Table 1: Results from posterior maximization (parameters)

	Prior			Posterior	
	Dist.	Mean	Stdev	Mode	Stdev
α	norm	0.300	0.0500	0.2652	NaN
ψ	beta	0.500	0.1500	0.5389	NaN
Φ	norm	1.250	0.1250	1.6161	NaN
ι_w	beta	0.500	0.1500	0.4702	NaN
ξ_w	beta	0.500	0.1000	0.7656	NaN
ι_p	beta	0.500	0.1500	0.3401	NaN
ξ_p	beta	0.500	0.1000	0.5953	NaN
σ_c	norm	1.500	0.3750	2.1858	NaN
σ_l	norm	2.000	0.7500	1.4809	NaN
λ	beta	0.700	0.1000	0.7239	NaN
φ	norm	4.000	1.5000	1.5994	NaN
r_π	norm	1.500	0.2500	1.8685	NaN
r_y	norm	0.125	0.0500	0.1595	NaN
$r_{\Delta y}$	norm	0.125	0.0500	0.2440	NaN
ρ	beta	0.750	0.1000	0.8427	NaN
n_*	norm	0.000	2.0000	0.5057	NaN
γ	norm	0.400	0.1000	0.4347	NaN
ζ_{sp}	beta	0.050	0.0050	0.0482	NaN
$\bar{\pi}$	gamm	0.625	0.2000	0.3042	NaN
ρ_{ga}	beta	0.500	0.2000	0.7044	NaN
ρ_a	beta	0.500	0.2000	0.9353	NaN
ρ_b	beta	0.500	0.2000	0.1992	NaN
ρ_g	beta	0.500	0.2000	0.9890	NaN
ρ_i	beta	0.500	0.2000	0.5890	NaN
ρ_r	beta	0.500	0.2000	0.0658	NaN
ρ_p	beta	0.500	0.2000	0.9096	NaN
ρ_w	beta	0.500	0.2000	0.9757	NaN
ρ_{σ_w}	beta	0.750	0.1500	0.7193	NaN
ρ_{π_*}	beta	0.750	0.1500	0.9985	NaN
μ_p	beta	0.500	0.2000	0.6470	NaN
μ_w	beta	0.500	0.2000	0.8462	NaN

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	0.4394	NaN
η^b	invg	0.100	2.0000	0.2020	NaN
η^g	invg	0.100	2.0000	2.8966	NaN
η^i	invg	0.100	2.0000	0.9110	NaN
η^m	invg	0.100	2.0000	0.2261	NaN
η^p	invg	0.100	2.0000	0.1702	NaN
η^w	invg	0.100	2.0000	0.3357	NaN
$\eta^{\sigma w}$	invg	0.100	2.0000	0.0462	NaN
$\eta^{\pi *}$	invg	0.100	2.0000	0.0413	NaN
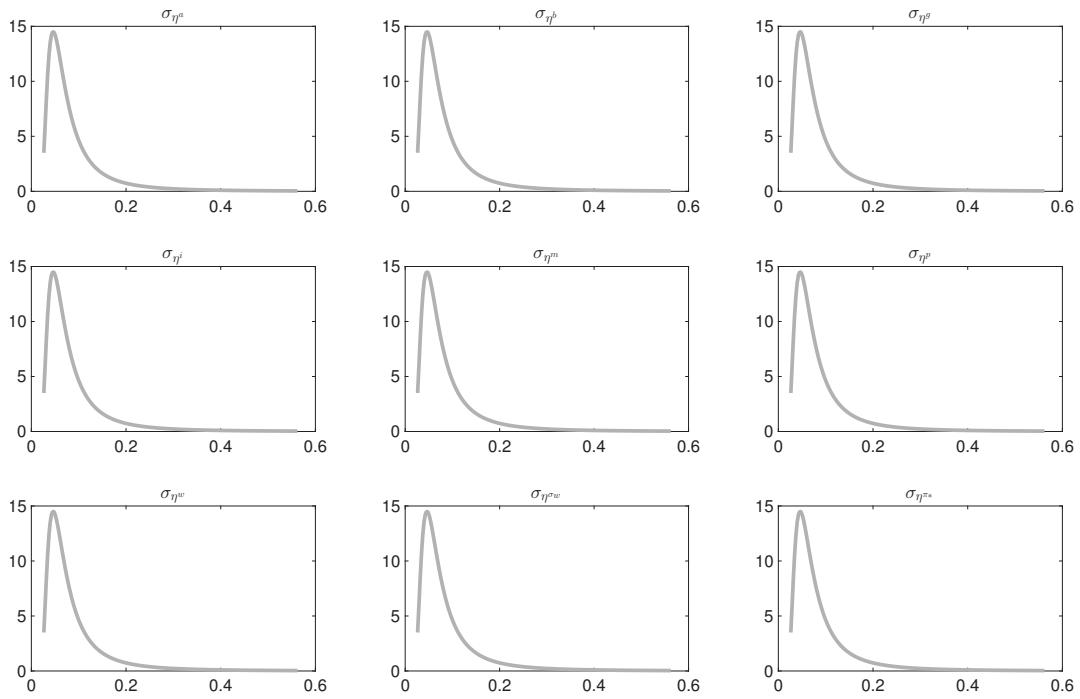
Figure 1: Priors.
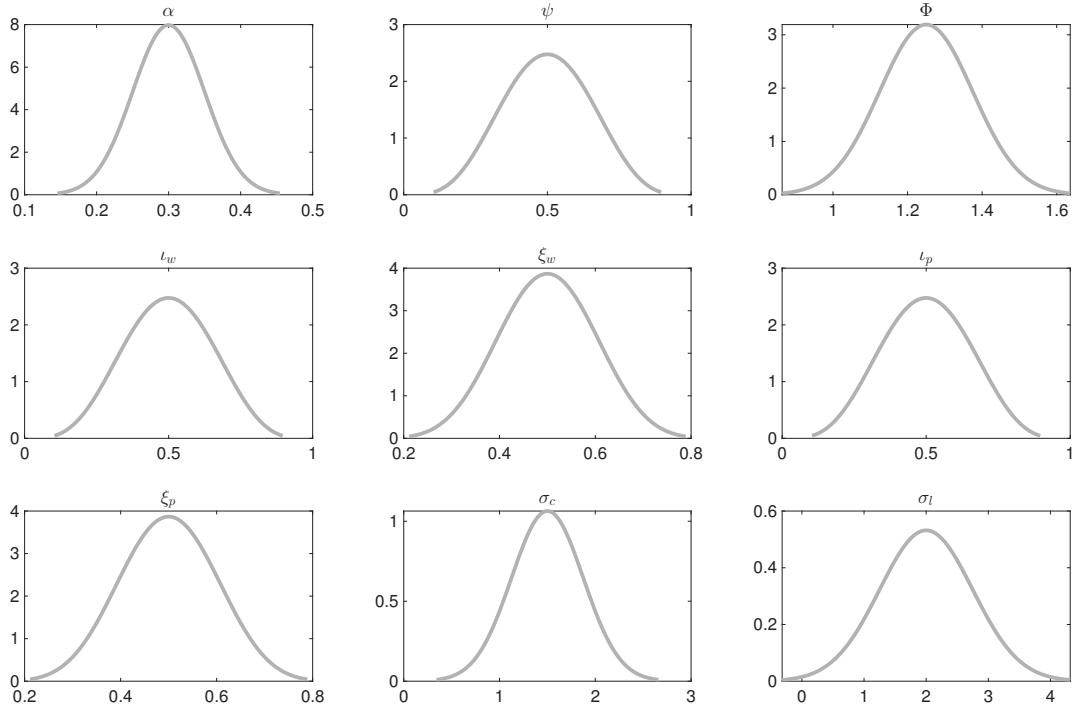
Figure 2: Priors.
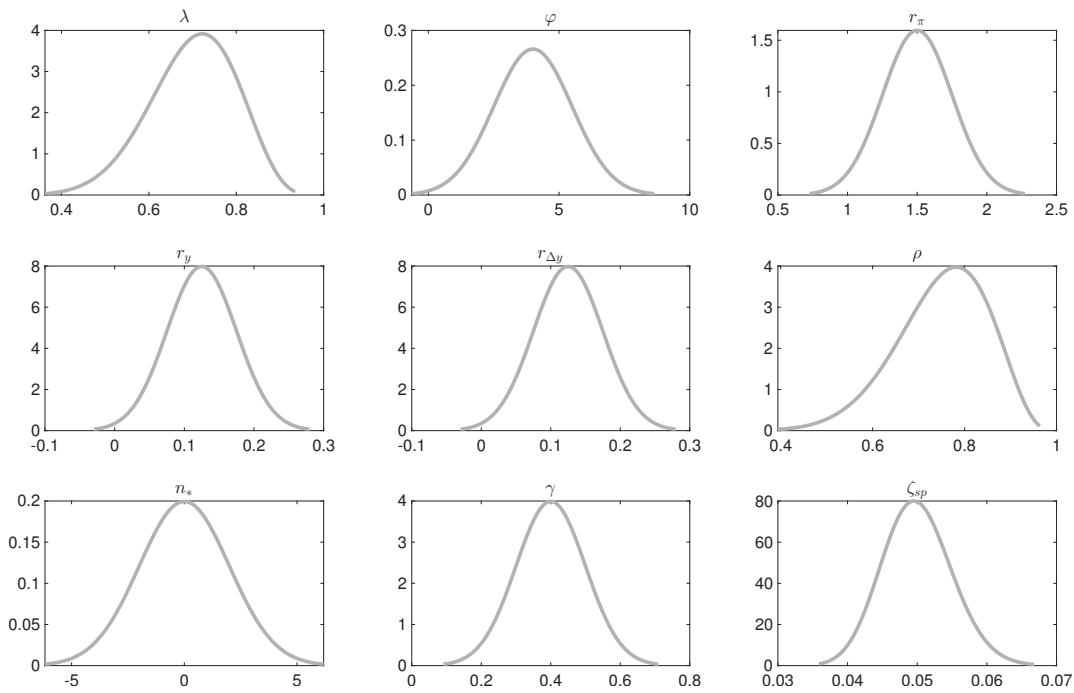
Figure 3: Priors.
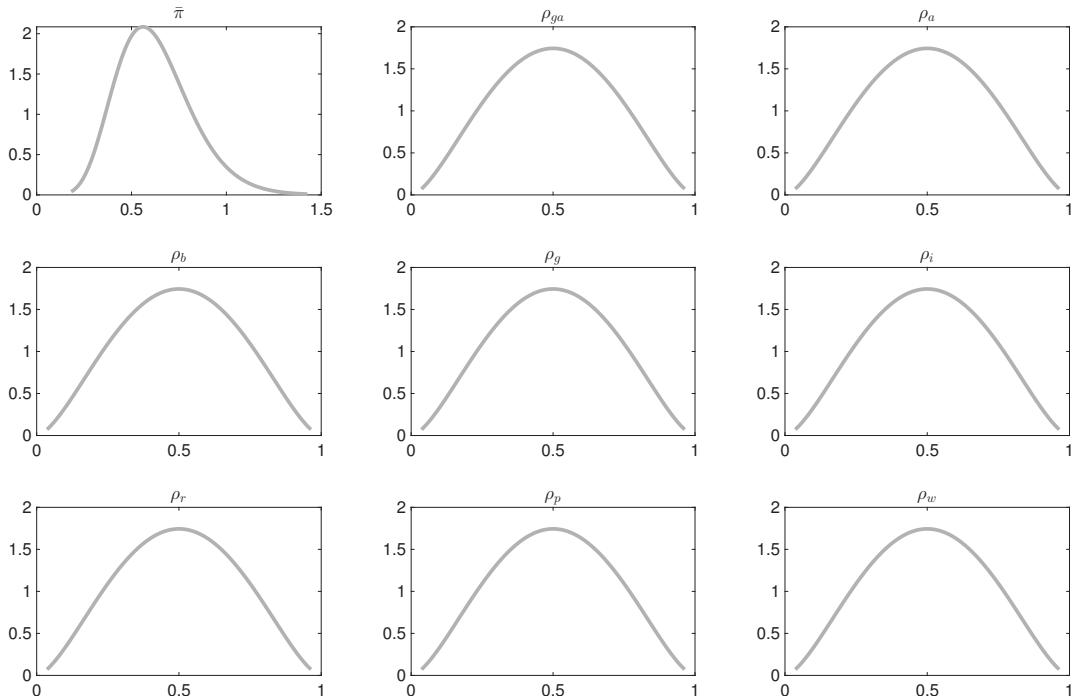
Figure 4: Priors.
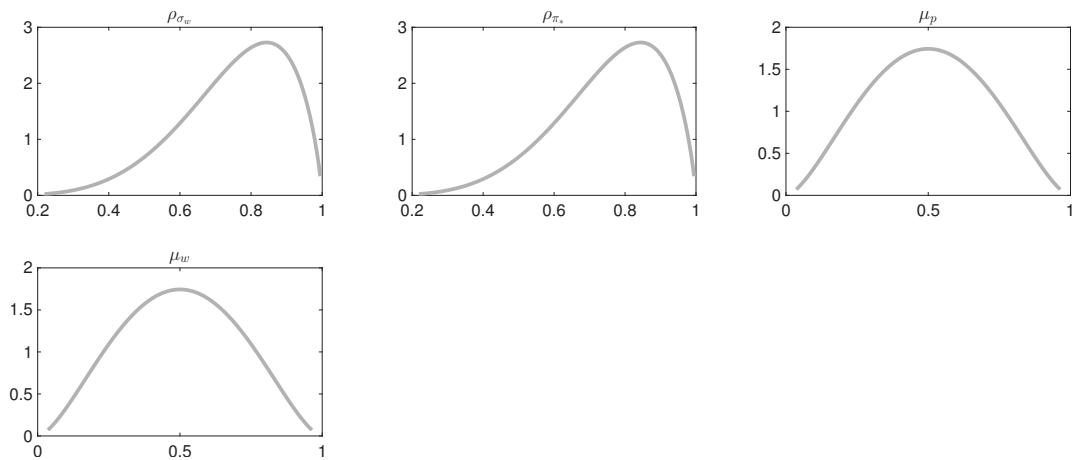
Figure 5: Priors.

Table 3: MATRIX OF COVARIANCE OF EXOGENOUS SHOCKS

$Variables$	η^a	η^b	η^g	η^i	η^m	η^p	η^w	η^{σ_w}	$\eta^{\pi*}$
η^a	0.193041	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.00000
η^b	0.000000	0.040817	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.00000
η^g	0.000000	0.000000	8.390366	0.000000	0.000000	0.000000	0.000000	0.000000	0.00000
η^i	0.000000	0.000000	0.000000	0.829899	0.000000	0.000000	0.000000	0.000000	0.00000
η^m	0.000000	0.000000	0.000000	0.000000	0.051103	0.000000	0.000000	0.000000	0.00000
η^p	0.000000	0.000000	0.000000	0.000000	0.000000	0.028952	0.000000	0.000000	0.00000
η^w	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.112719	0.000000	0.00000
η^{σ_w}	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.002135	0.00000
$\eta^{\pi*}$	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.00170
η^{z_p}	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.00000

Table 4: 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 4 – 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 5: 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	$\eta^{\pi*}$	Inflation Target shock
ezp	η^{z_p}	Permanent technology shock

Table 6: 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 6 – 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	$\frac{\bar{yp}}{\bar{y}}$	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 7: 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	0.265	capital share
ψ	0.539	capacity utilization cost
φ	1.599	investment adjustment cost
δ	0.025	depreciation rate
σ_c	2.186	risk aversion
λ	0.724	external habit degree
Φ	1.616	fixed cost share
ι_w	0.470	Indexation to past wages
ξ_w	0.766	Calvo parameter wages
ι_p	0.340	Indexation to past prices
ξ_p	0.595	Calvo parameter prices
σ_l	1.481	Frisch elasticity
r_π	1.869	Taylor rule inflation feedback
$r_{\Delta y}$	0.244	Taylor rule output growth feedback
r_y	0.160	Taylor rule output level feedback
ρ	0.843	interest rate persistence
ζ_{sp}	0.048	Spread elasticity
γ^*	0.990	Wealth parameter
v^*	2.471	Wealth parameter
n_*	0.506	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}	0.704	Feedback technology on exogenous spending
μ_w	0.846	coefficient on MA term wage markup
μ_p	0.647	coefficient on MA term price markup
ρ_{σ_w}	0.719	persistence Financial shock
ρ_{π_*}	0.998	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	0.935	persistence productivity shock
ρ_b	0.199	persistence risk premium shock
ρ_g	0.989	persistence spending shock
ρ_i	0.589	persistence risk premium shock
ρ_r	0.066	persistence monetary policy shock
ρ_p	0.910	persistence price markup shock

Table 7 – Continued

Parameter	Value	Description
ρ_w	0.976	persistence wage markup shock
γ	0.435	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
$\bar{\pi}$	0.304	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 8: 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

Table 8: (continued)

	Distribution	Mean	Mode	Std.dev.	Bounds*		90% HPDI	
					Lower	Upper	Lower	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 9: COEFFICIENTS OF AUTOCORRELATION

Order	1	2	3	4	5
y	0.9897	0.9763	0.9618	0.9470	0.9325
c	0.9940	0.9859	0.9768	0.9673	0.9576
i	0.9938	0.9812	0.9653	0.9477	0.9294
π	0.9604	0.9279	0.8983	0.8703	0.8435
r	0.9776	0.9495	0.9203	0.8909	0.8616
w	0.9908	0.9790	0.9650	0.9496	0.9332
k^s	0.9974	0.9940	0.9901	0.9857	0.9810
l	0.9887	0.9750	0.9603	0.9453	0.9303
q	0.7796	0.6688	0.5833	0.5079	0.4401
n	0.9903	0.9826	0.9750	0.9671	0.9587
r^{ktil}	-0.0202	0.1402	0.1691	0.1724	0.1711
OG	0.9938	0.9839	0.9728	0.9614	0.9501

Table 10: MATRIX OF CORRELATIONS

$Variables$	y	c	i	π	r	w	k^s	l	q	n	
y	1.0000	0.7651	0.4929	0.4025	0.3569	0.5177	0.5824	0.5775	-0.1530	0.2630	
c	0.7651	1.0000	0.3030	0.2824	0.1270	0.3875	0.4718	0.4265	-0.0565	0.1364	
i	0.4929	0.3030	1.0000	0.2363	0.5124	0.7248	0.8802	-0.3145	-0.3853	0.8494	-
π	0.4025	0.2824	0.2363	1.0000	0.8200	0.6685	0.2354	0.2524	-0.0139	0.0896	
r	0.3569	0.1270	0.5124	0.8200	1.0000	0.7376	0.4073	0.0520	-0.2212	0.3900	
w	0.5177	0.3875	0.7248	0.6685	0.7376	1.0000	0.7858	-0.1621	-0.1440	0.6411	
k^s	0.5824	0.4718	0.8802	0.2354	0.4073	0.7858	1.0000	-0.3092	-0.2665	0.8755	-
l	0.5775	0.4265	-0.3145	0.2524	0.0520	-0.1621	-0.3092	1.0000	0.0789	-0.5411	
q	-0.1530	-0.0565	-0.3853	-0.0139	-0.2212	-0.1440	-0.2665	0.0789	1.0000	-0.0728	
n	0.2630	0.1364	0.8494	0.0896	0.3900	0.6411	0.8755	-0.5411	-0.0728	1.0000	-
r^{ktil}	0.1456	0.1096	-0.0296	0.4166	0.3033	0.2094	-0.0174	0.1950	0.2902	-0.0565	
OG	0.9043	0.7937	0.6559	0.4061	0.4590	0.6427	0.7263	0.3489	-0.1052	0.5121	

Table 11: THEORETICAL MOMENTS

$VARIABLE$	$MEAN$	$STD.DEV.$	$VARIANCE$
y	0.0000	6.3557	40.3952
c	0.0000	7.8764	62.0380
i	0.0000	19.8399	393.6212
π	0.0000	1.0004	1.0009
r	0.0000	1.2980	1.6848
w	0.0000	6.4230	41.2555
k^s	0.0000	12.7869	163.5042
l	0.0000	4.5957	21.1208
q	0.0000	3.3954	11.5289
n	0.0000	36.2996	1317.6613
r^{ktil}	0.0000	2.4633	6.0676
OG	0.0000	6.3813	40.7211

Table 12: VARIANCE DECOMPOSITION (in percent)

	η^a	η^b	η^g	η^i	η^m	η^p	η^w	η^{σ_w}	$\eta^{\pi*}$	η^{z_p}
y	2.23	0.71	9.27	5.48	2.54	2.24	10.64	0.00	63.18	3.70
c	0.84	0.63	9.77	2.86	1.25	1.05	15.55	0.00	60.44	7.61
i	2.65	0.19	0.13	9.18	2.24	1.04	0.66	0.01	10.21	73.68
π	1.81	0.08	0.05	0.36	0.67	10.59	20.84	0.00	44.79	20.80
r	6.16	1.20	0.49	3.05	3.00	1.81	11.81	0.01	26.18	46.29
w	3.19	0.05	0.24	1.52	0.54	6.98	17.81	0.00	38.21	31.46
k^s	2.94	0.06	0.09	3.06	0.74	1.03	0.34	0.00	22.60	69.12
l	1.34	0.64	10.88	3.25	2.00	0.99	17.11	0.00	20.89	42.90
q	1.02	13.73	0.10	66.44	8.93	1.42	3.47	0.19	0.25	4.45
n	4.09	0.42	0.01	1.36	0.54	0.03	0.23	0.00	2.87	90.45
r^{ktil}	0.45	46.26	0.11	21.37	8.85	1.35	5.99	0.28	7.40	7.93
OG	1.82	0.70	0.54	2.09	2.52	2.22	10.56	0.00	62.67	16.86

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

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

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

$$clandap = \Phi$$

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

$$y1 = \frac{\frac{\bar{c}}{\bar{y}}}{\frac{\overline{yp}}{\bar{y}}}$$

$$y2 = \frac{\frac{\bar{i}}{\bar{y}}}{\frac{\overline{yp}}{\bar{y}}}$$

$$y3 = \bar{rk}\ \frac{k^*}{\frac{\overline{yp}}{\bar{y}}}$$

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

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

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

$$ff4 = \frac{\gamma^* \, v^*}{n_*}$$

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

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

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

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

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

$$u_t = u1\,r^k_{\ t} \tag{5}$$

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

$$k^s_{\ t} = l_t + w_t - r^k_{\ t} \tag{7}$$

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

$$\varepsilon^g_t = \rho_g \varepsilon^g_{t-1} + \eta^g_t + \eta^a_t \rho_{ga} \tag{31}$$

$$c_2 * \varepsilon^b_{tt} = \rho_b c_2 * \varepsilon^b_{tt-1} + \eta^b_t \tag{32}$$

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

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

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

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

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

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

$$z_{pt} = \rho_{zp} \, z_{pt-1} + \eta^{z_p}{}_t \tag{39}$$

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

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

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

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

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

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

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

$$Spread_t = 100 \left(r^{ktil}{}_t - r_t \right) + 0.02 \tag{47}$$
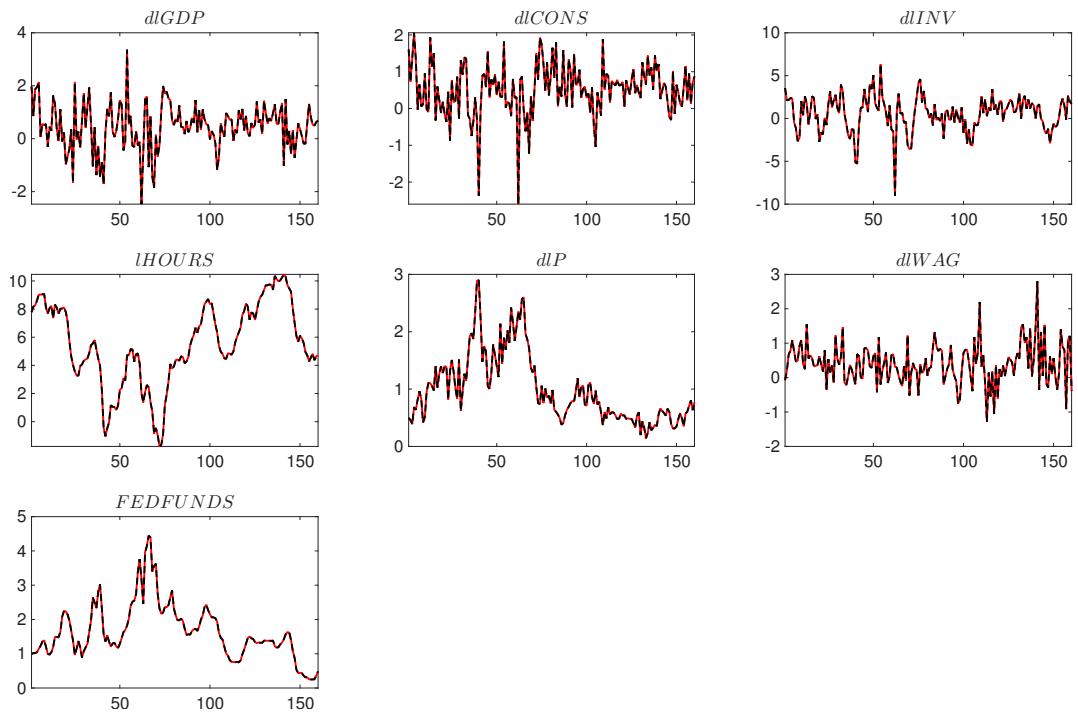
Figure 6: Historical and smoothed variables.
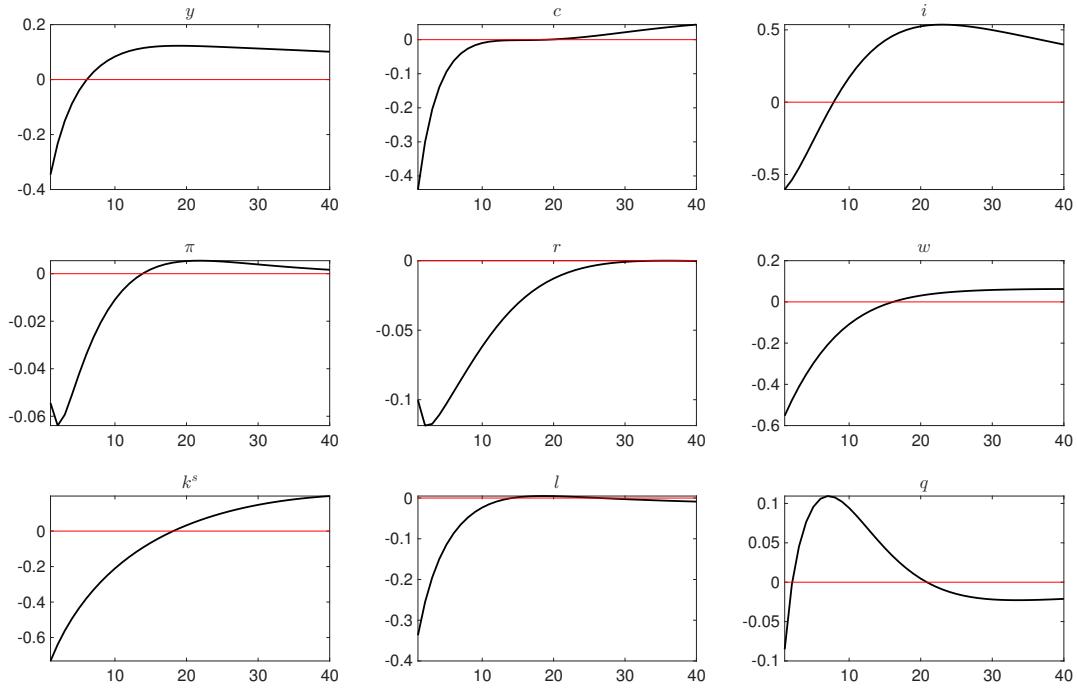
Figure 7: Impulse response functions (orthogonalized shock to η^a).
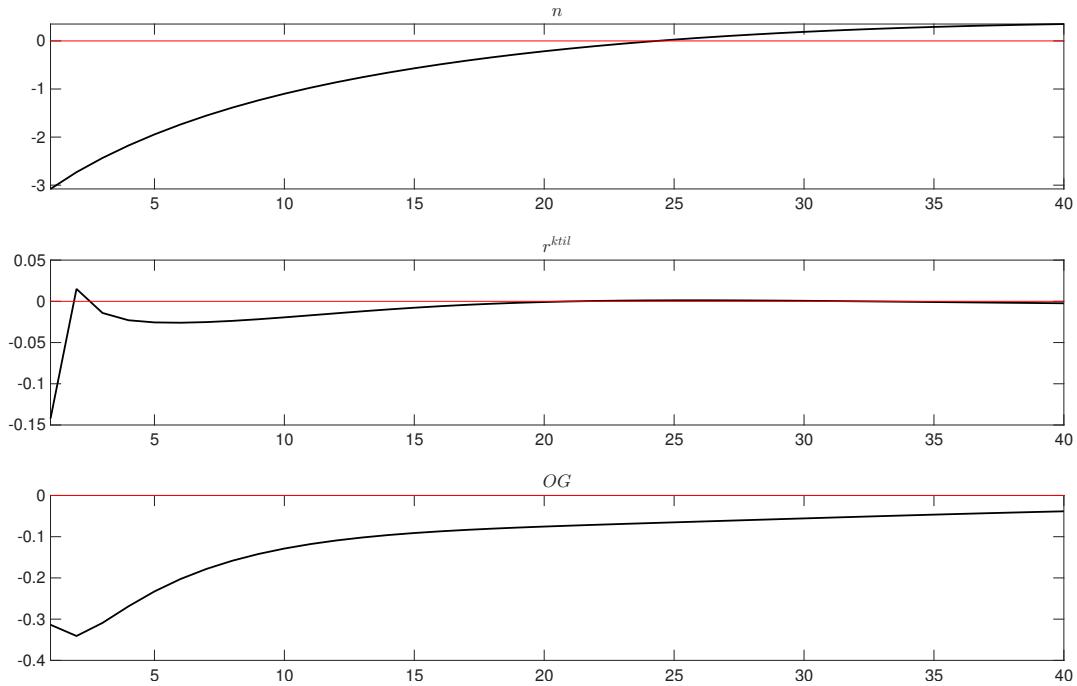
Figure 8: Impulse response functions (orthogonalized shock to η^a).
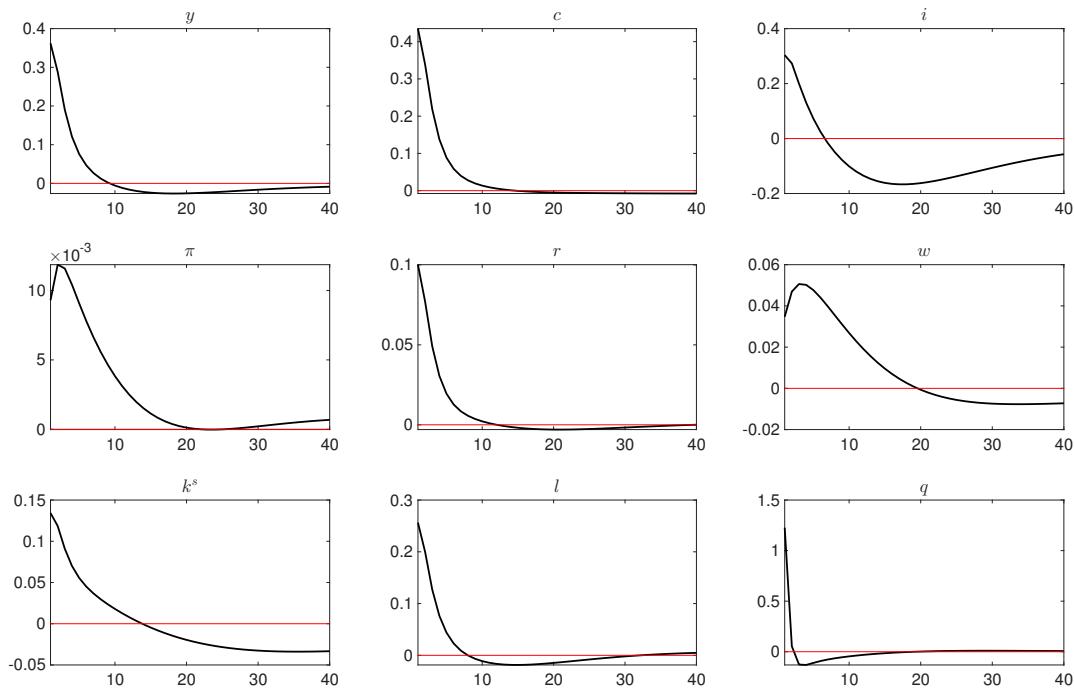
Figure 9: Impulse response functions (orthogonalized shock to η^b).
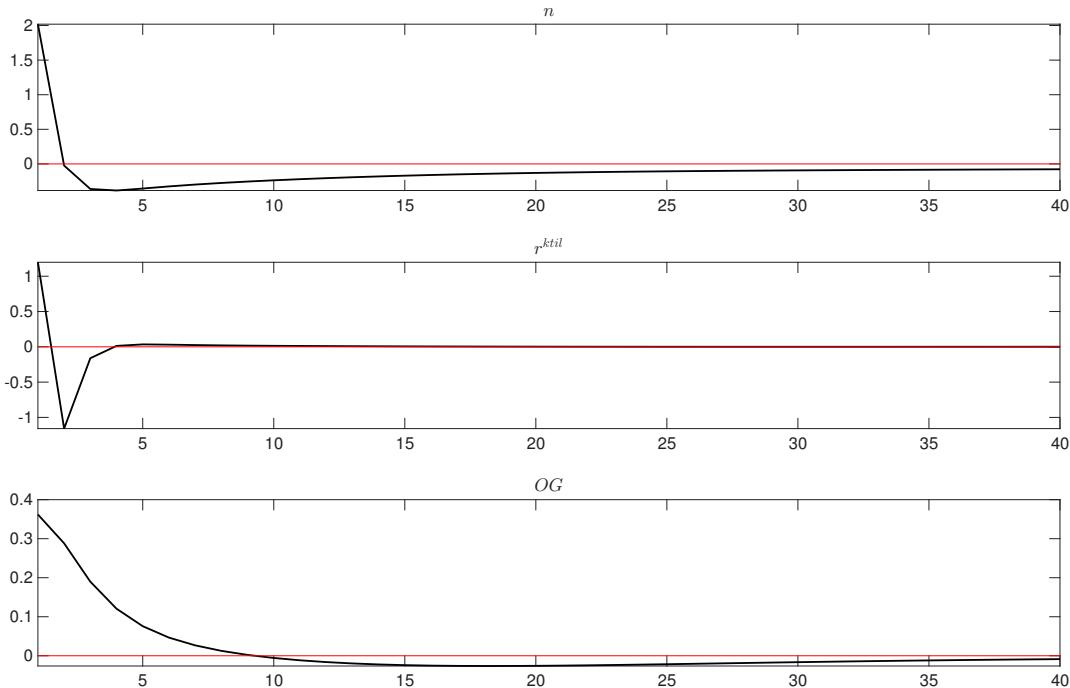
Figure 10: Impulse response functions (orthogonalized shock to η^b).
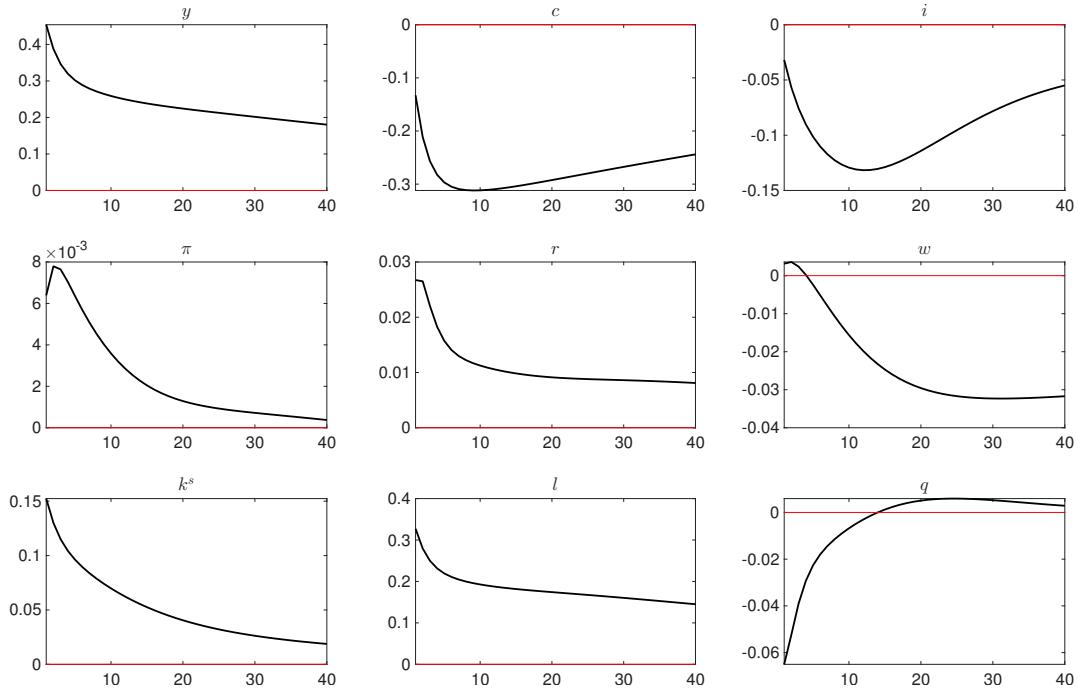
Figure 11: Impulse response functions (orthogonalized shock to η^g).
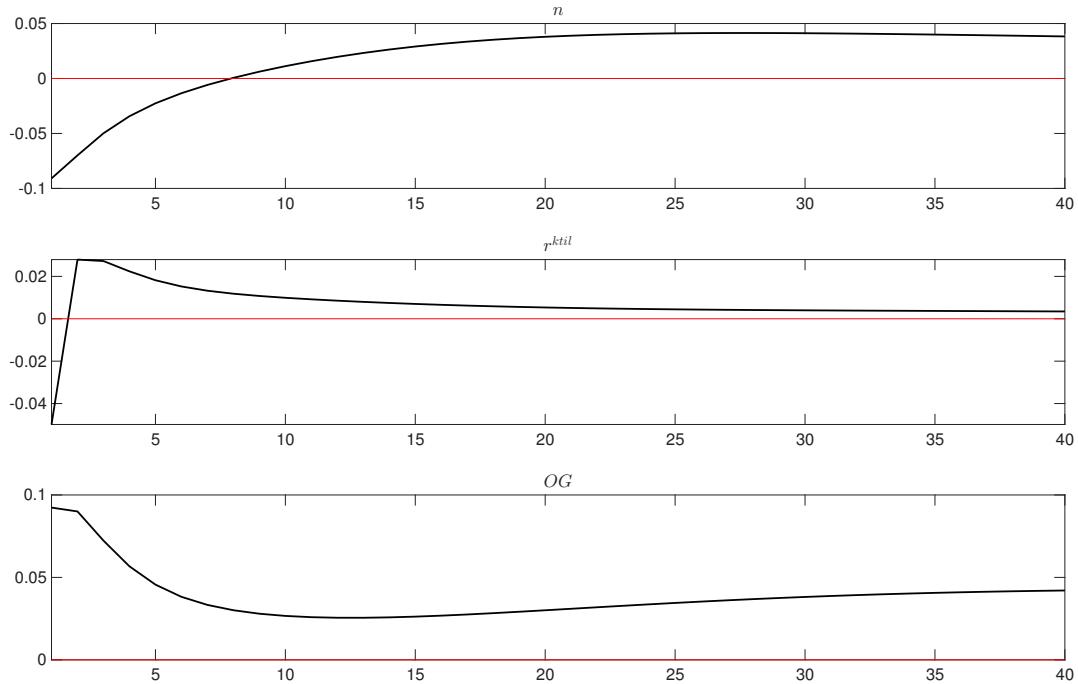
Figure 12: Impulse response functions (orthogonalized shock to η^g).
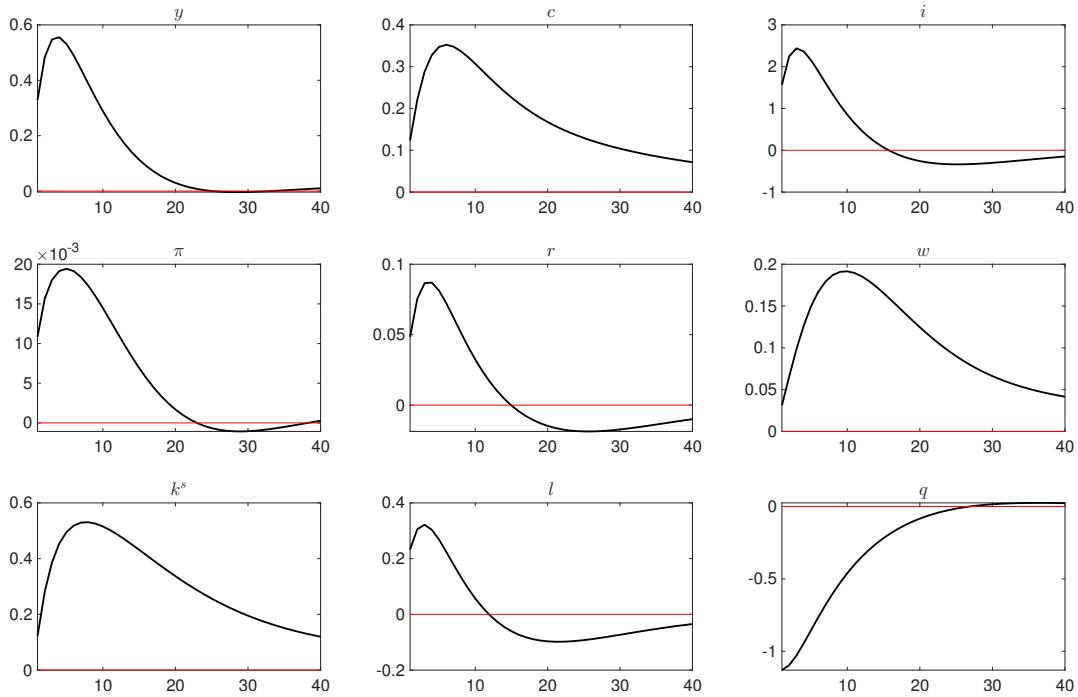
Figure 13: Impulse response functions (orthogonalized shock to η^i).
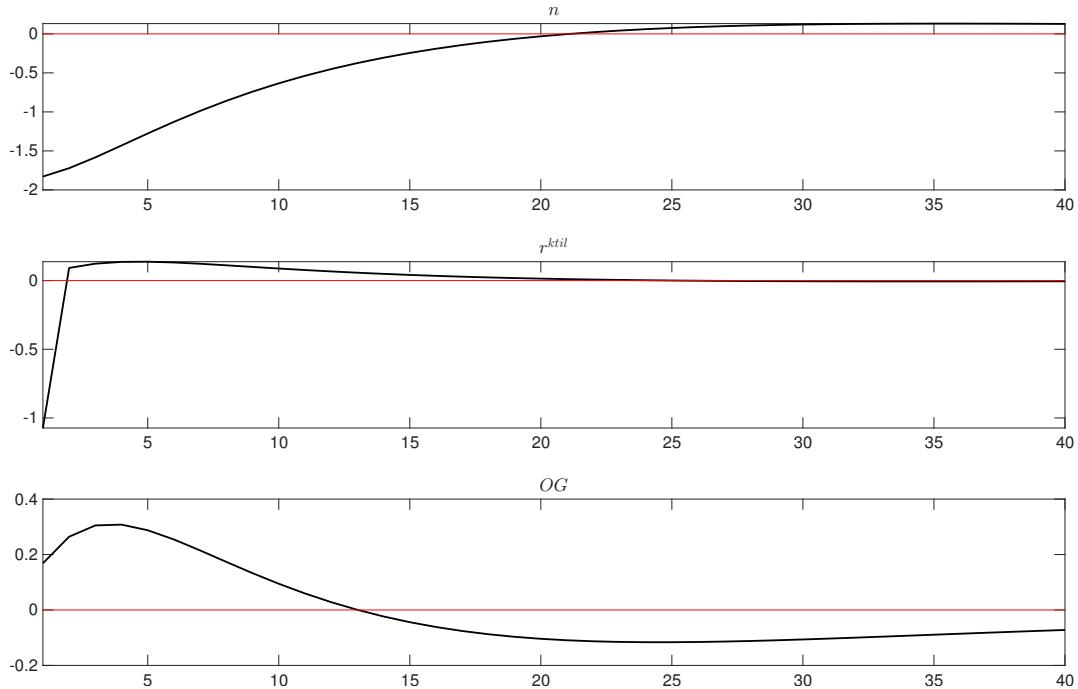

Figure 14: Impulse response functions (orthogonalized shock to η^i).
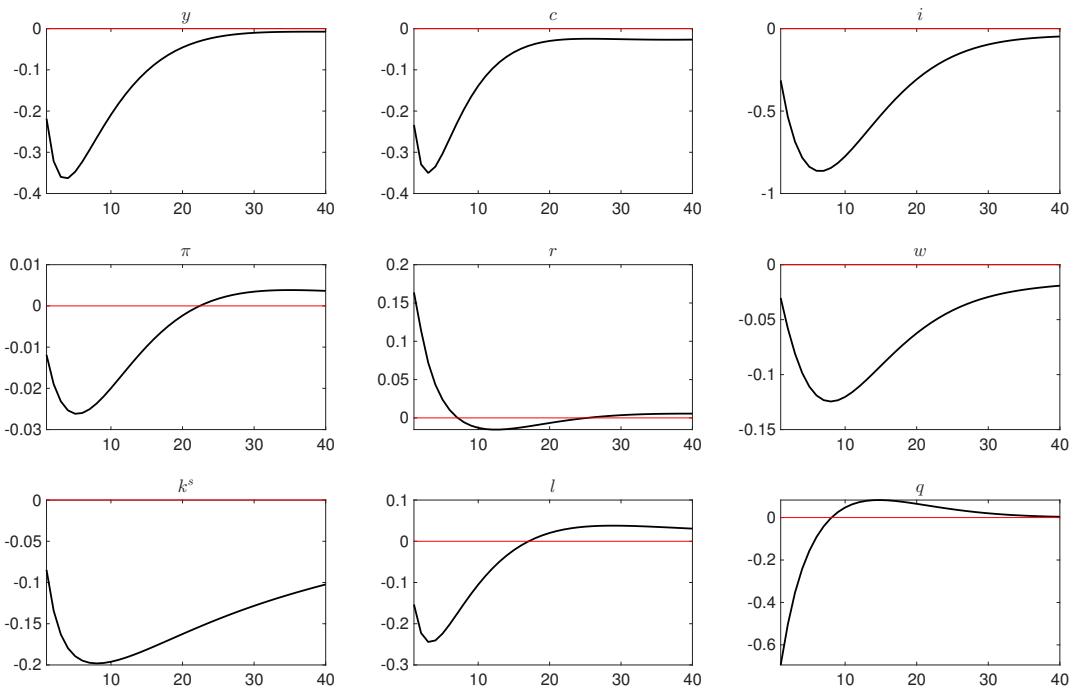
Figure 15: Impulse response functions (orthogonalized shock to η^m).
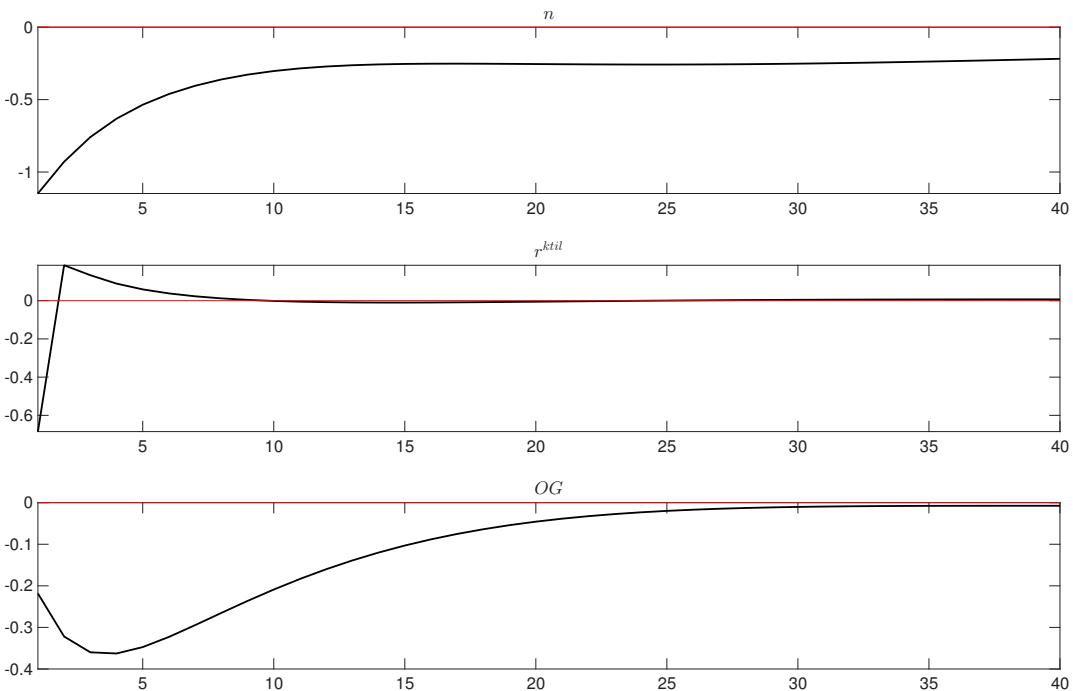
Figure 16: Impulse response functions (orthogonalized shock to η^m).
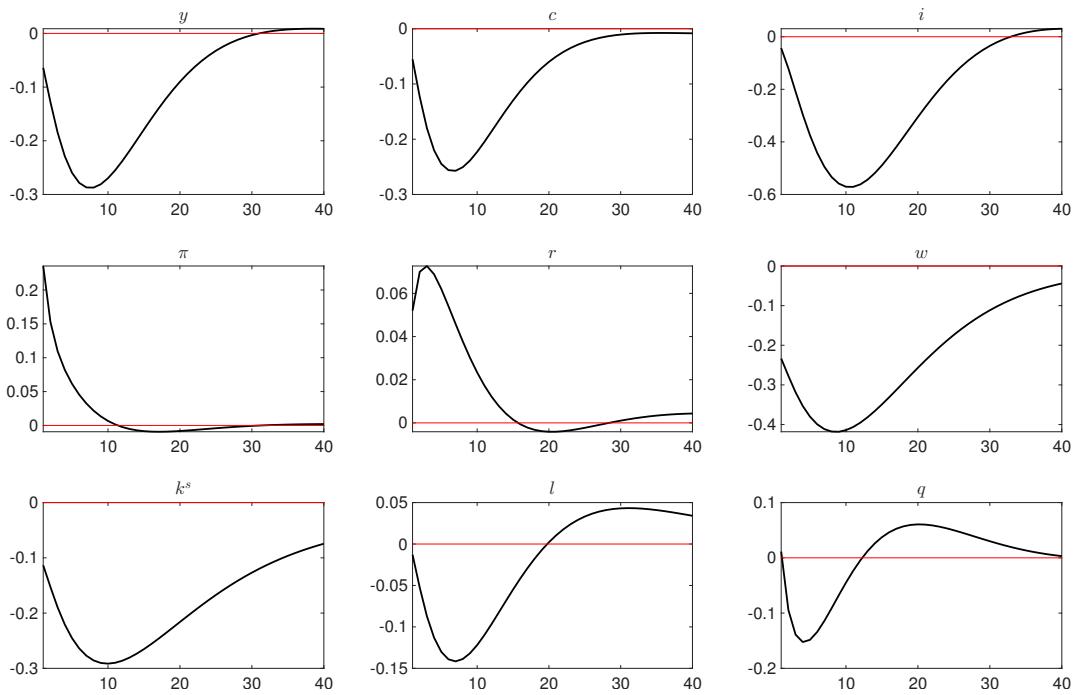
Figure 17: Impulse response functions (orthogonalized shock to η^p).
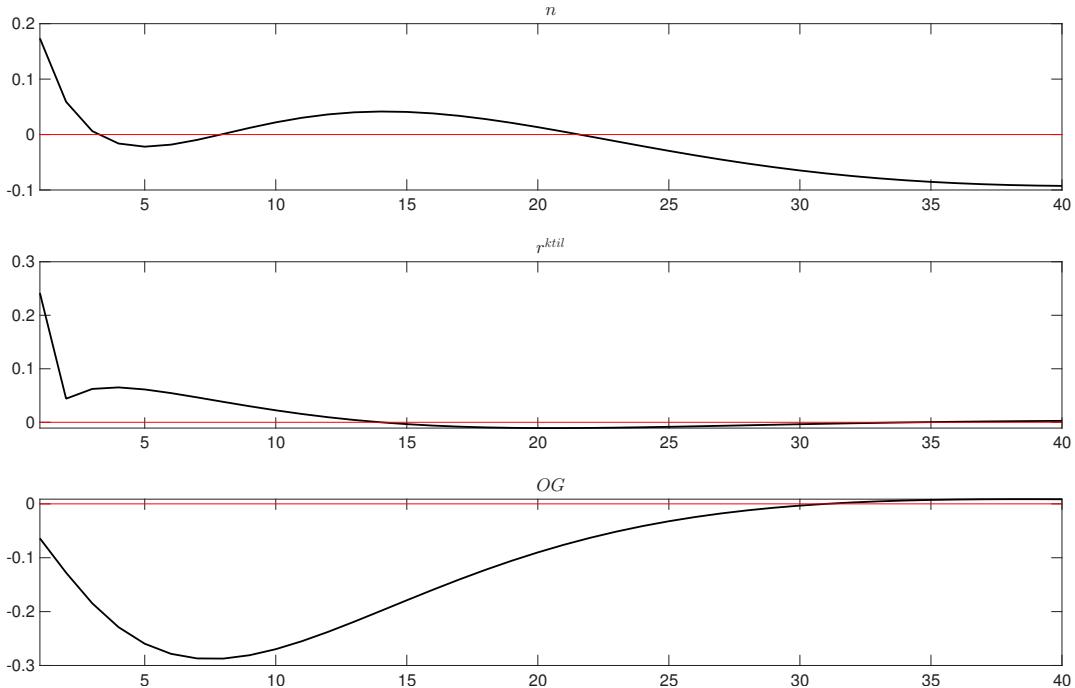
Figure 18: Impulse response functions (orthogonalized shock to η^p).
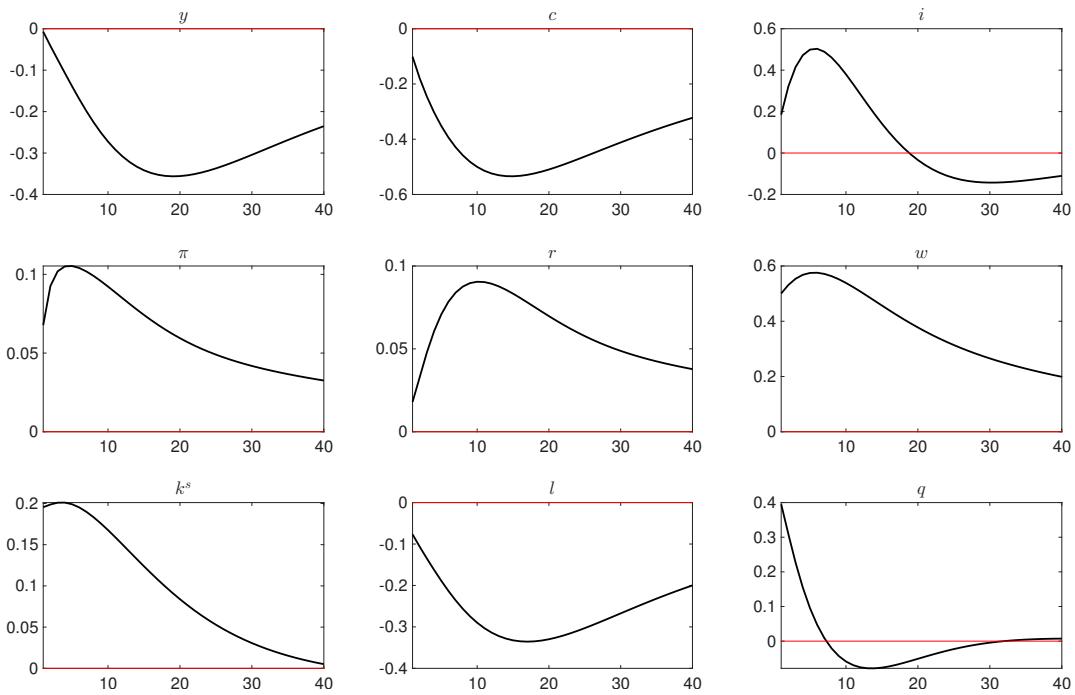
Figure 19: Impulse response functions (orthogonalized shock to η^w).
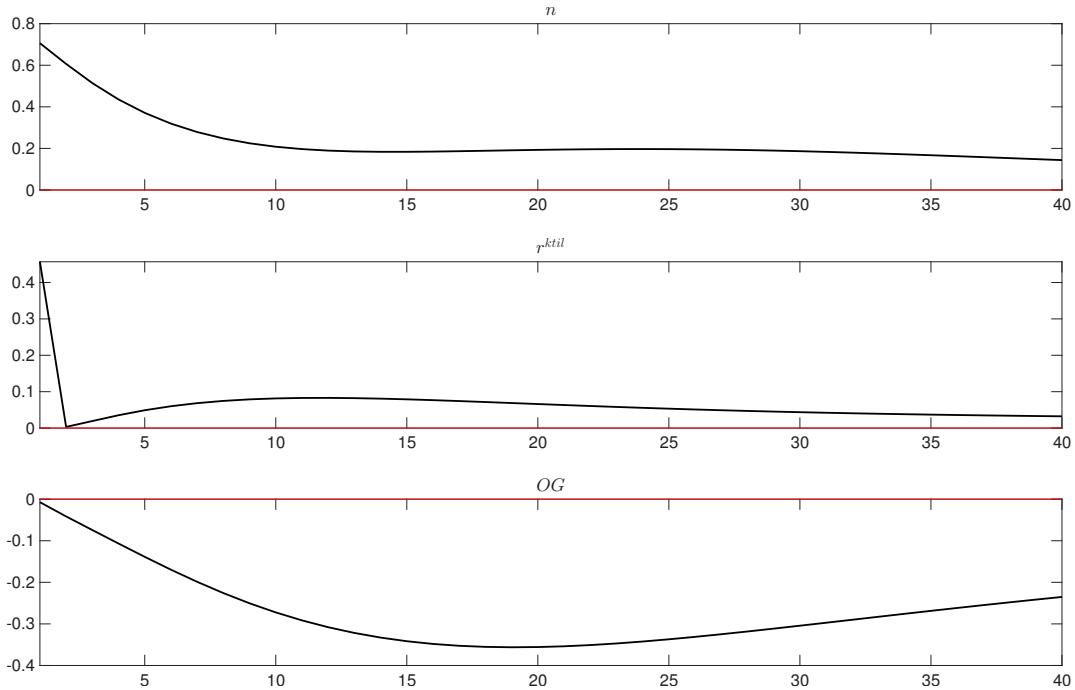
Figure 20: Impulse response functions (orthogonalized shock to η^w).
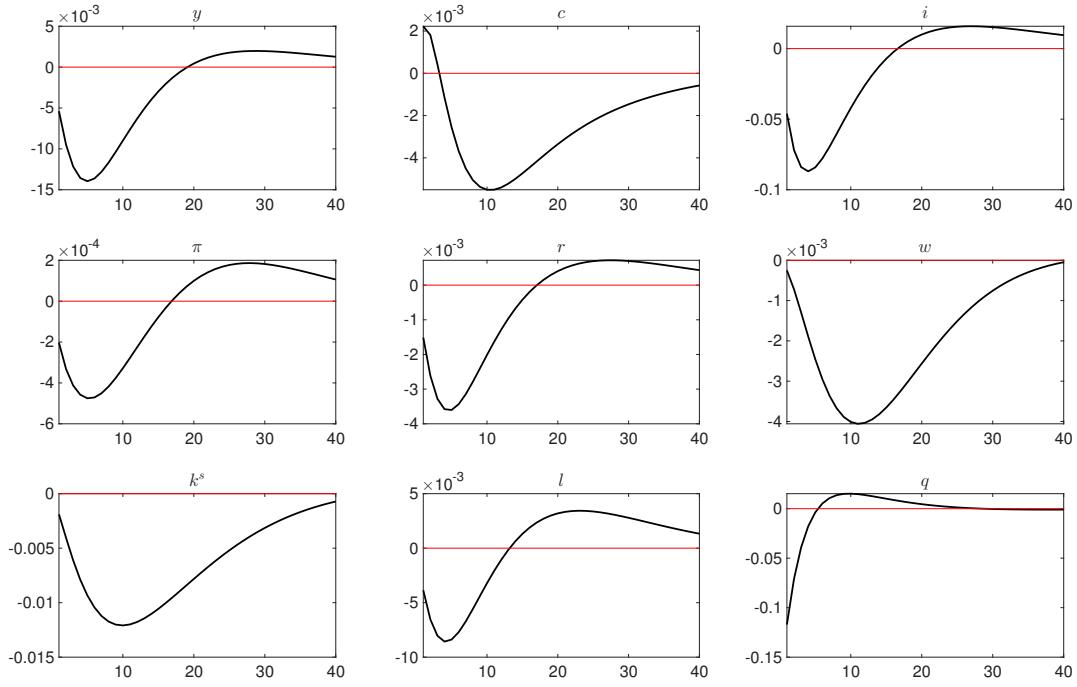
Figure 21: Impulse response functions (orthogonalized shock to η^{σ_w}).
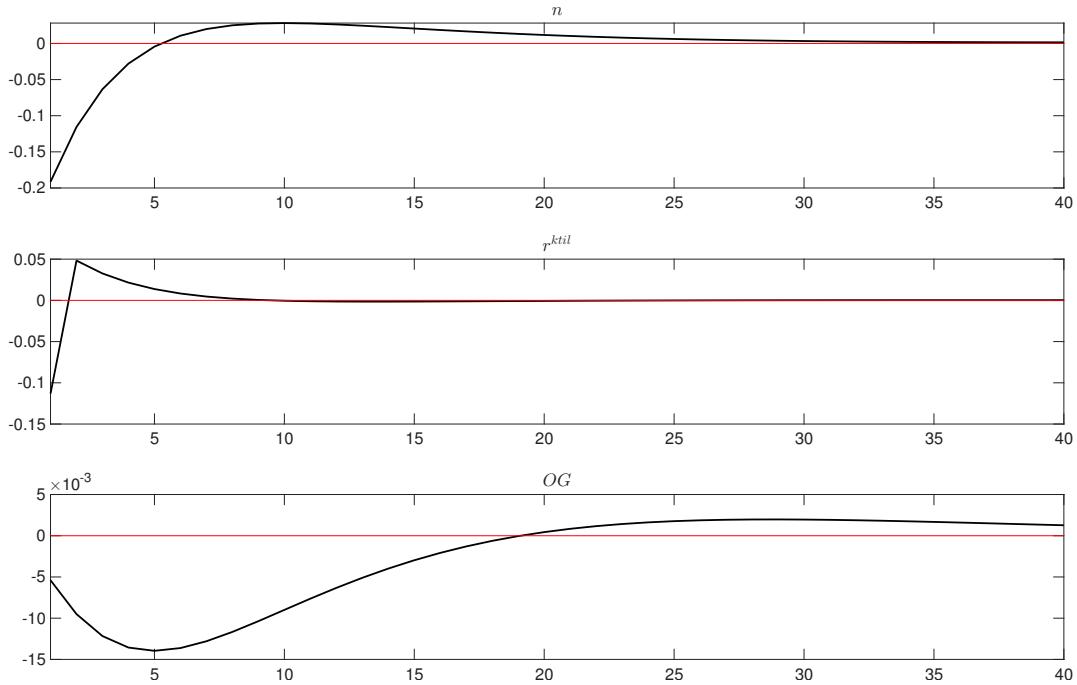
Figure 22: Impulse response functions (orthogonalized shock to η^{σ_w}).
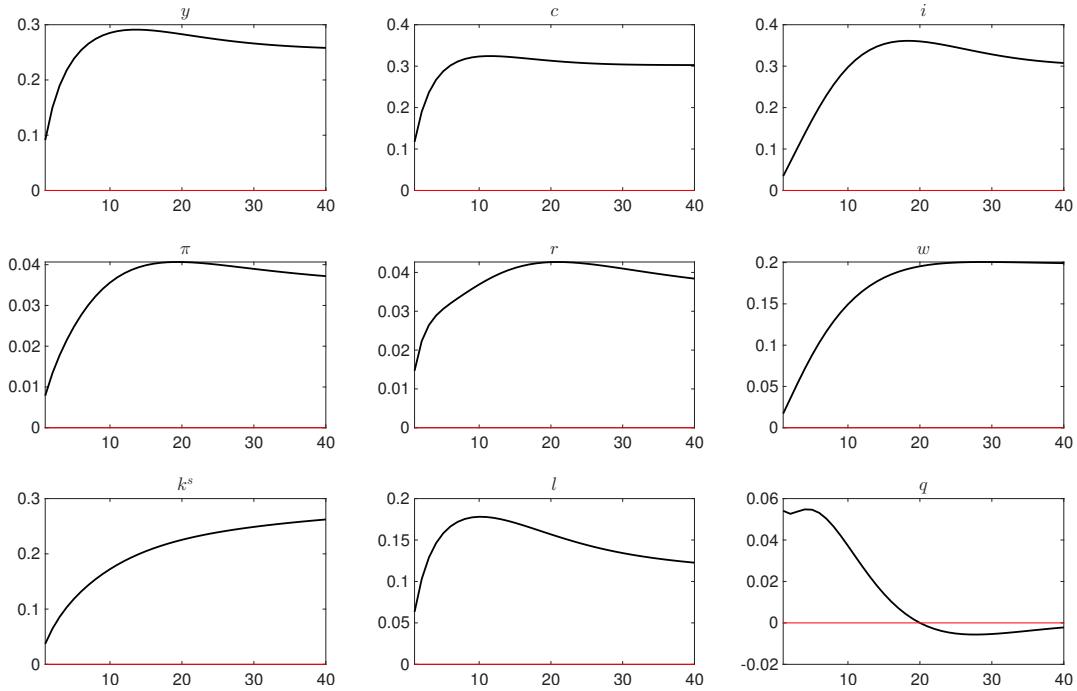
Figure 23: Impulse response functions (orthogonalized shock to η^{π_*}).
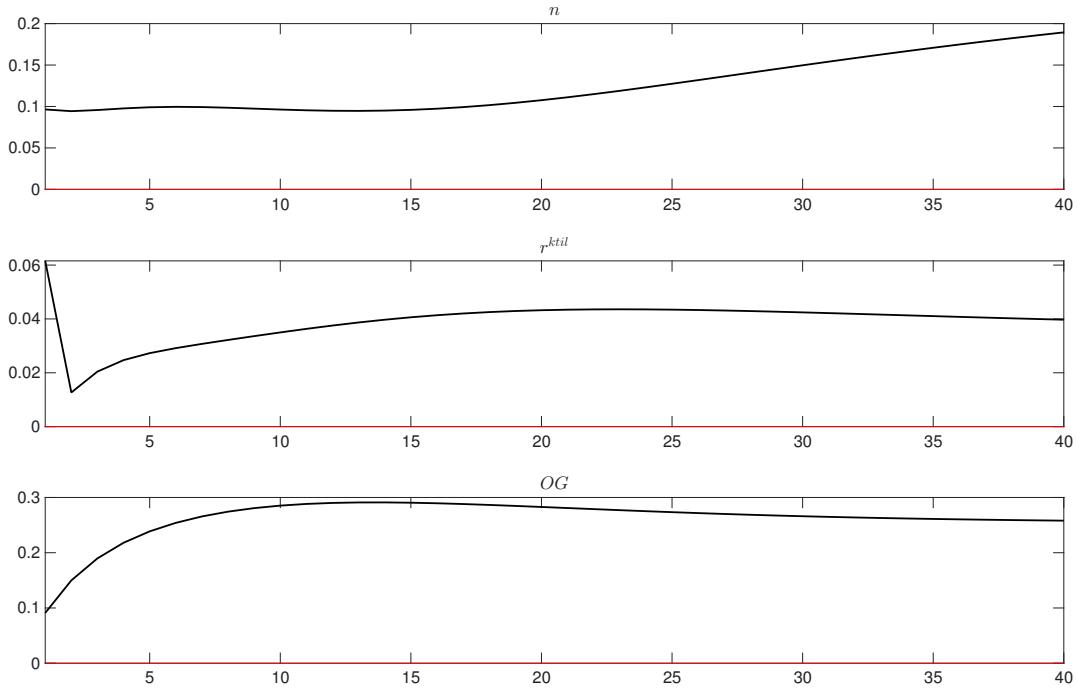
Figure 24: Impulse response functions (orthogonalized shock to η^{π_*}).
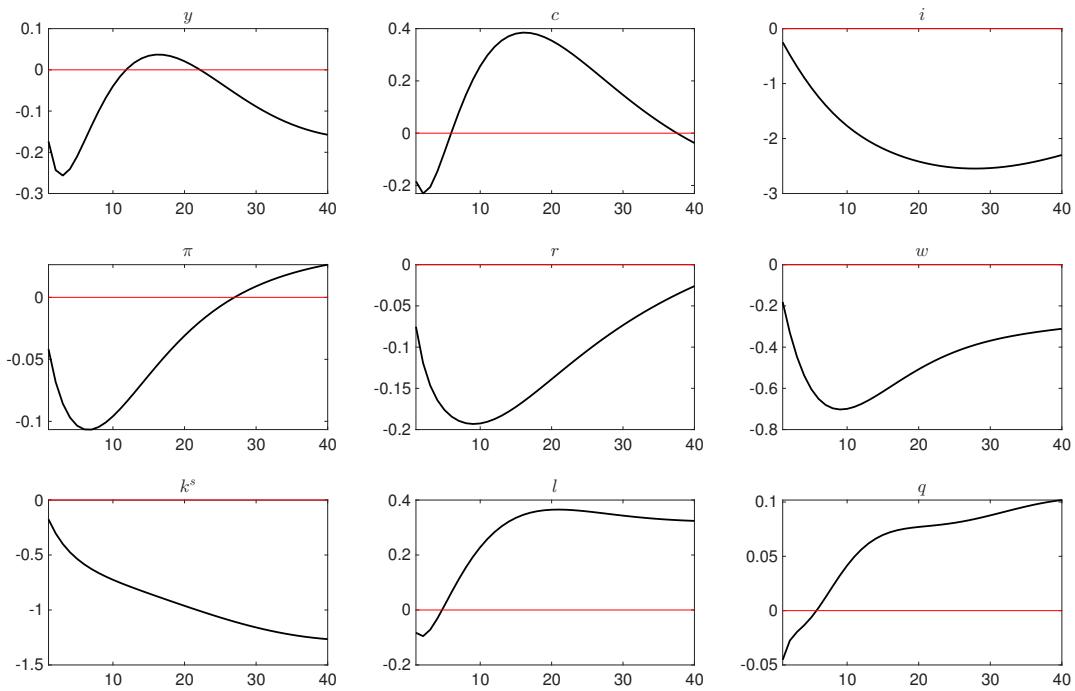
Figure 25: Impulse response functions (orthogonalized shock to η^{z_p}).
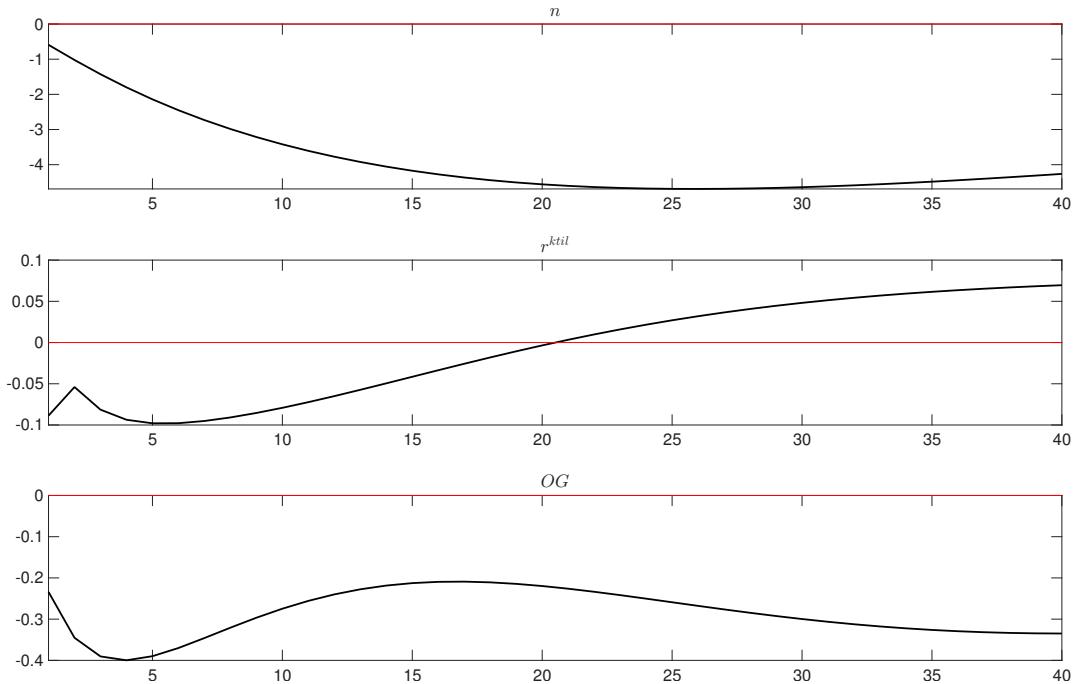
Figure 26: Impulse response functions (orthogonalized shock to η^{z_p}).
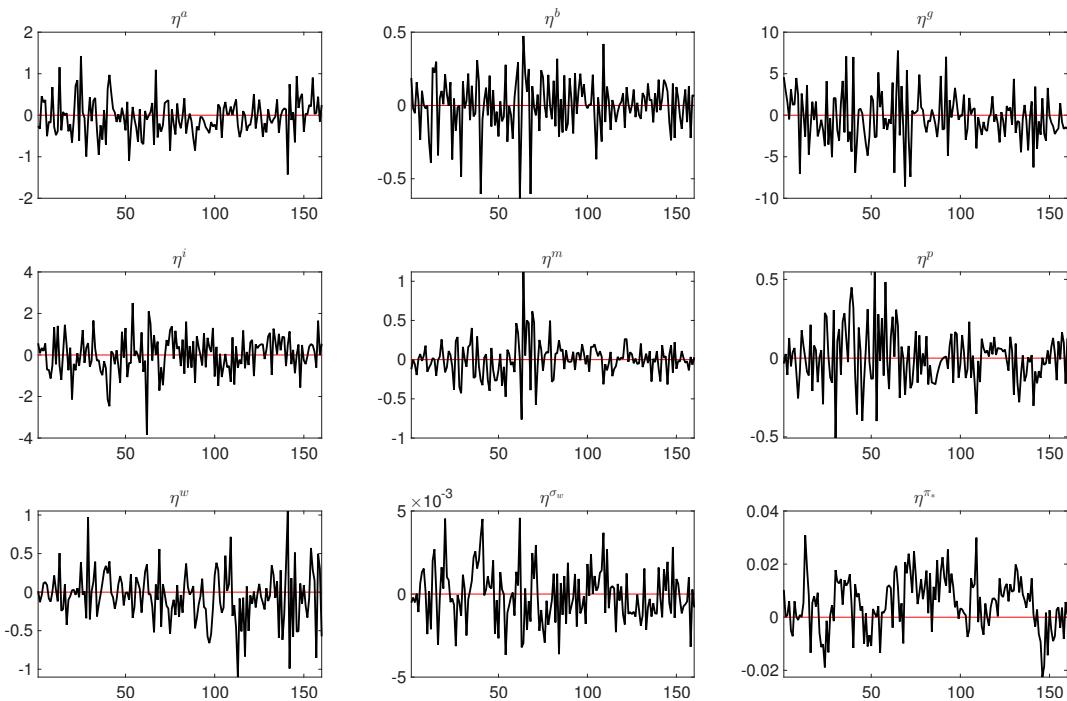
Figure 27: Smoothed shocks.
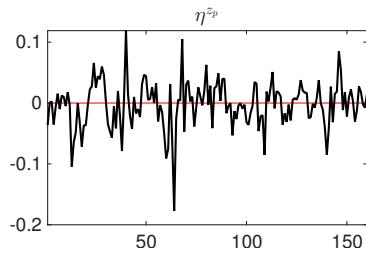
Figure 28: Smoothed shocks.