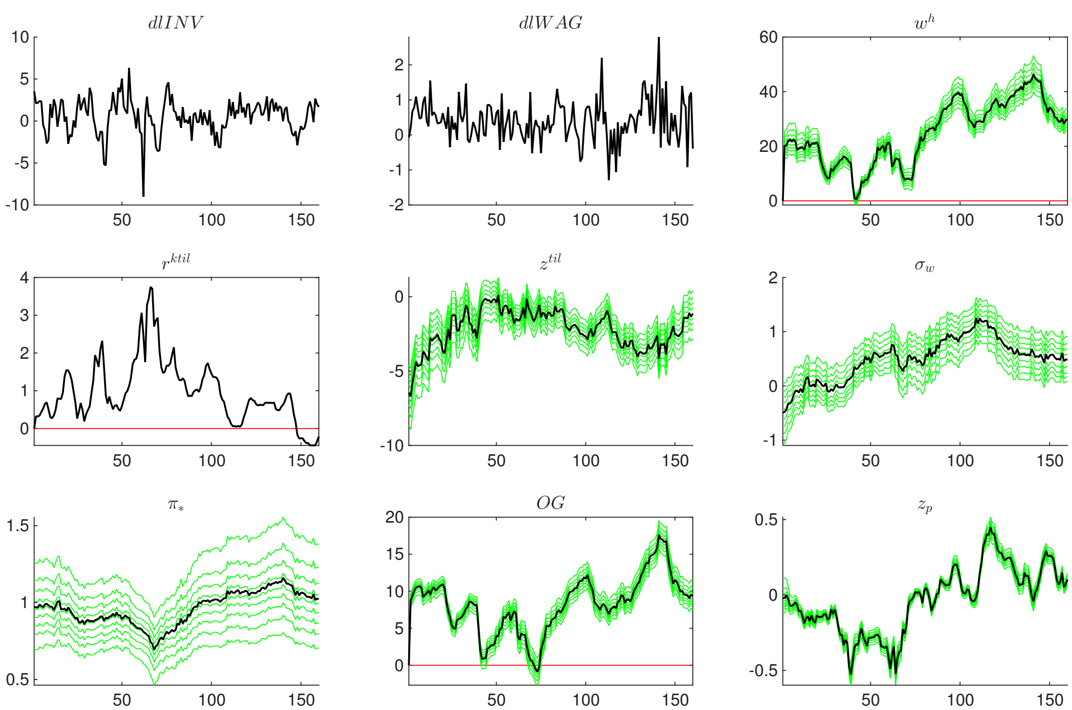

Figure 32: Smoothed variables

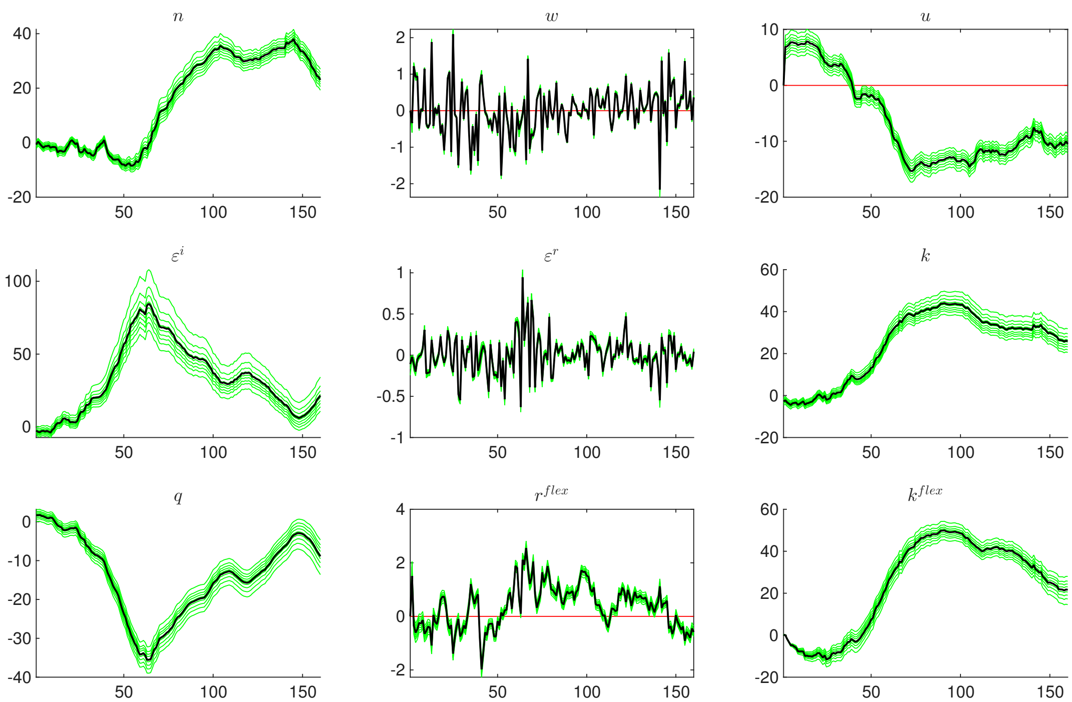

Figure 33: Smoothed variables

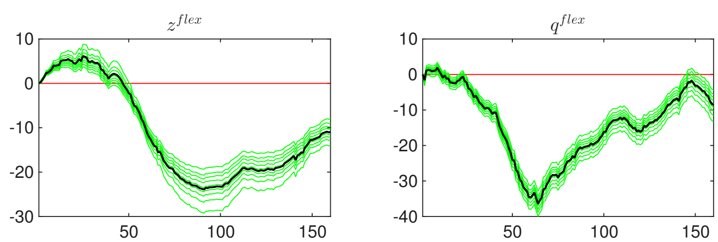

Figure 34: Smoothed variables

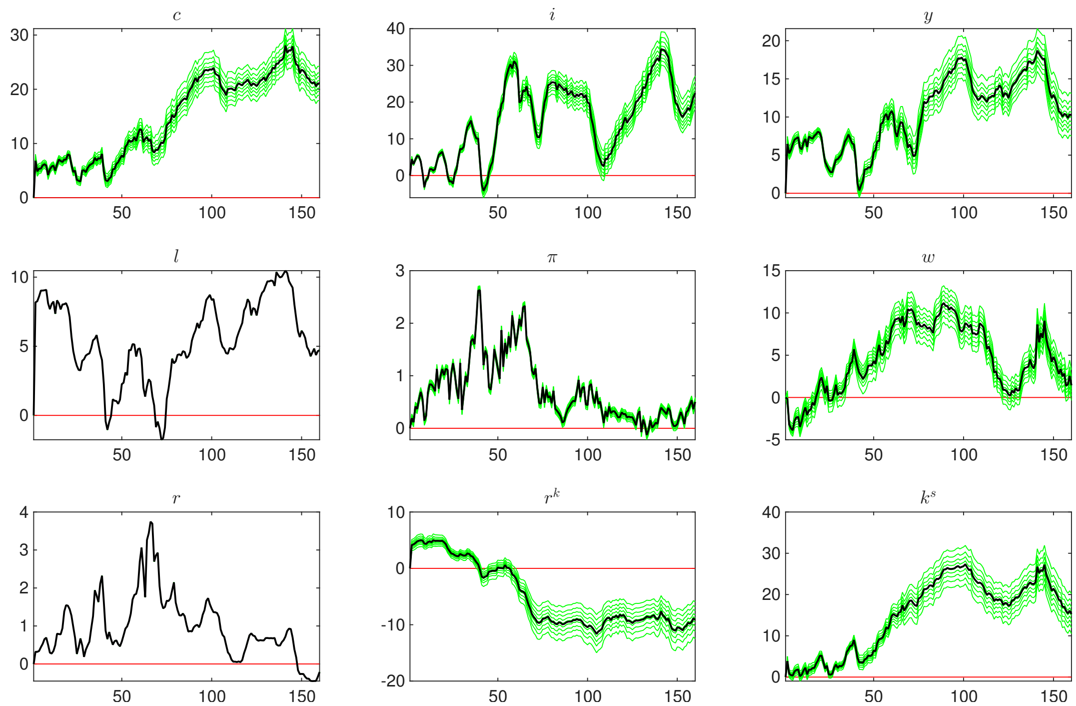

Figure 35: Updated Variables

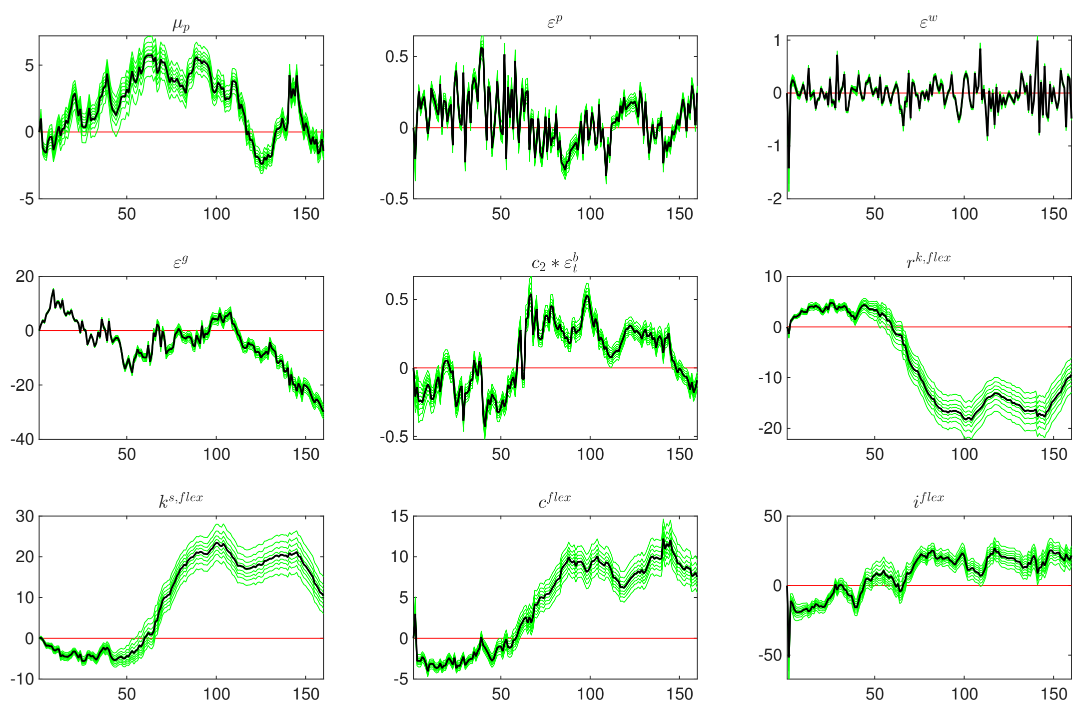

Figure 36: Updated Variables

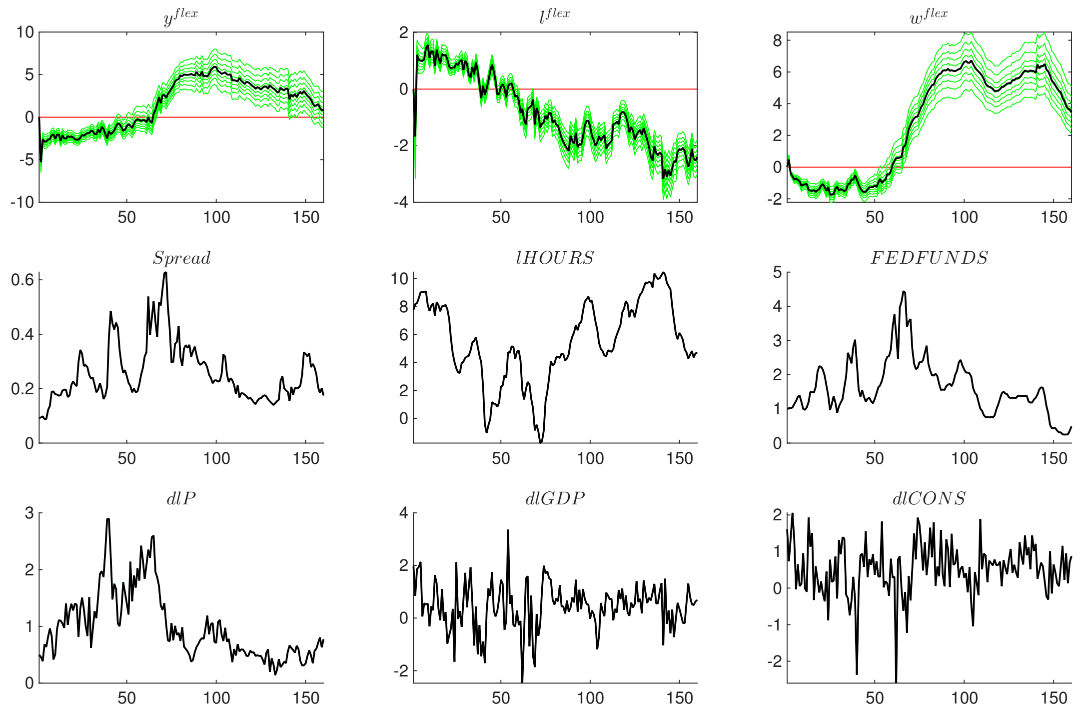

Figure 37: Updated Variables

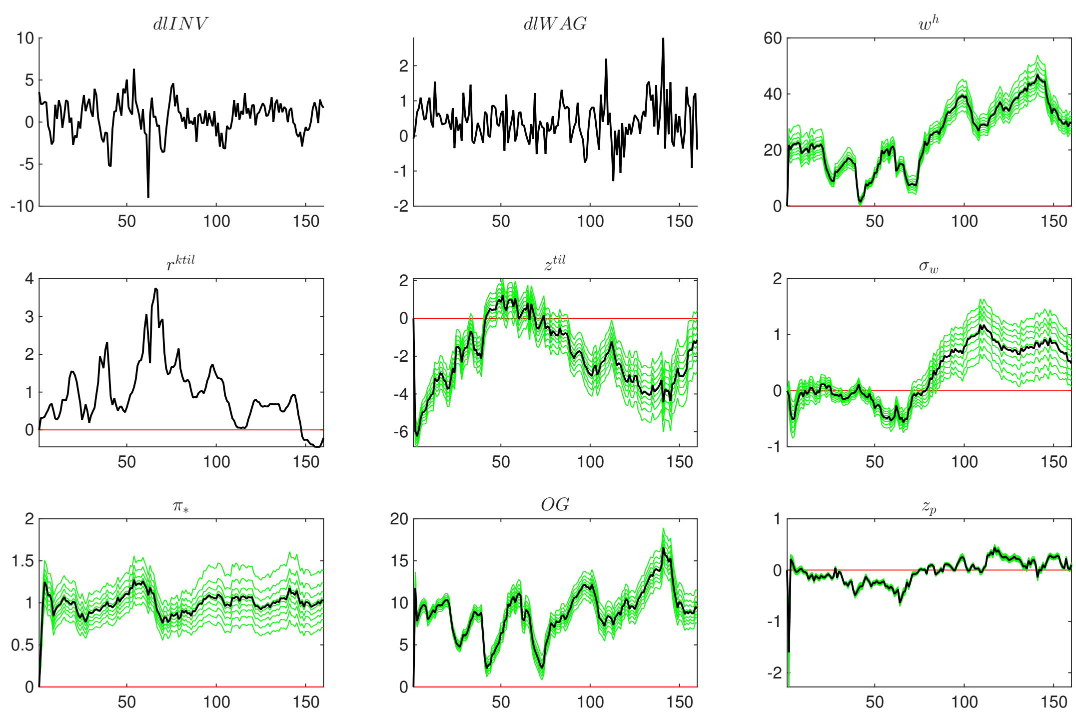

Figure 38: Updated Variables

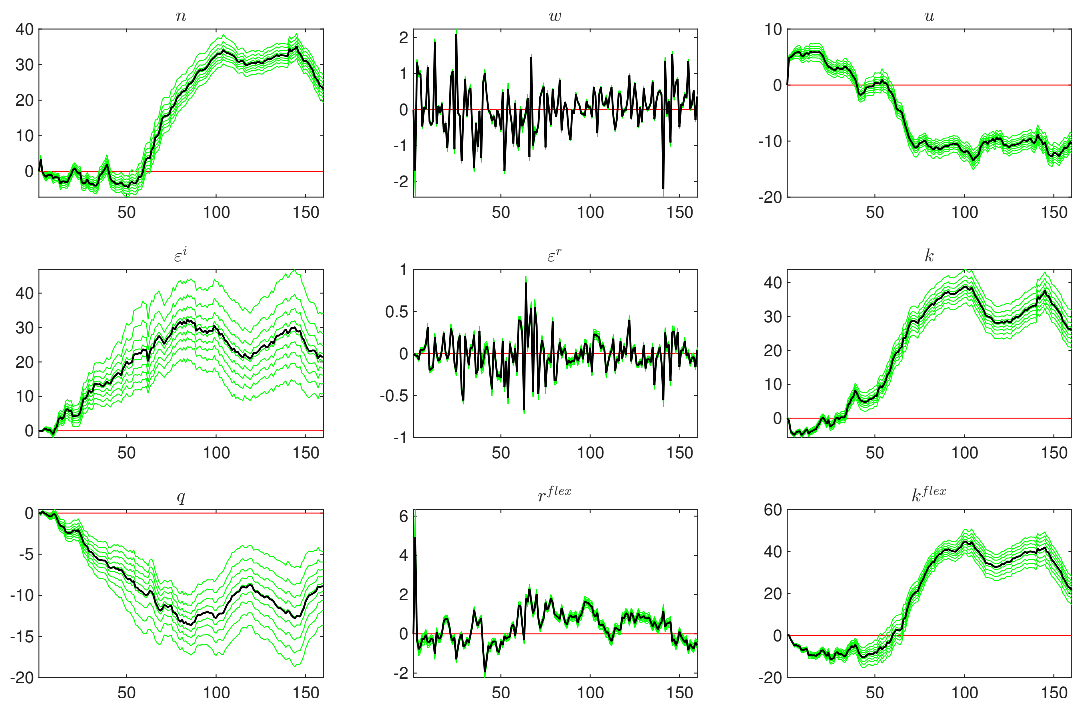

Figure 39: Updated Variables

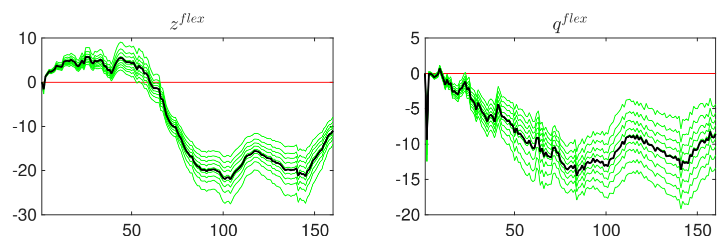

Figure 40: Updated Variables

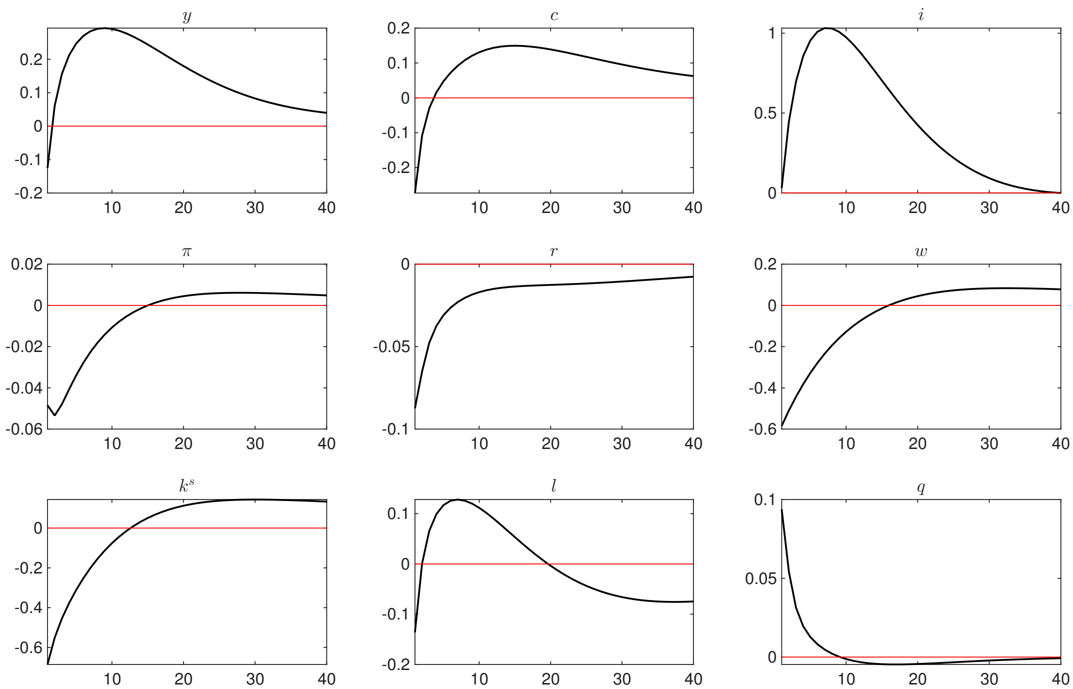

Figure 41: Impulse response functions (orthogonalized shock to η^a).

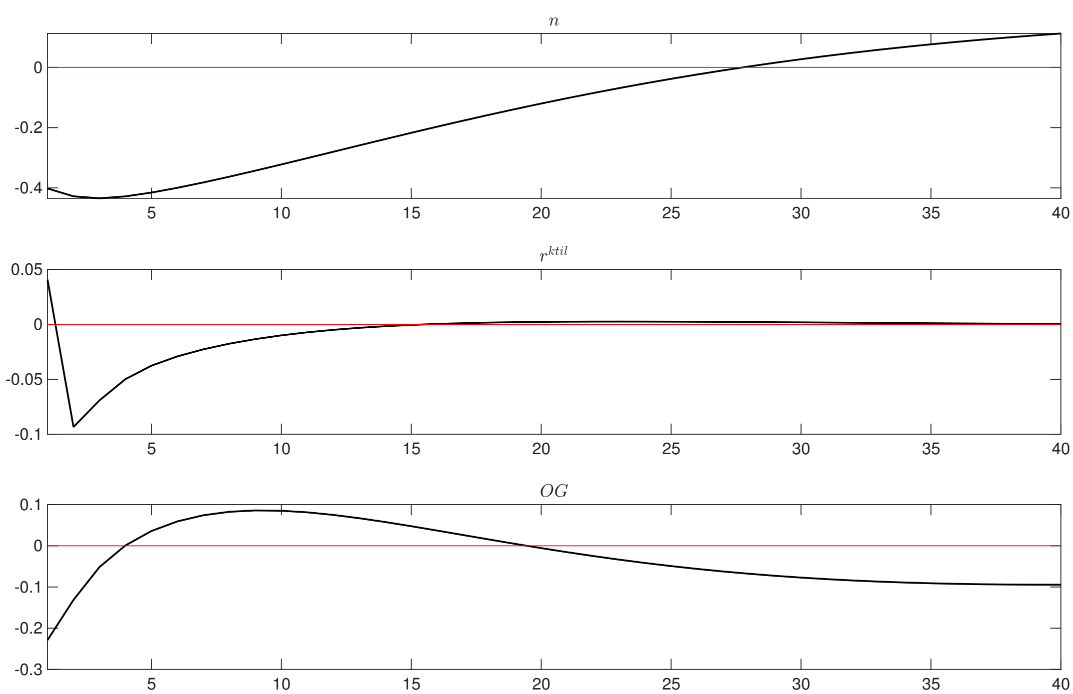

Figure 42: Impulse response functions (orthogonalized shock to η^a).

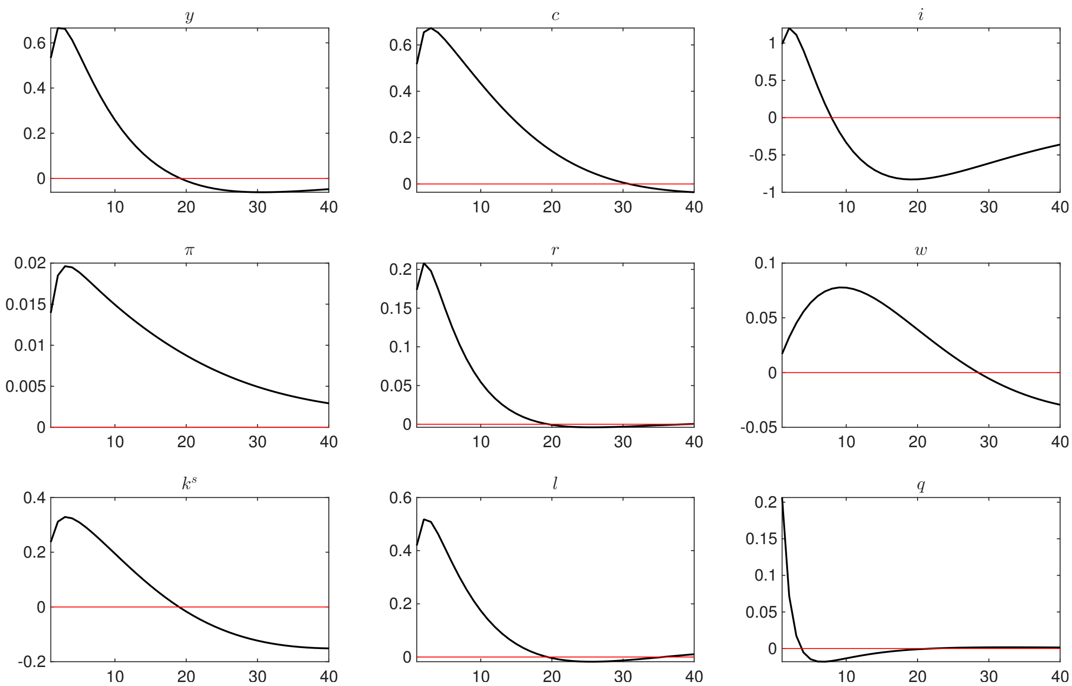

Figure 43: Impulse response functions (orthogonalized shock to η^b).

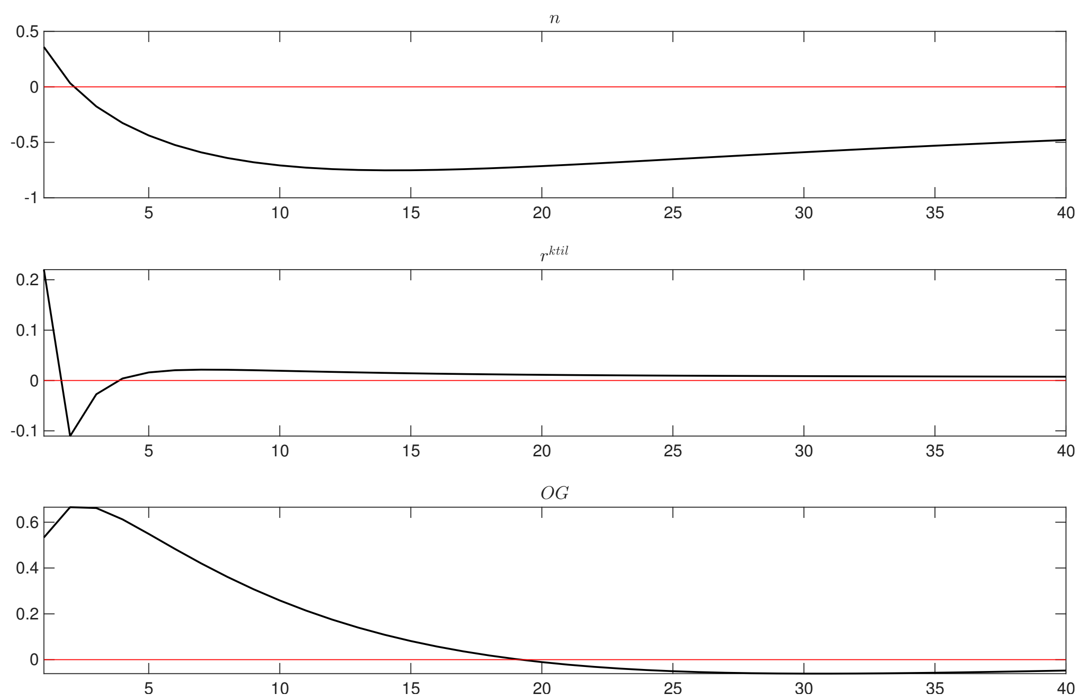

Figure 44: Impulse response functions (orthogonalized shock to η^b).

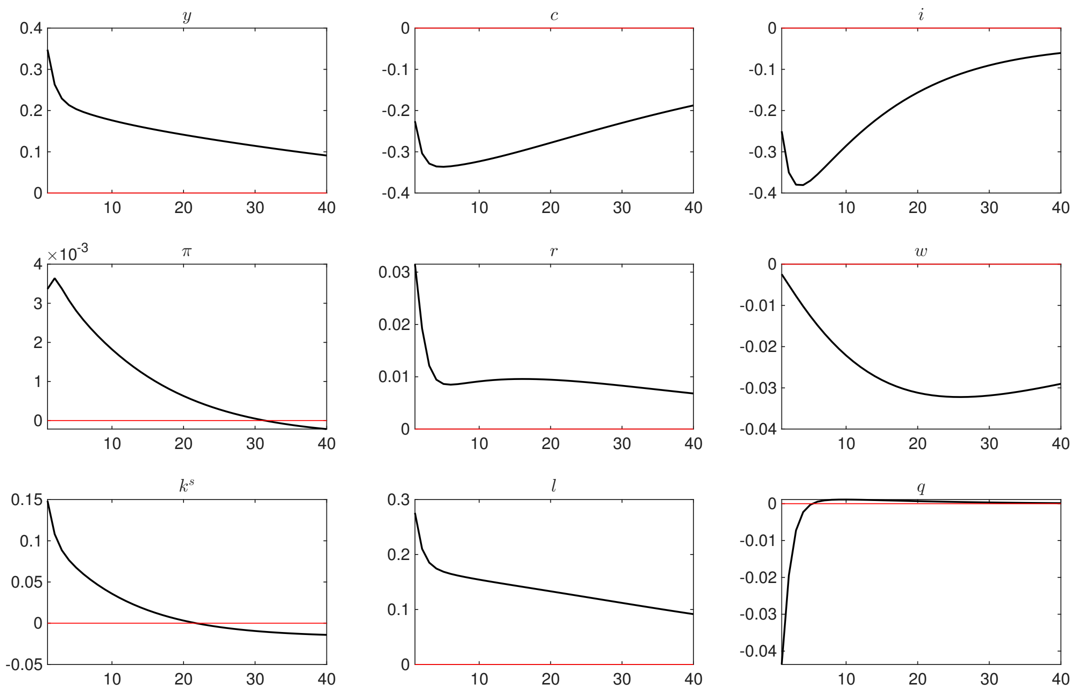

Figure 45: Impulse response functions (orthogonalized shock to η^g).

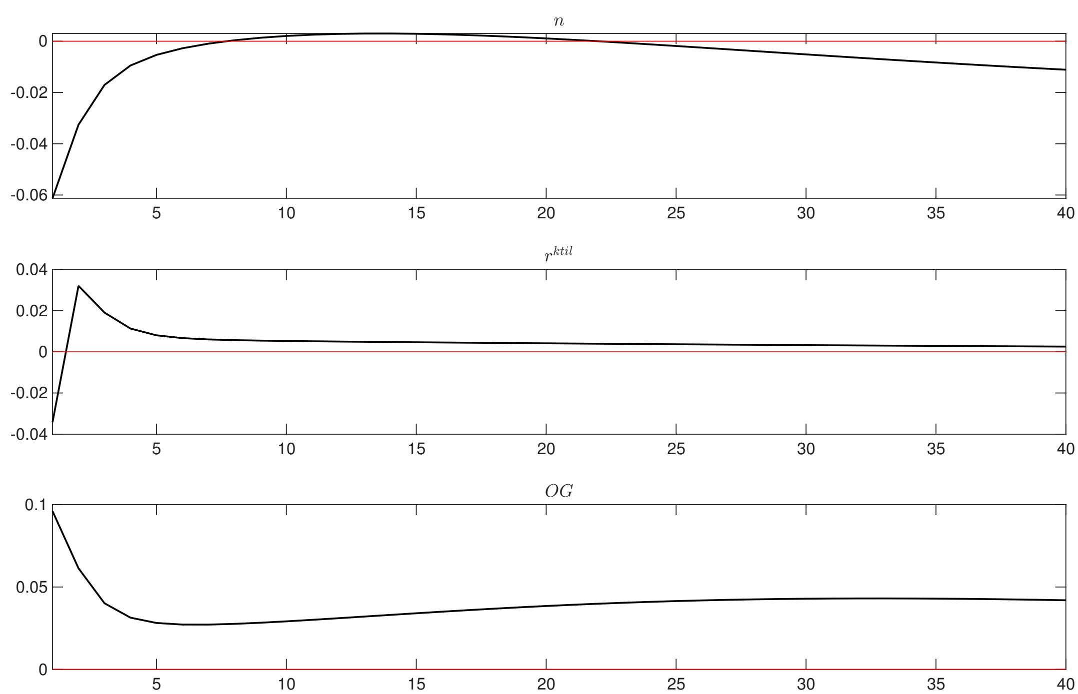

Figure 46: Impulse response functions (orthogonalized shock to η^g).

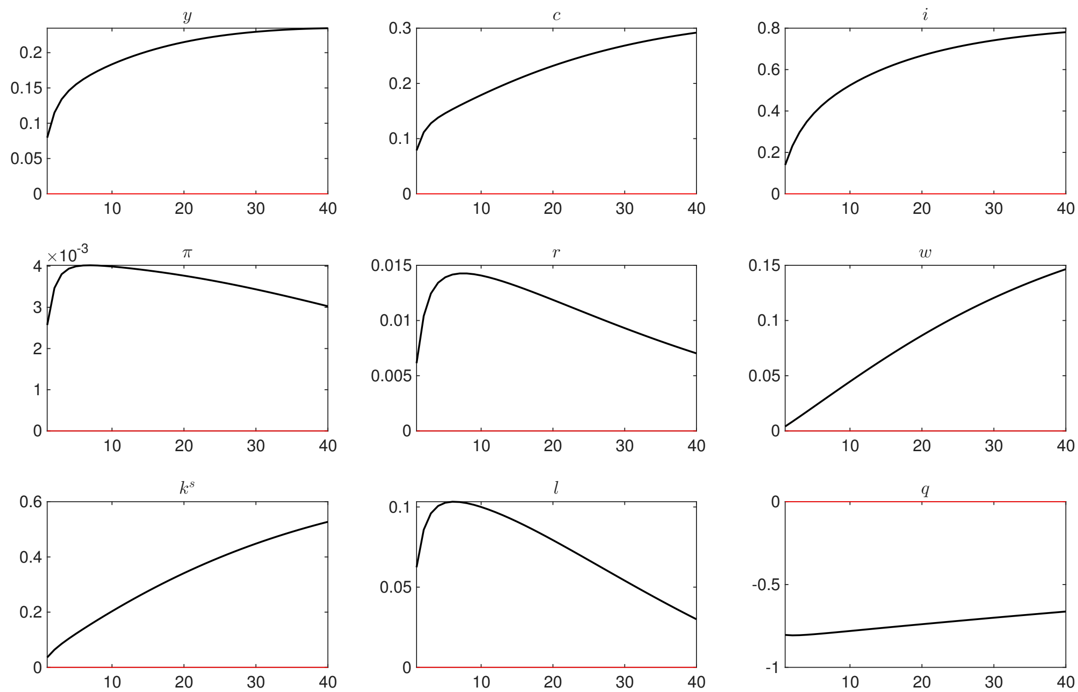

Figure 47: Impulse response functions (orthogonalized shock to η^i).

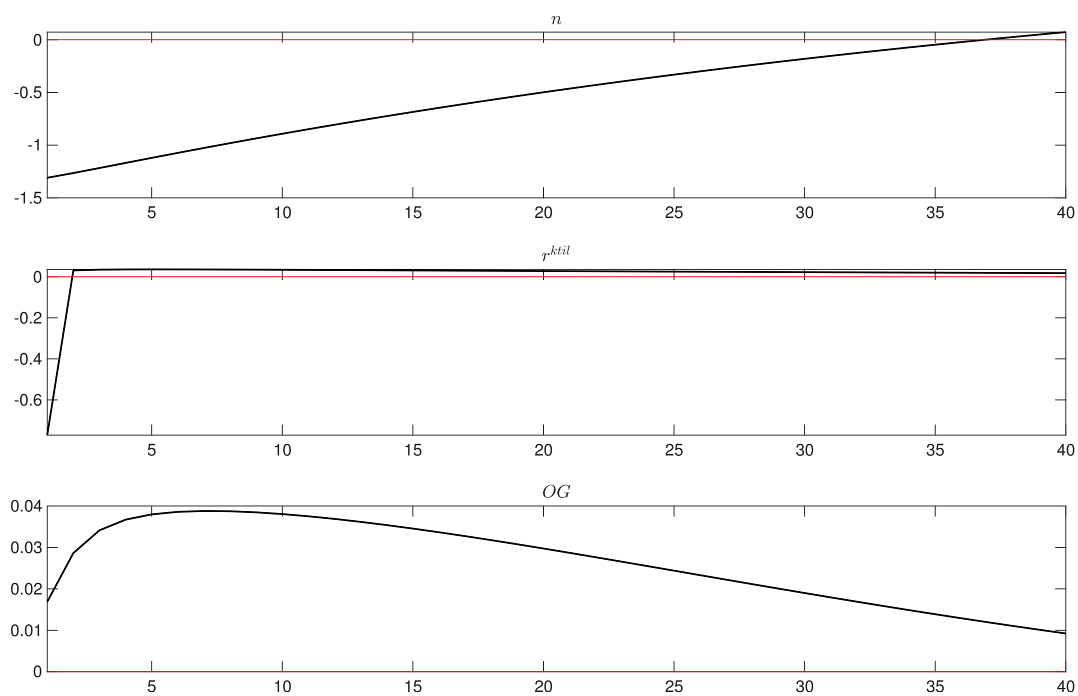

Figure 48: Impulse response functions (orthogonalized shock to η^i).

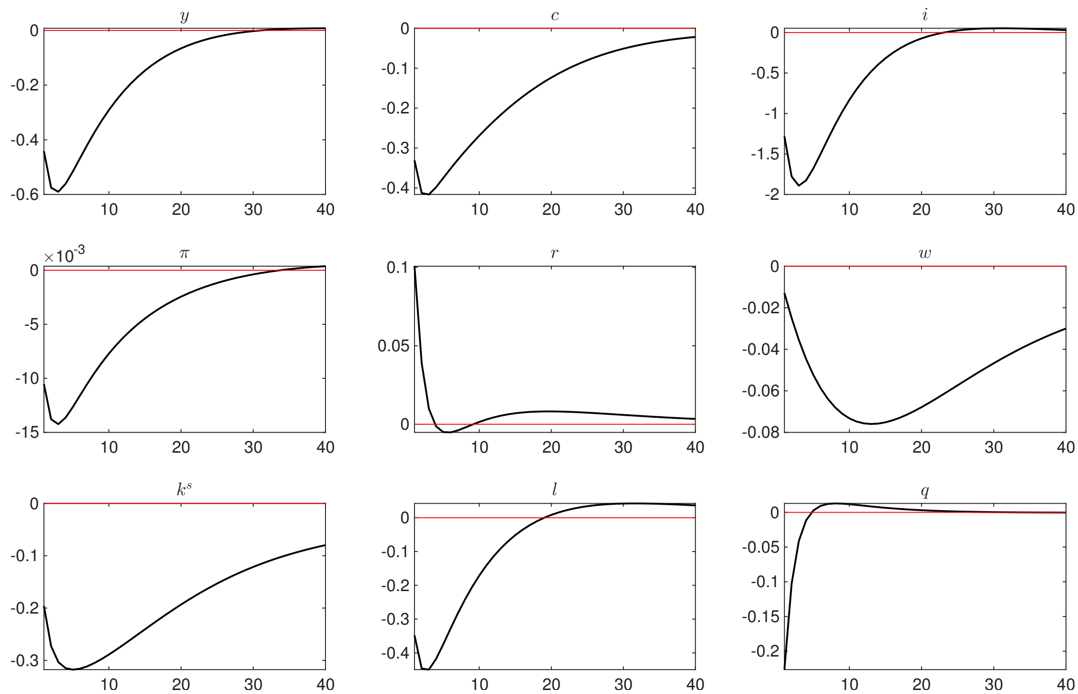

Figure 49: Impulse response functions (orthogonalized shock to η^m).

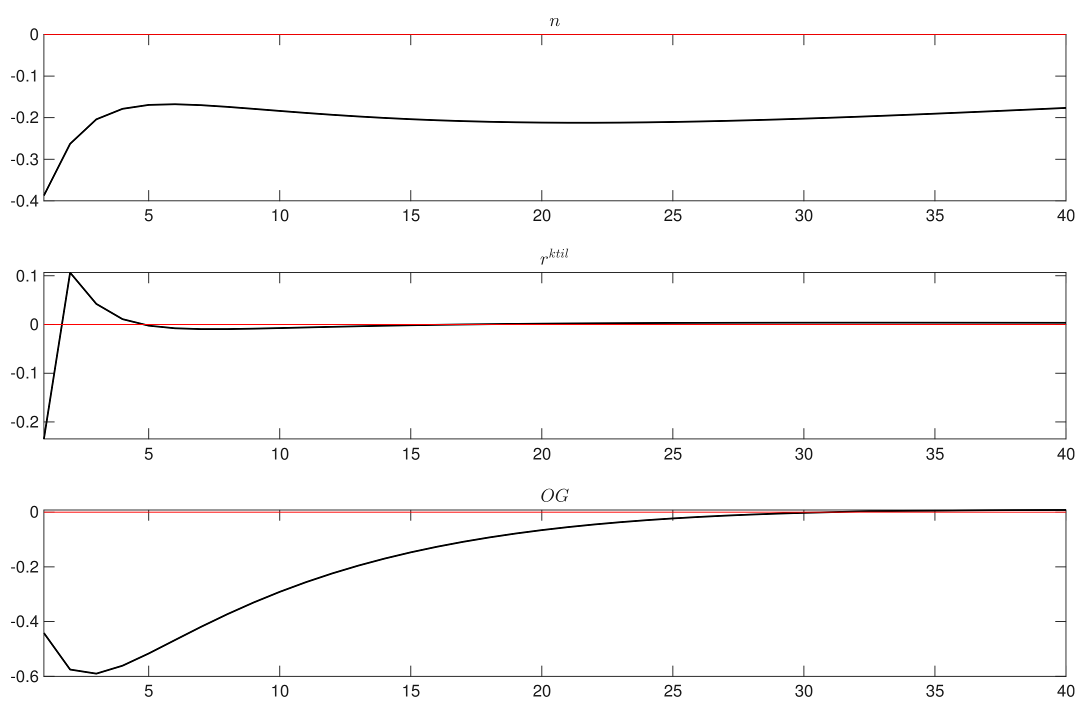

Figure 50: Impulse response functions (orthogonalized shock to η^m).

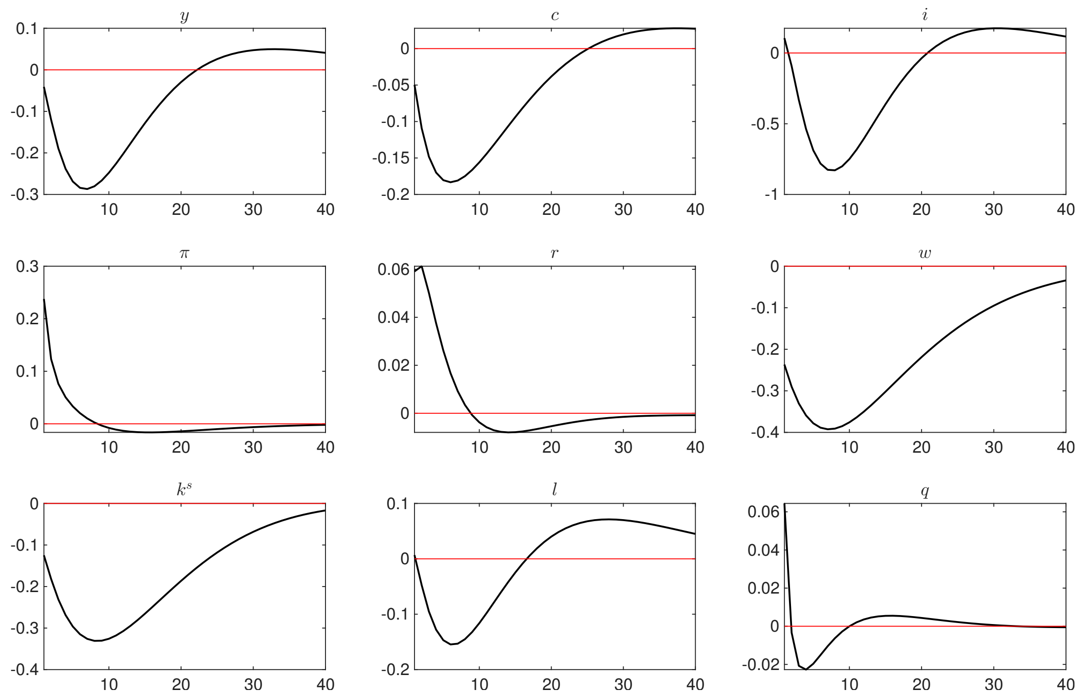

Figure 51: Impulse response functions (orthogonalized shock to η^p).

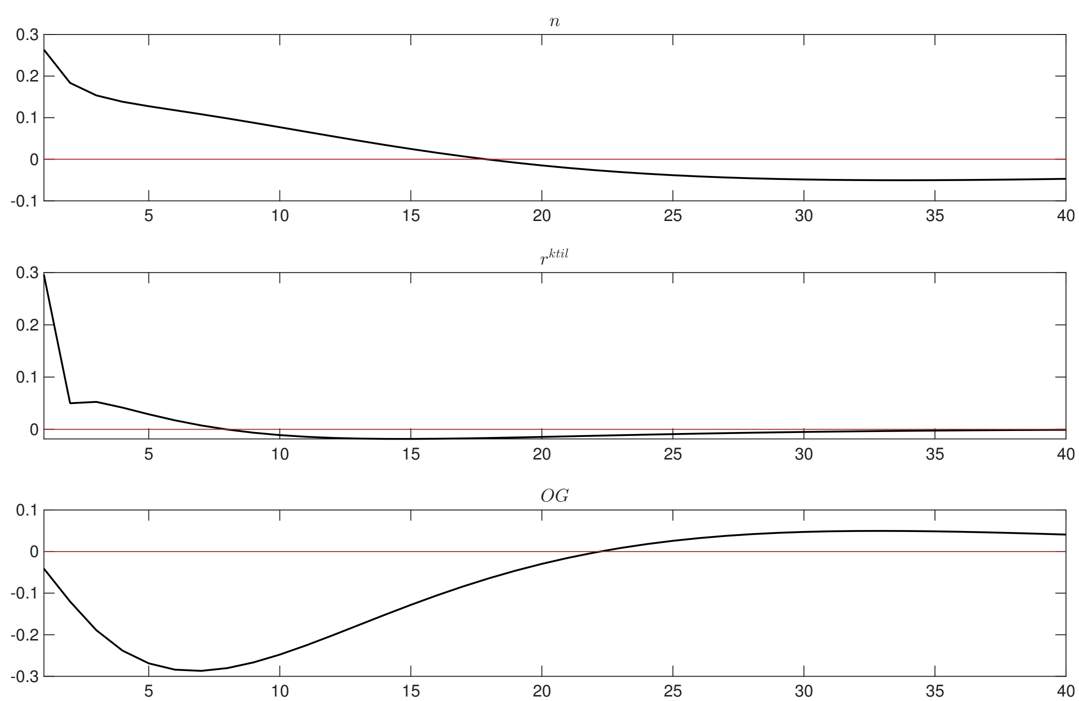

Figure 52: Impulse response functions (orthogonalized shock to η^p).

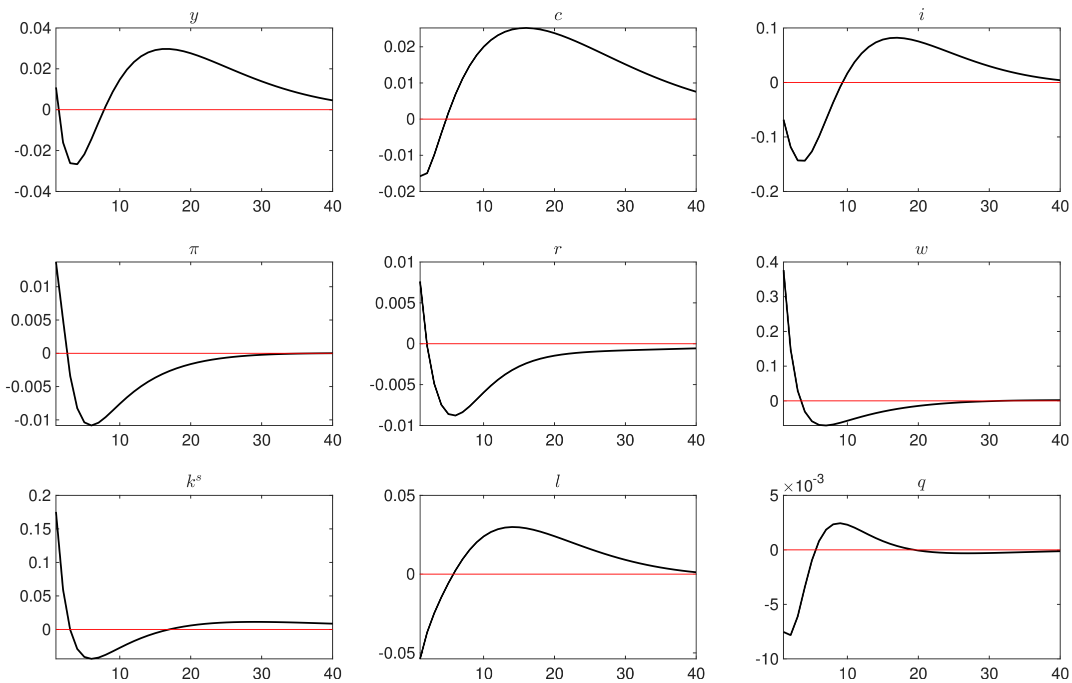

Figure 53: Impulse response functions (orthogonalized shock to η^w).

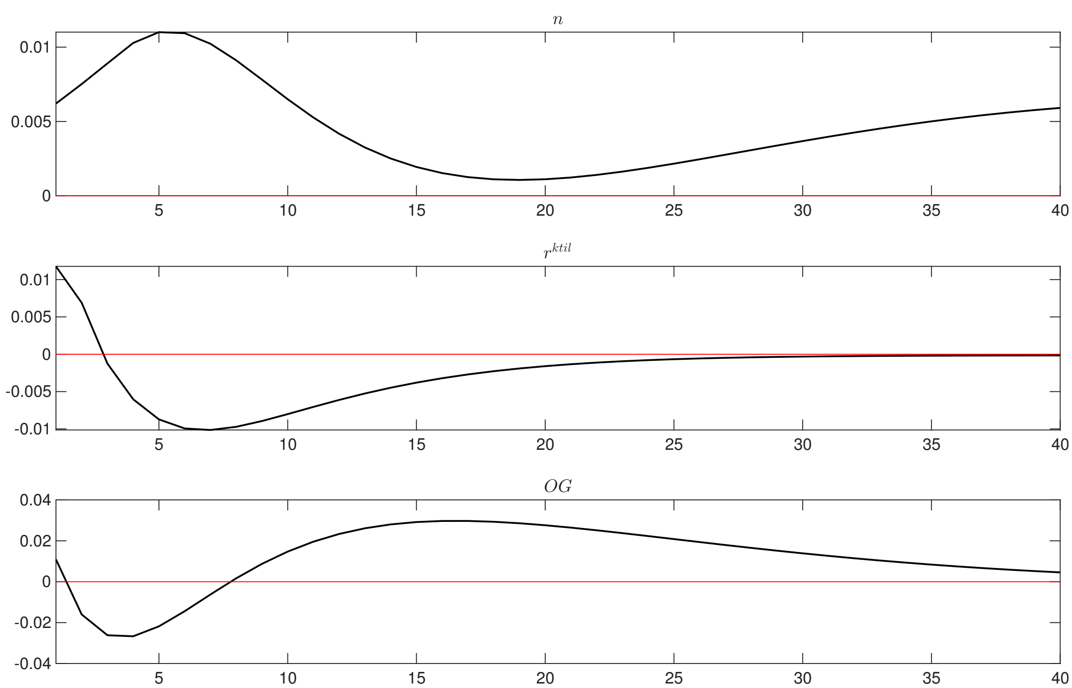

Figure 54: Impulse response functions (orthogonalized shock to η^w).

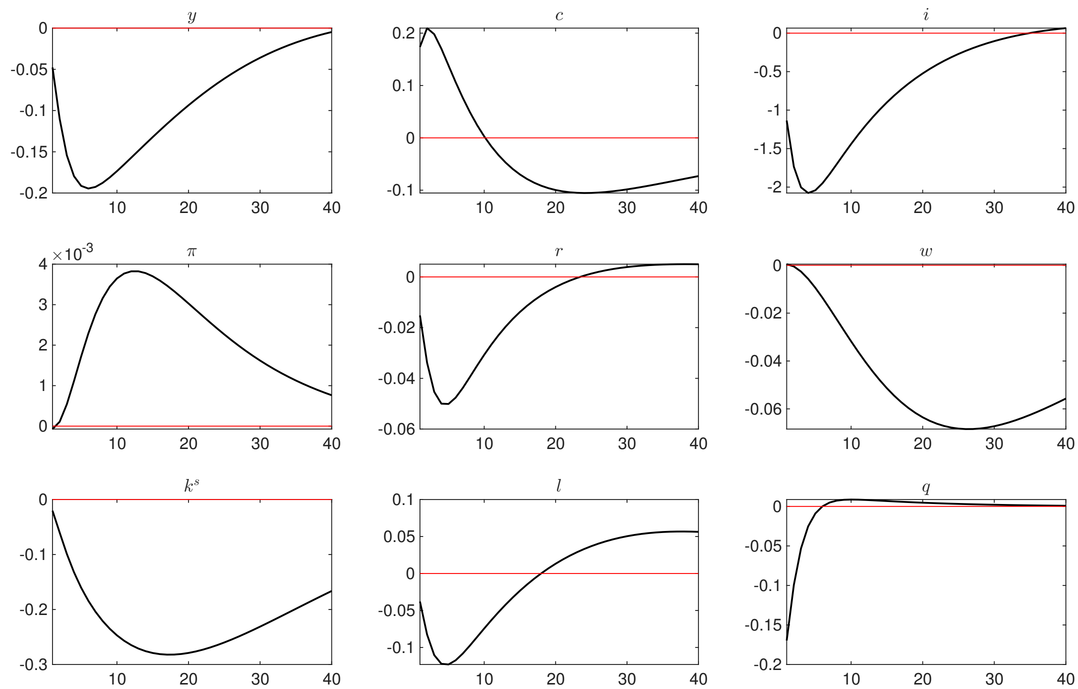

Figure 55: Impulse response functions (orthogonalized shock to η^{σ_w}).

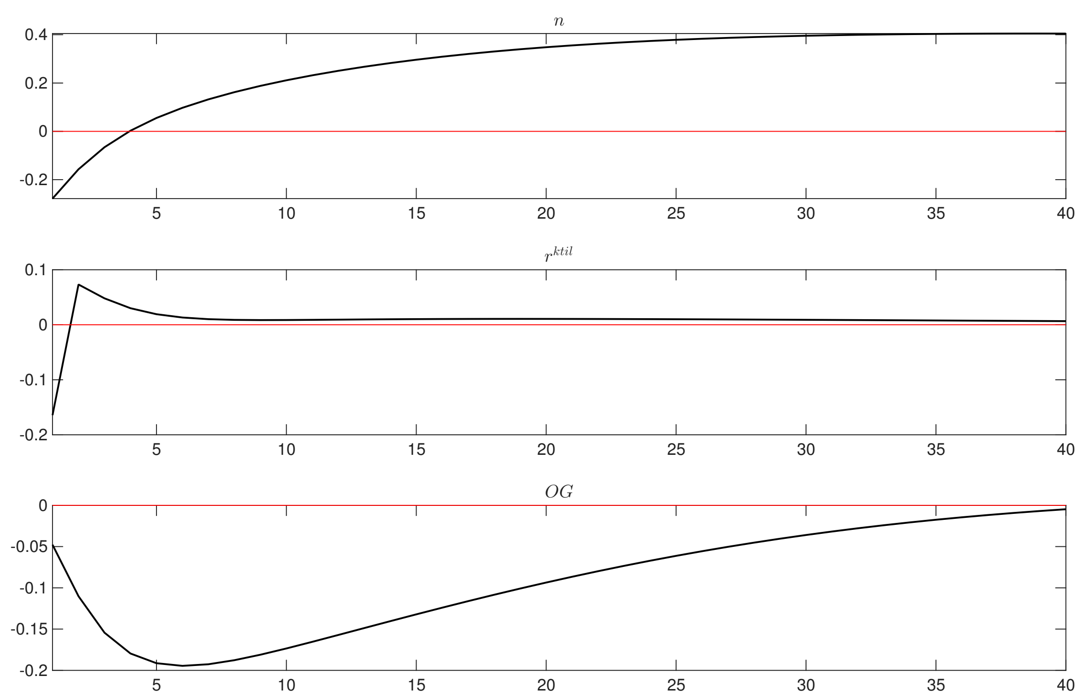

Figure 56: Impulse response functions (orthogonalized shock to η^{σ_w}).

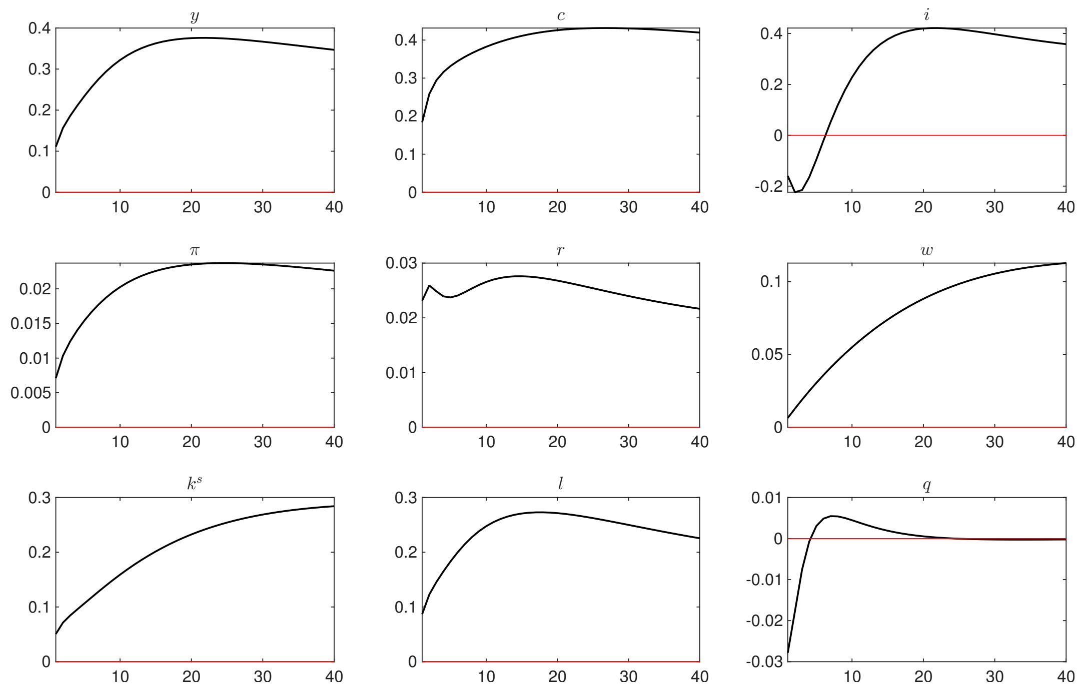

Figure 57: Impulse response functions (orthogonalized shock to η^{π_*}).

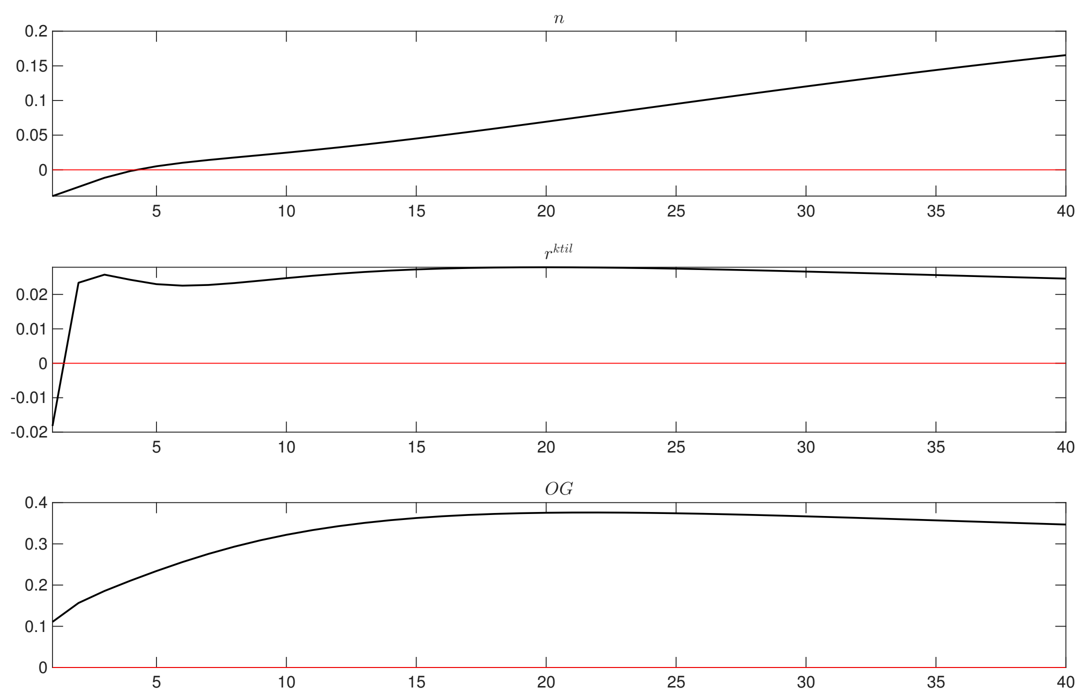

Figure 58: Impulse response functions (orthogonalized shock to η^{π_*}).

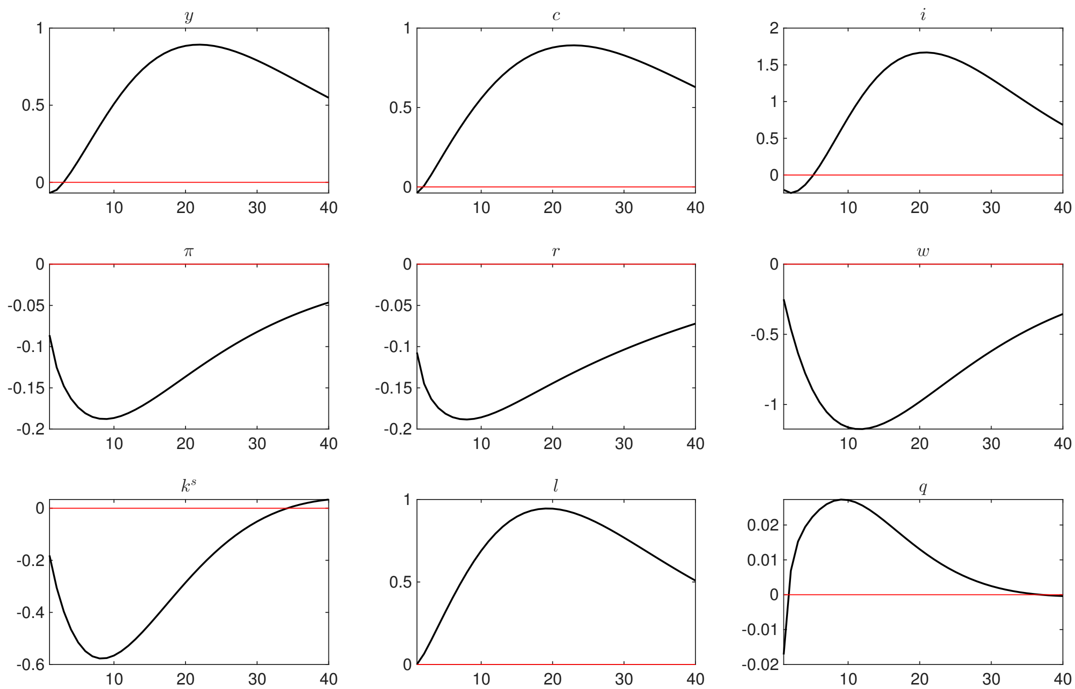

Figure 59: Impulse response functions (orthogonalized shock to η^{z_p}).

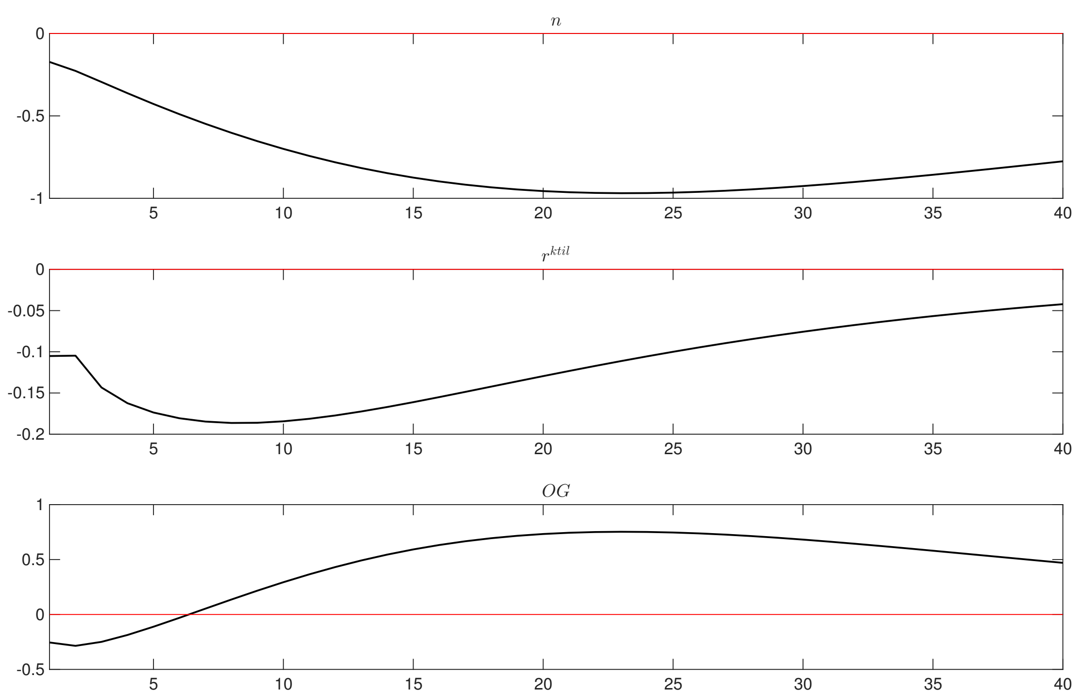

Figure 60: Impulse response functions (orthogonalized shock to η^{z_p}).

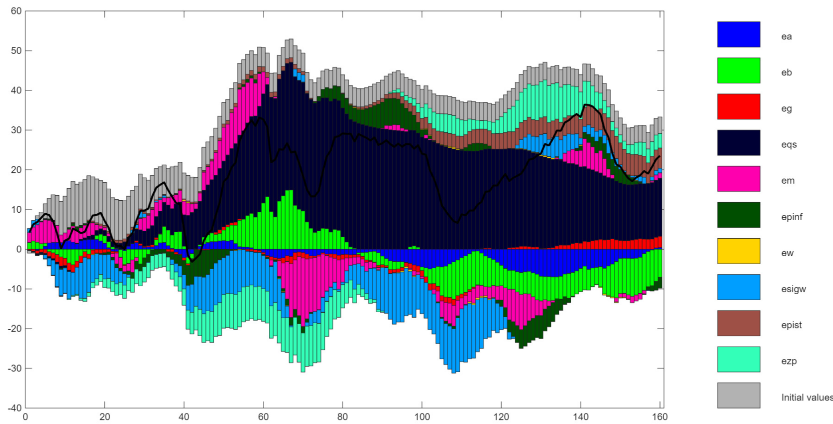

Figure 61: Historical shock decomposition: i.