Table 1: MCMC Inefficiency factors per block

Parameter	*Block* 1	*Block* 2
σ_{η^a}	145.077	292.067
σ_{η^b}	251.607	384.250
σ_{η^g}	222.326	176.628
σ_{η^i}	160.054	222.904
σ_{η^m}	412.617	405.508
σ_{η^p}	320.318	237.663
σ_{η^w}	359.410	329.173
$\sigma_{\eta^{\sigma_w}}$	267.139	492.322
$\sigma_{\eta^{\pi *}}$	456.848	689.241
α	172.657	138.267
ψ	200.717	252.682
Φ	151.087	299.140
ι_w	180.465	305.997
ξ_w	253.542	403.762
ι_p	78.893	174.900
ξ_p	228.488	372.659
σ_c	212.396	266.137
σ_l	151.211	372.462
λ	204.107	167.180
φ	265.523	307.088
r_π	251.931	436.095
r_y	271.516	338.330
$r_{\Delta y}$	232.996	301.945
ρ	277.573	429.748
n_*	245.437	366.962
γ	290.536	218.507
ζ_{sp}	113.812	164.121
$\bar{\pi}$	273.111	271.050
ρ_{ga}	300.297	304.563
ρ_a	288.431	279.211
ρ_b	310.421	433.144
ρ_g	130.288	145.531
ρ_i	186.290	195.312
ρ_r	375.745	336.579
ρ_p	112.945	158.109
ρ_w	308.111	257.429
ρ_{σ_w}	227.496	548.401
ρ_{π_*}	646.212	449.442
μ_p	196.964	230.333
μ_w	499.038	306.129

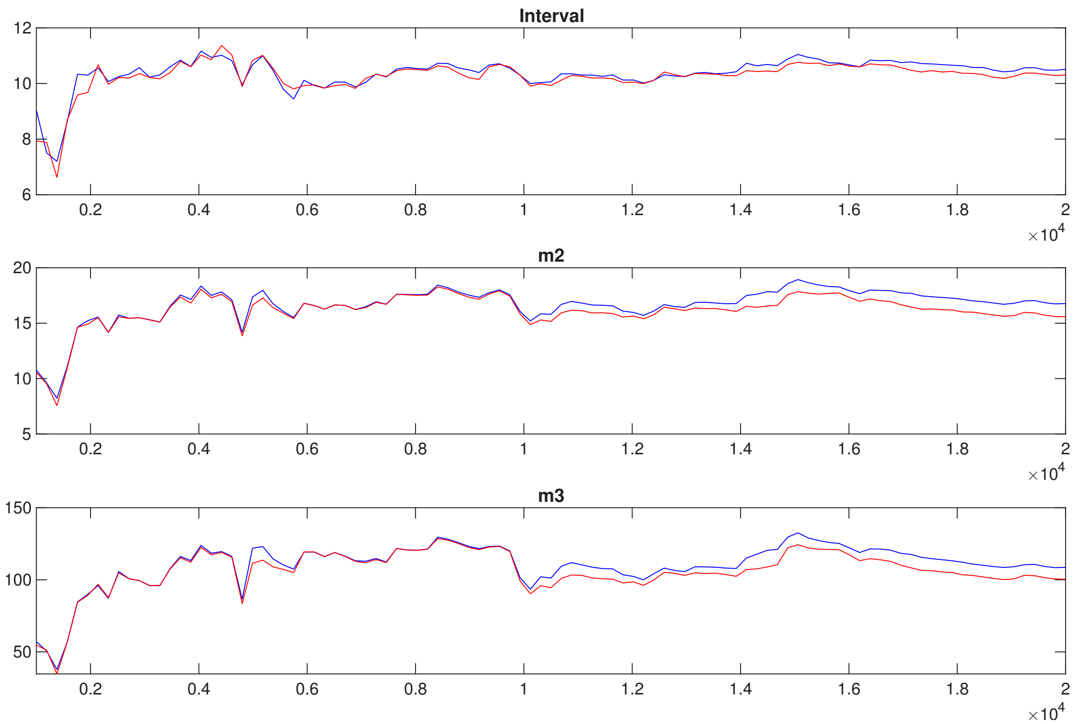

Figure 1: Multivariate convergence diagnostics for the Metropolis-Hastings. The first, second and third rows are respectively the criteria based on the eighty percent interval, the second and third moments. The different parameters are aggregated using the posterior kernel.

Table 2: Results from Metropolis-Hastings (parameters)

	Prior			Posterior			
	Dist.	Mean	Stdev.	Mean	Stdev.	HPD inf	HPD sup
α	norm	0.300	0.0500	0.384	0.0242	0.3462	0.4264
ψ	beta	0.500	0.1500	0.597	0.0491	0.5248	0.6819
Φ	norm	1.250	0.1250	1.175	0.0504	1.0954	1.2517
ι_w	beta	0.500	0.1500	0.228	0.0822	0.1012	0.3717
ξ_w	beta	0.500	0.1000	0.906	0.0174	0.8757	0.9338
ι_p	beta	0.500	0.1500	0.167	0.0569	0.0786	0.2607
ξ_p	beta	0.500	0.1000	0.871	0.0358	0.8149	0.9284
σ_c	norm	1.500	0.3750	1.507	0.0846	1.3733	1.6344
σ_l	norm	2.000	0.7500	0.419	0.4539	-0.2650	1.1638
λ	beta	0.700	0.1000	0.307	0.0599	0.2091	0.4045
φ	norm	4.000	1.5000	0.081	0.0160	0.0558	0.1074
r_π	norm	1.500	0.2500	1.753	0.2183	1.3816	2.0799
r_y	norm	0.125	0.0500	0.092	0.0353	0.0372	0.1488
$r_{\Delta y}$	norm	0.125	0.0500	0.296	0.0240	0.2552	0.3345
ρ	beta	0.750	0.1000	0.949	0.0149	0.9267	0.9734
n_*	norm	0.000	2.0000	3.152	0.7833	1.8559	4.3151
γ	norm	0.400	0.1000	0.561	0.0781	0.4393	0.6865
ζ_{sp}	beta	0.050	0.0050	0.043	0.0038	0.0370	0.0496
$\bar{\pi}$	gamm	0.625	0.2000	0.370	0.0507	0.2916	0.4586
ρ_{ga}	beta	0.500	0.2000	0.616	0.1750	0.3212	0.8841
ρ_a	beta	0.500	0.2000	0.970	0.0095	0.9551	0.9854
ρ_b	beta	0.500	0.2000	0.851	0.0306	0.8003	0.9000
ρ_g	beta	0.500	0.2000	0.980	0.0061	0.9705	0.9904
ρ_i	beta	0.500	0.2000	0.995	0.0022	0.9922	0.9985
ρ_r	beta	0.500	0.2000	0.081	0.0331	0.0239	0.1319
ρ_p	beta	0.500	0.2000	0.957	0.0249	0.9213	0.9943
ρ_w	beta	0.500	0.2000	0.285	0.1345	0.0631	0.4775
ρ_{σ_w}	beta	0.750	0.1500	0.986	0.0098	0.9713	0.9997
ρ_{π_*}	beta	0.750	0.1500	0.990	0.0066	0.9823	0.9994
μ_p	beta	0.500	0.2000	0.801	0.0568	0.7173	0.8930
μ_w	beta	0.500	0.2000	0.447	0.1141	0.2586	0.6288

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	0.582	0.0291	0.5340	0.6283
η^b	invg	0.100	2.0000	0.132	0.0121	0.1108	0.1508
η^g	invg	0.100	2.0000	2.546	0.1289	2.3363	2.7557
η^i	invg	0.100	2.0000	1.908	0.2146	1.5486	2.2488
η^m	invg	0.100	2.0000	0.344	0.0255	0.3067	0.3903
η^p	invg	0.100	2.0000	0.184	0.0129	0.1626	0.2066
η^w	invg	0.100	2.0000	0.498	0.0314	0.4519	0.5494
η^{σ_w}	invg	0.100	2.0000	0.075	0.0113	0.0574	0.0946
η^{π_*}	invg	0.100	2.0000	0.094	0.0508	0.0305	0.1788

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

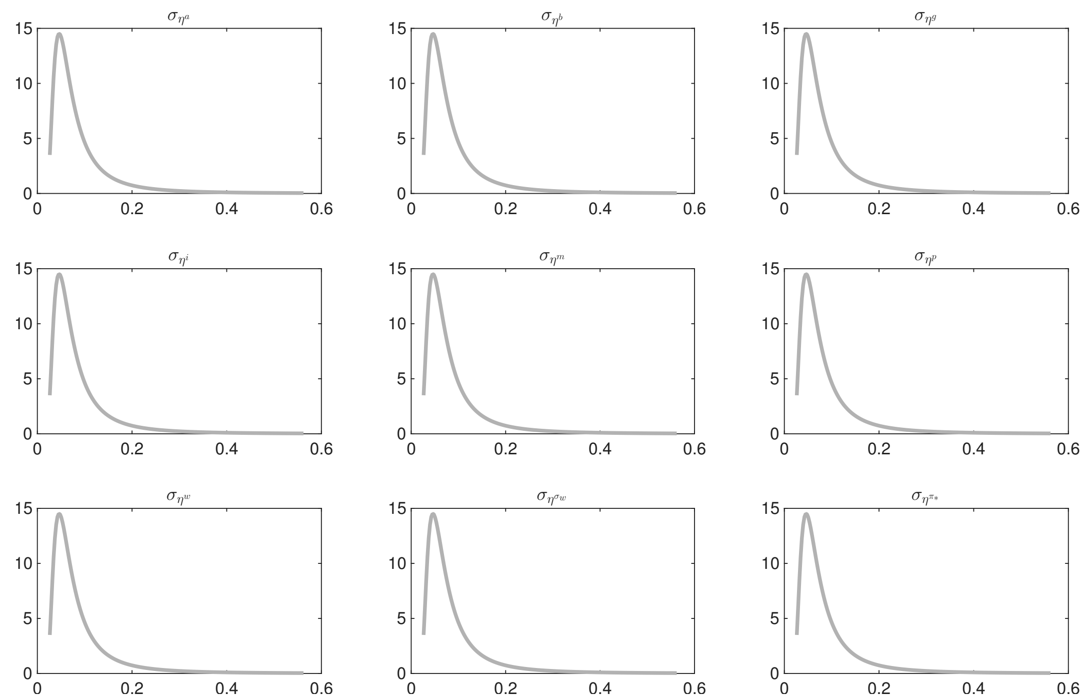

Figure 2: Priors.

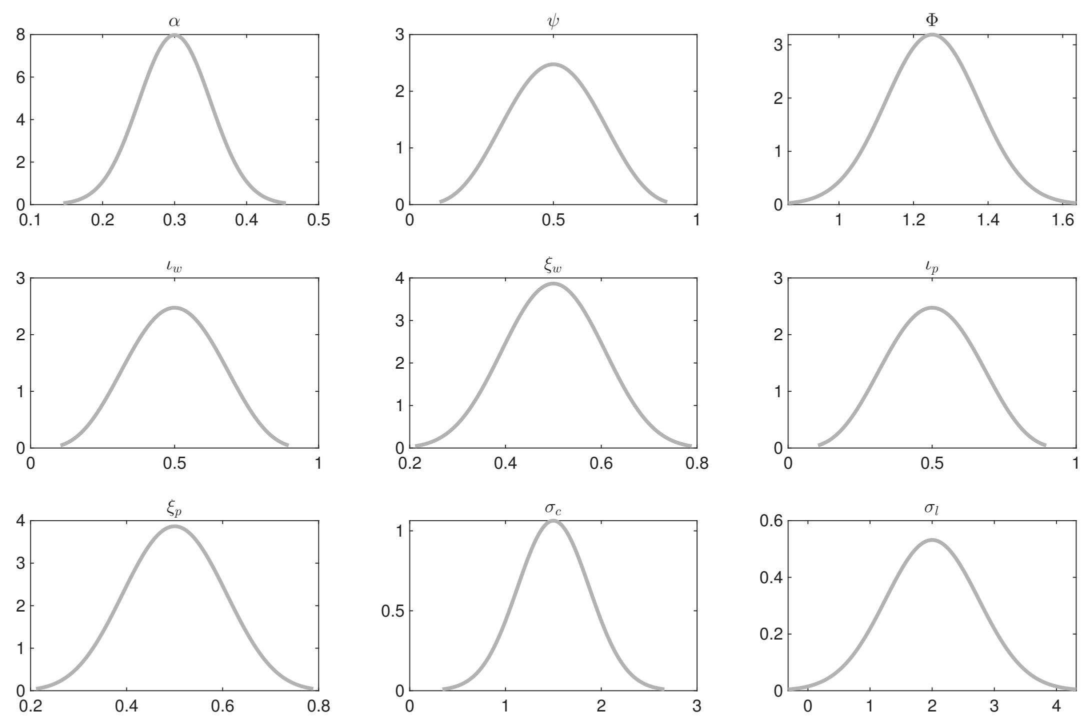

Figure 3: Priors.

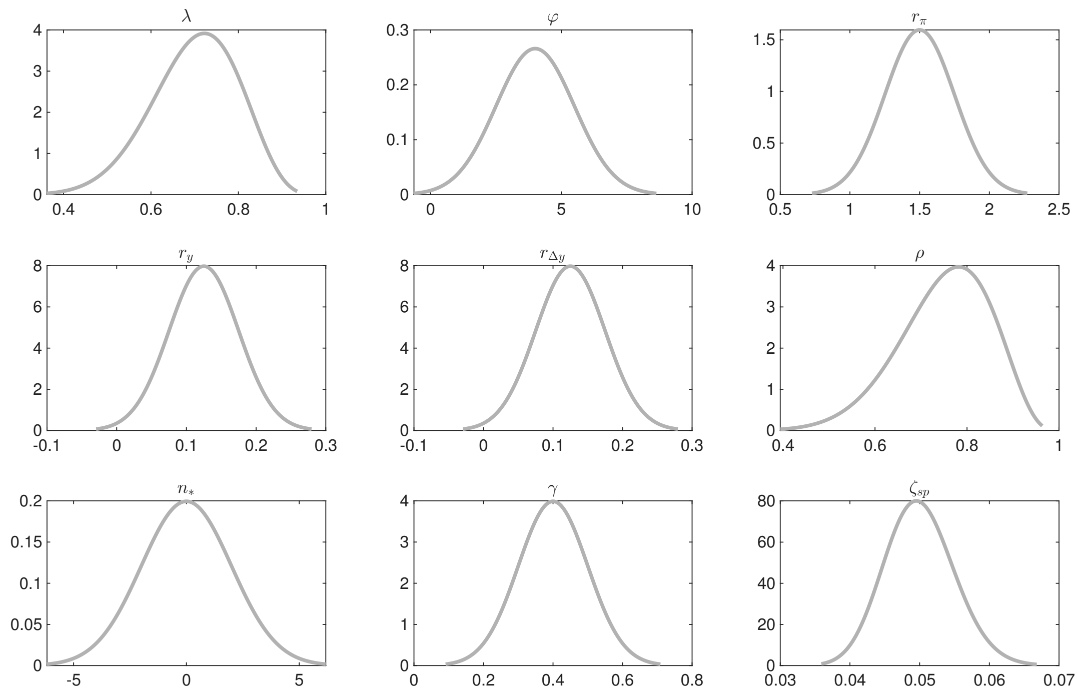

Figure 4: Priors.

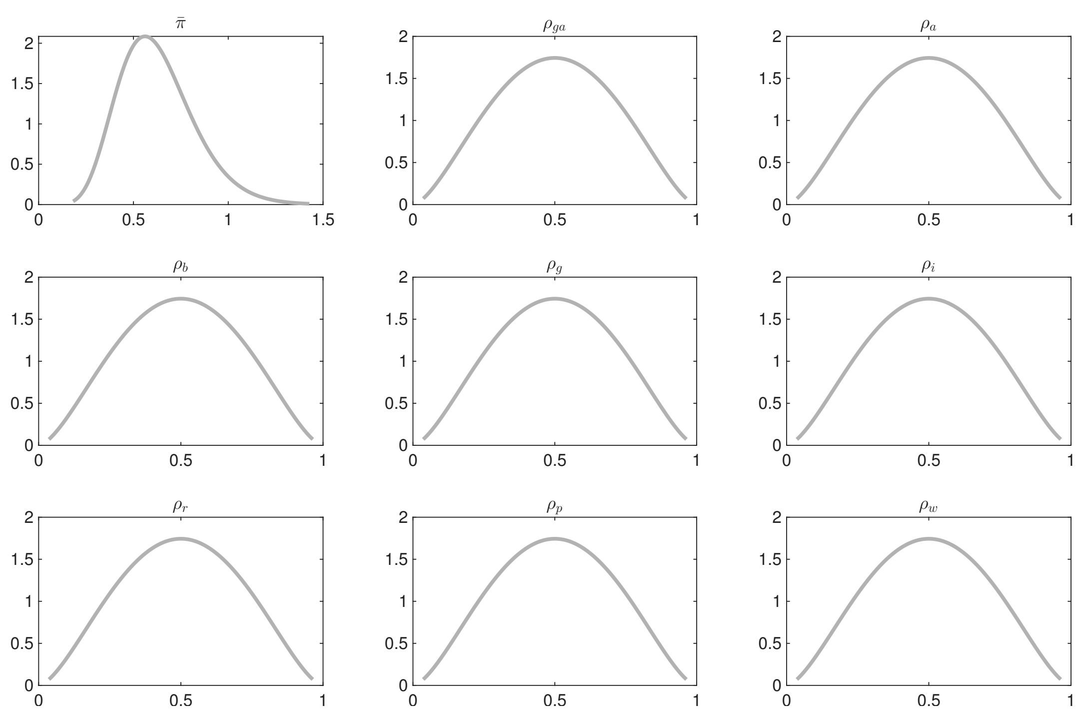

Figure 5: Priors.

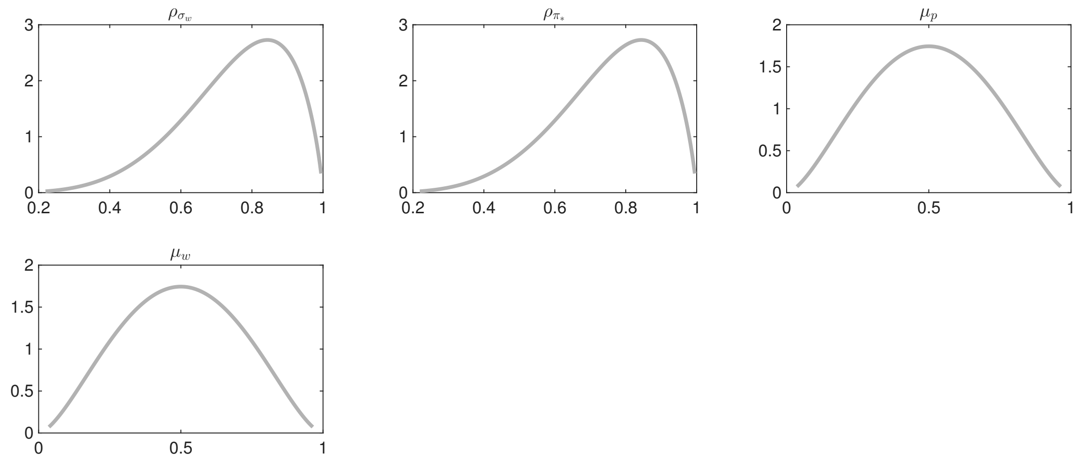

Figure 6: Priors.

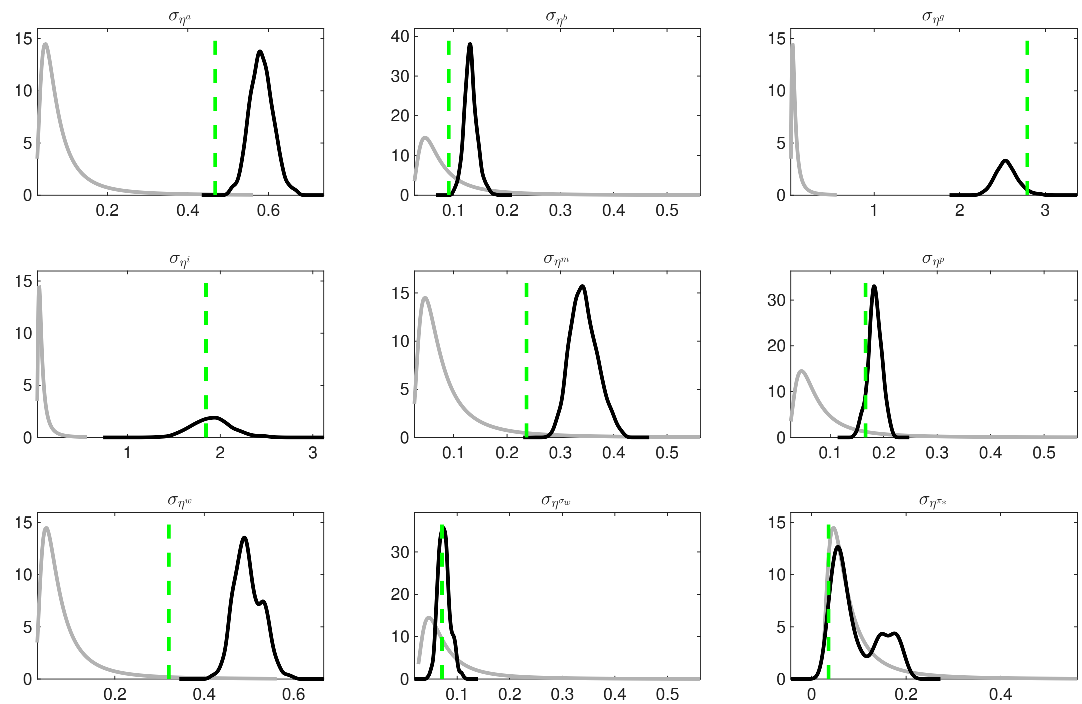

Figure 7: Priors and posteriors.

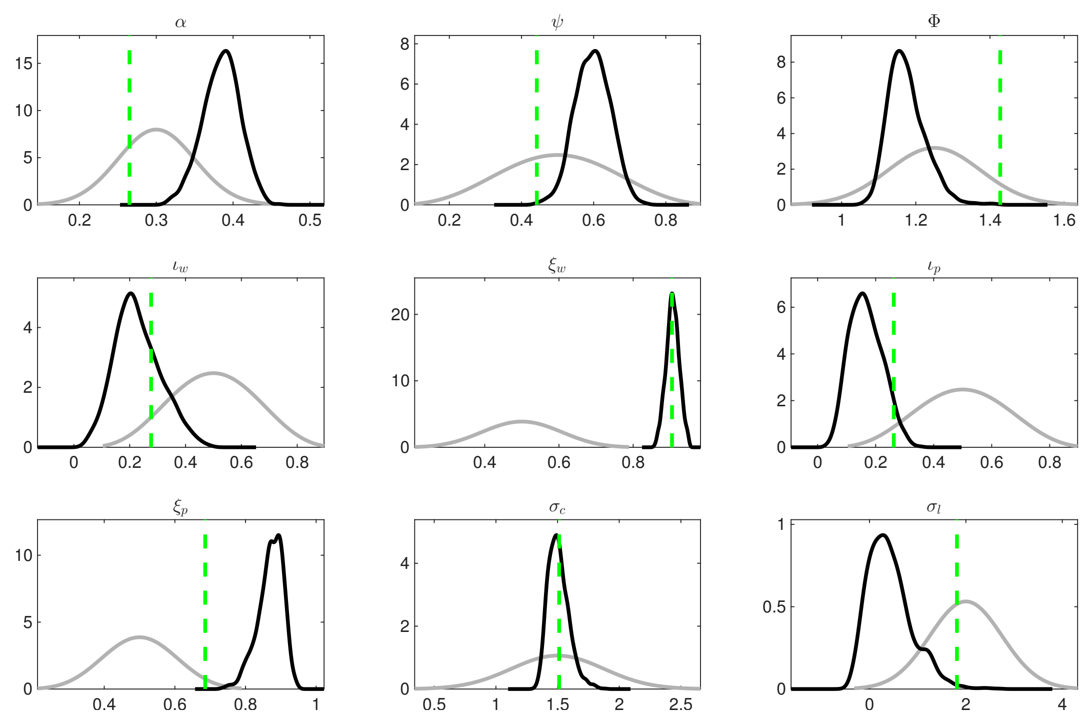

Figure 8: Priors and posteriors.

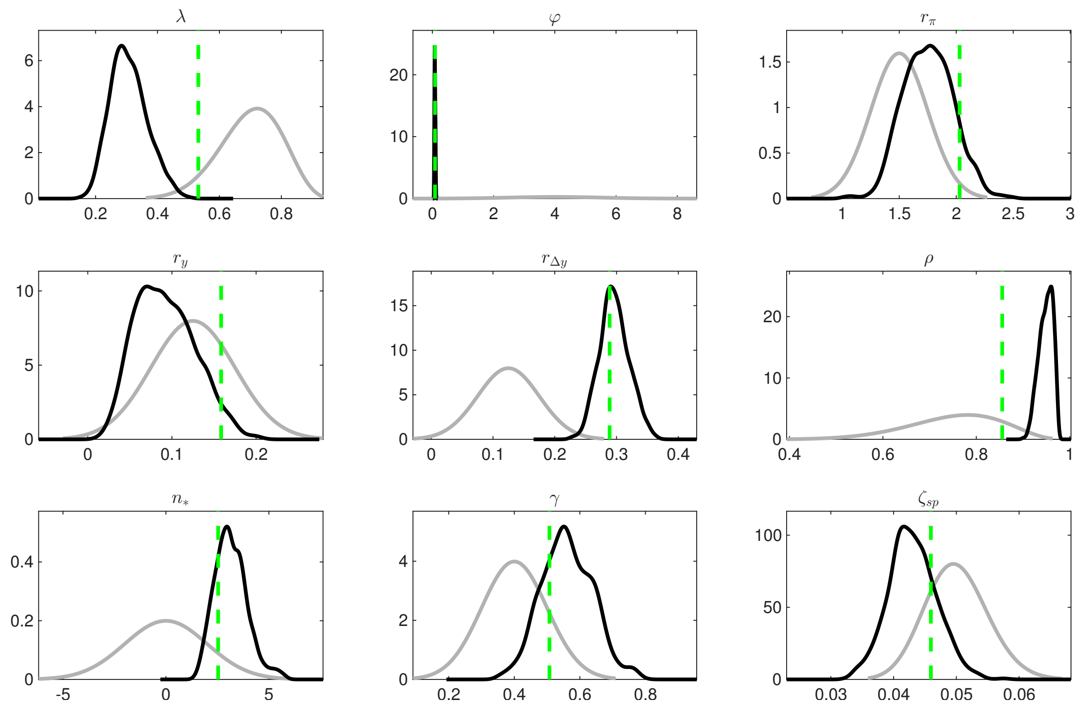

Figure 9: Priors and posteriors.

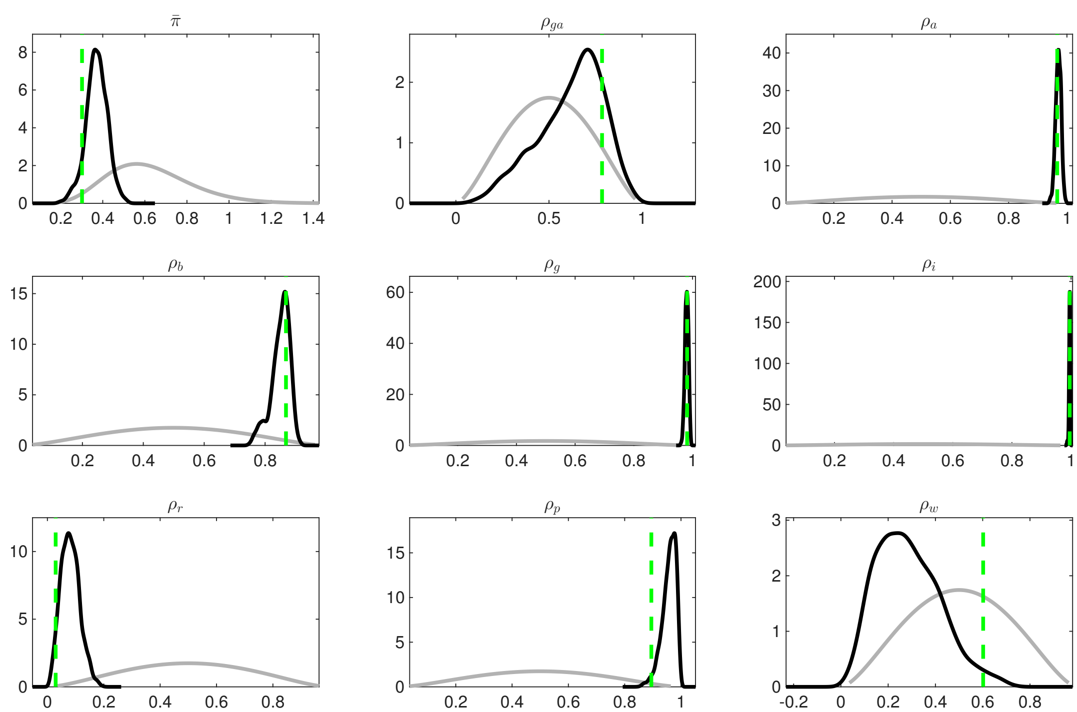

Figure 10: Priors and posteriors.

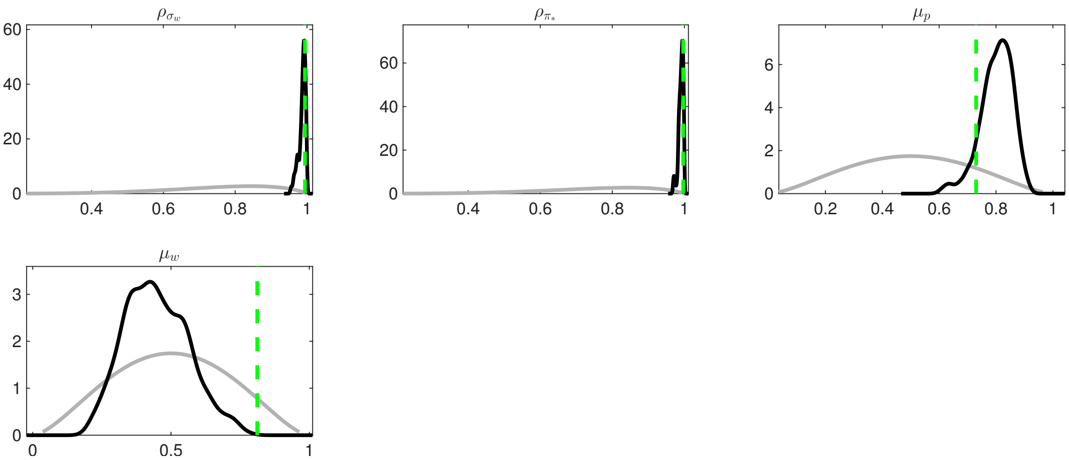

Figure 11: Priors and posteriors.

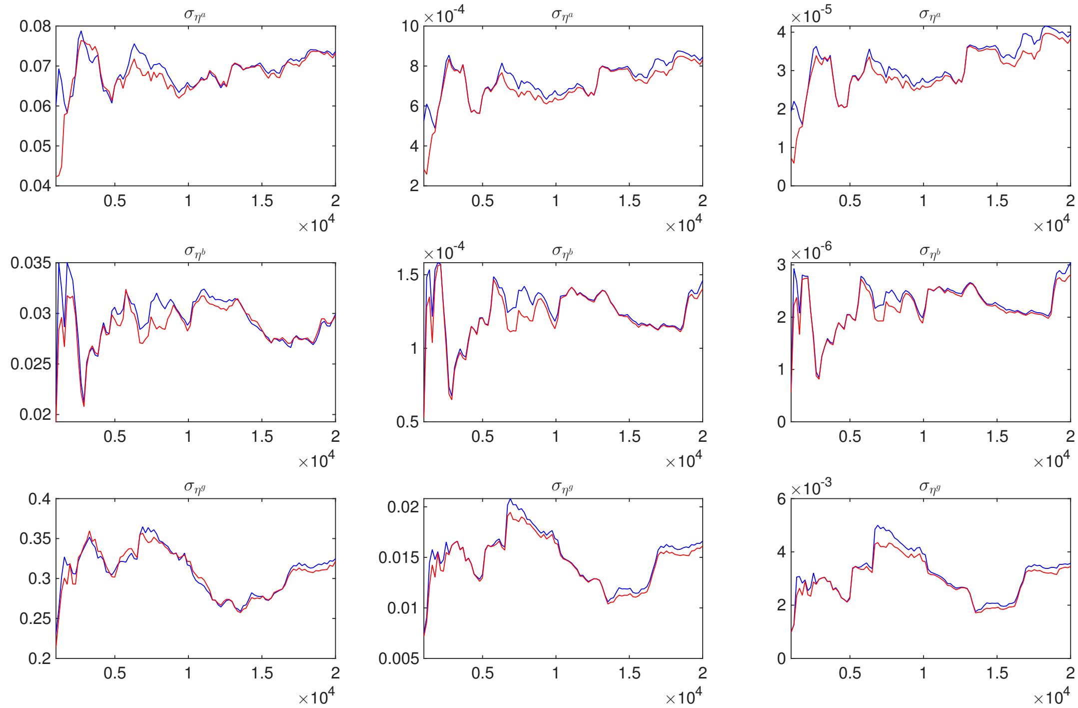

Figure 12: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

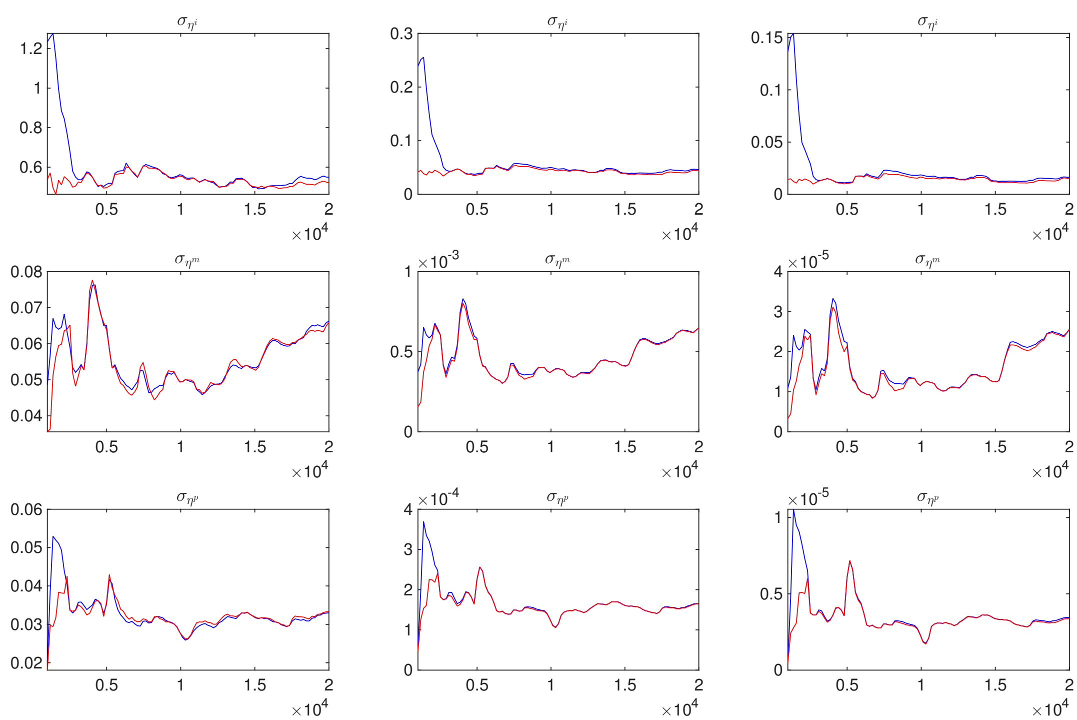

Figure 13: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

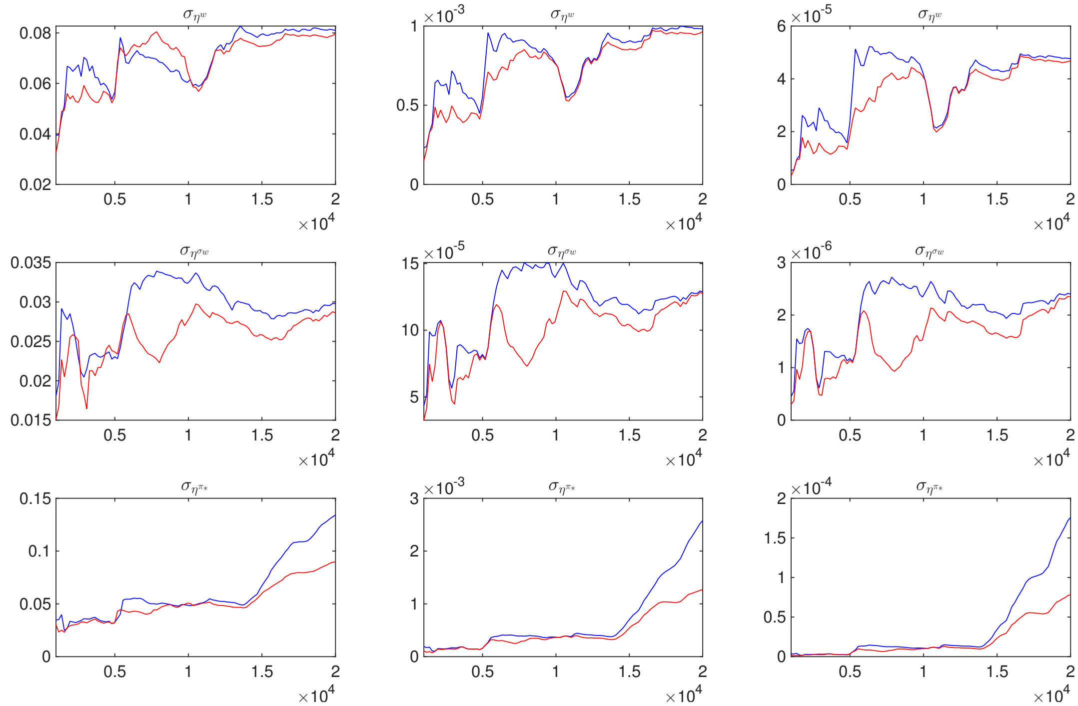

Figure 14: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

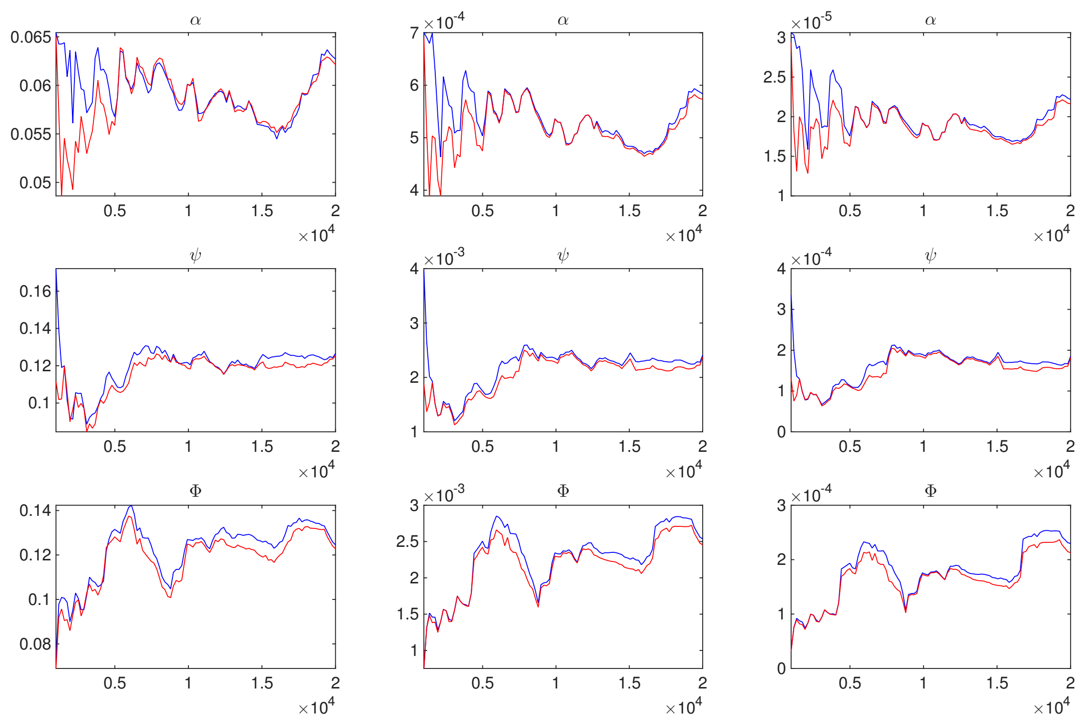

Figure 15: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

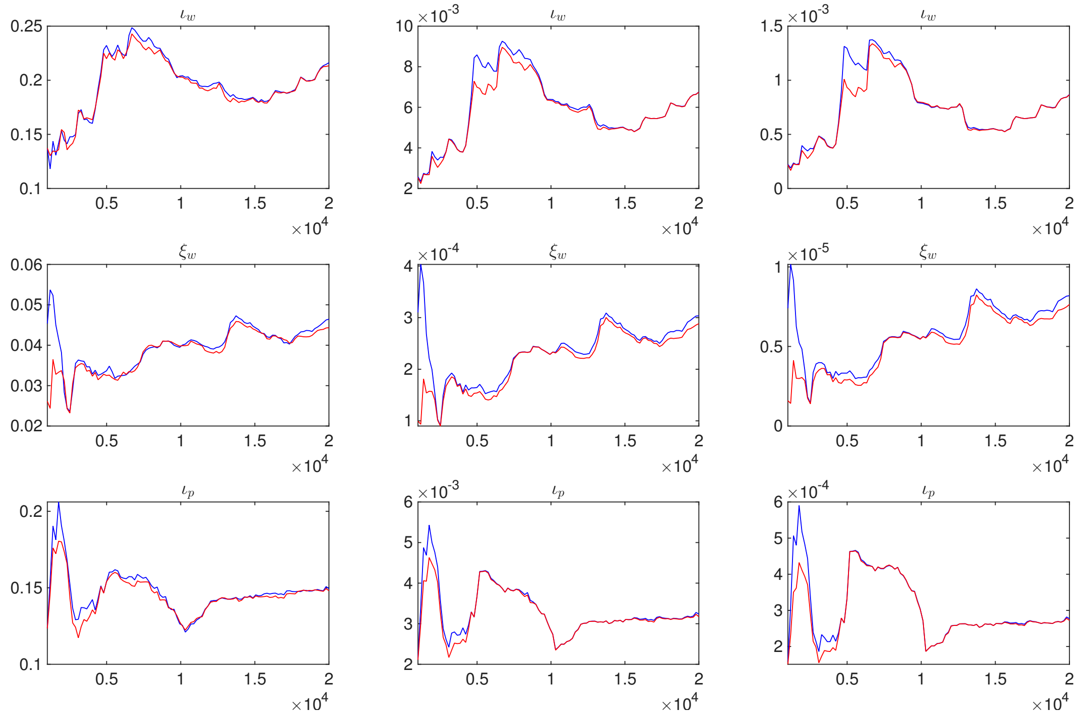

Figure 16: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

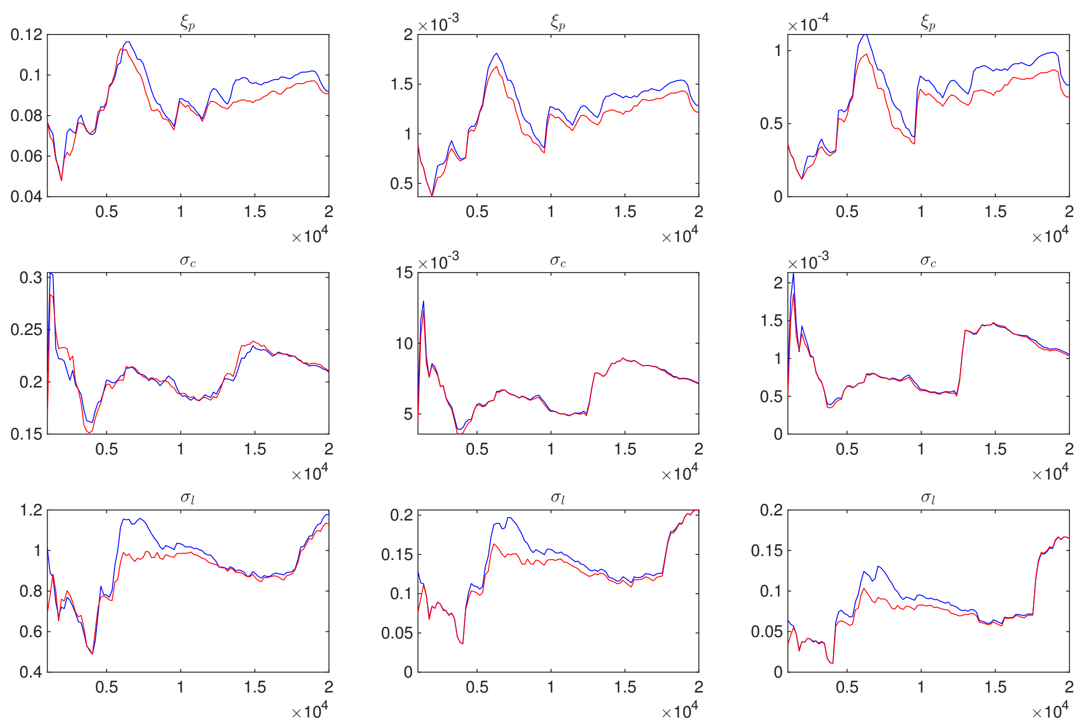

Figure 17: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

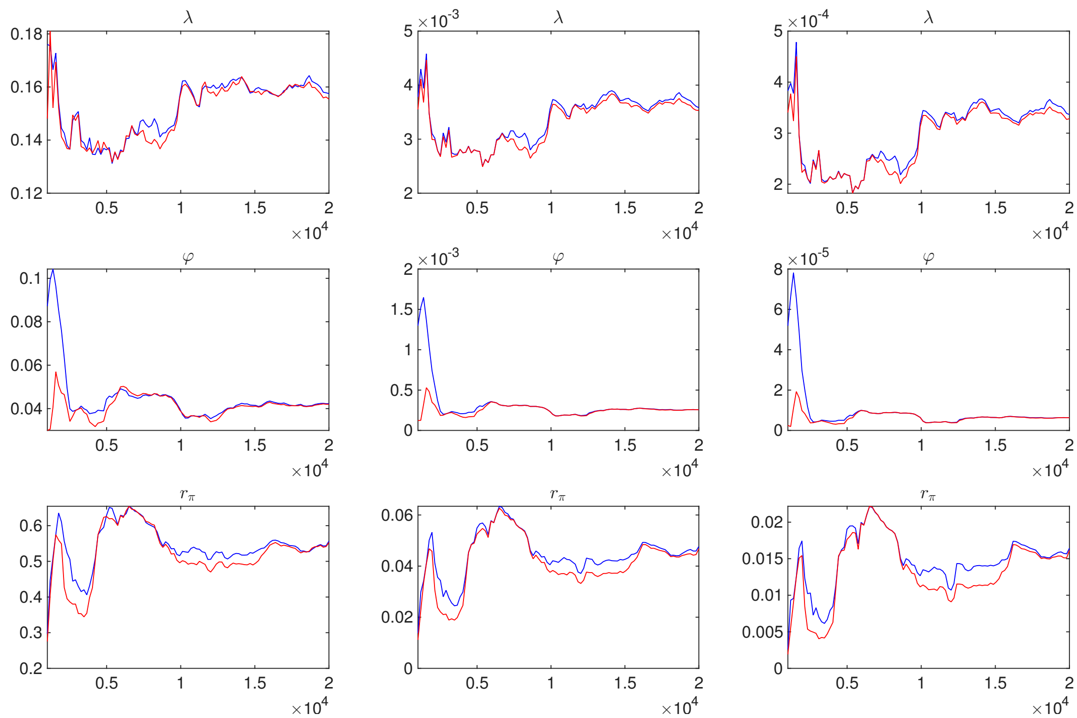

Figure 18: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

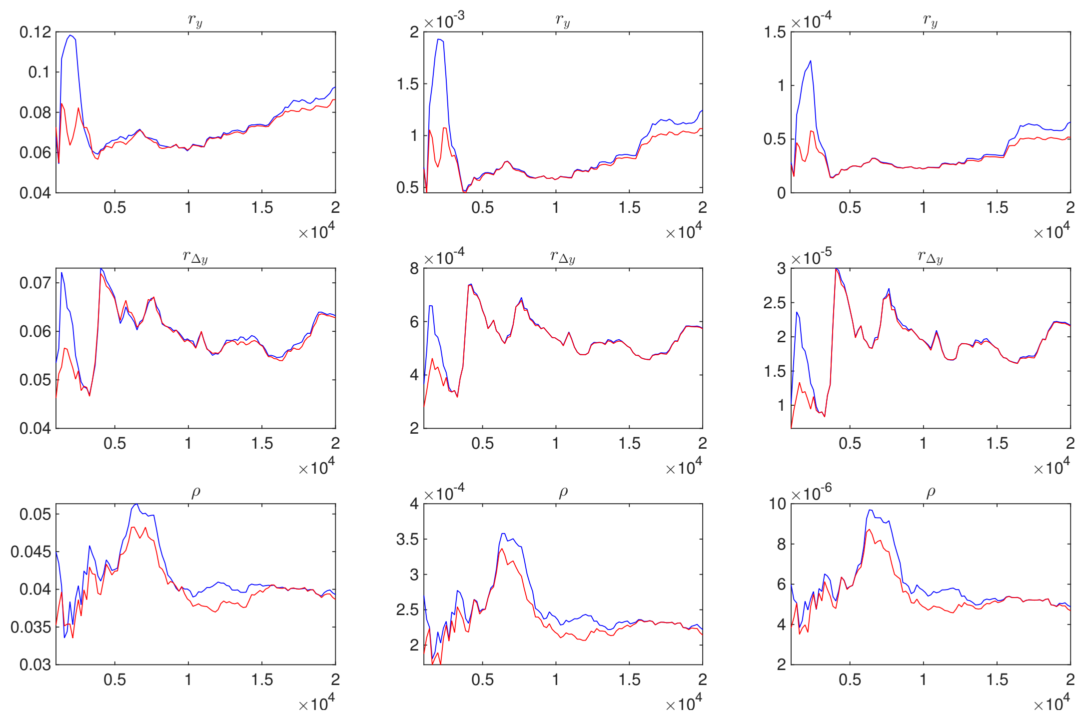

Figure 19: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

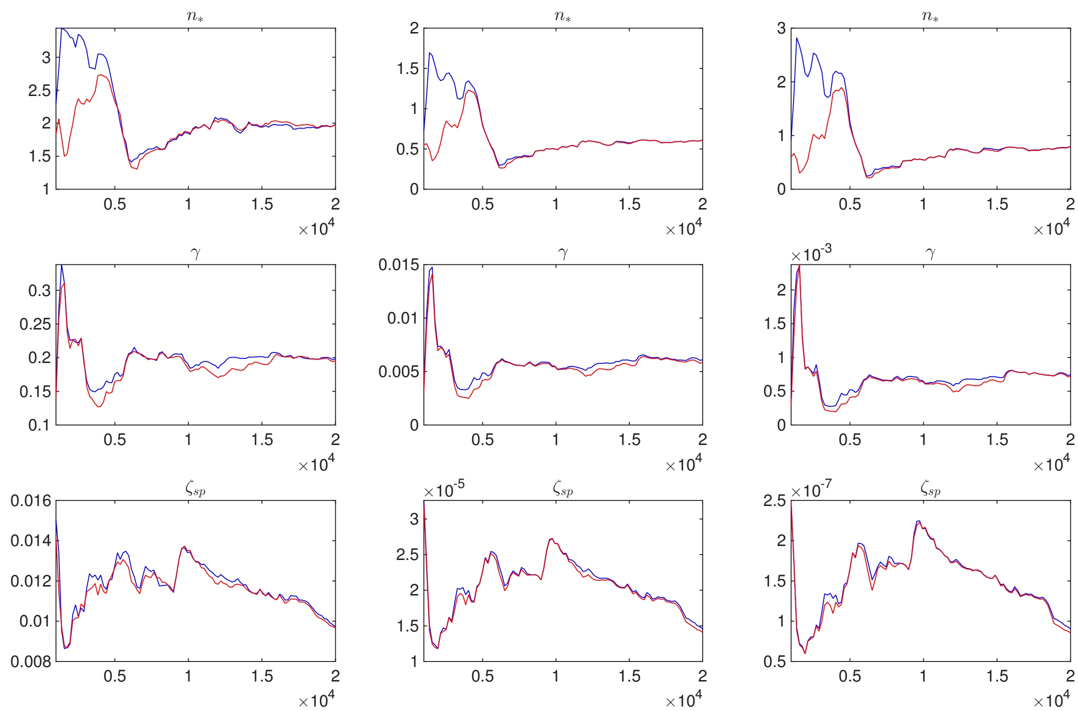

Figure 20: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

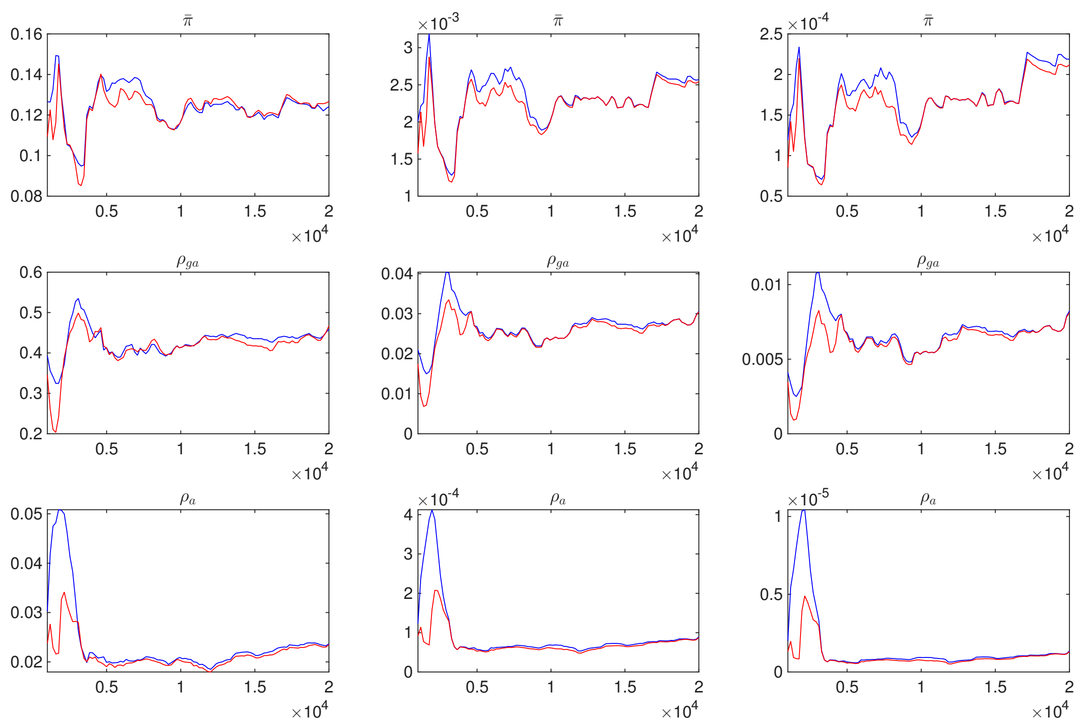

Figure 21: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

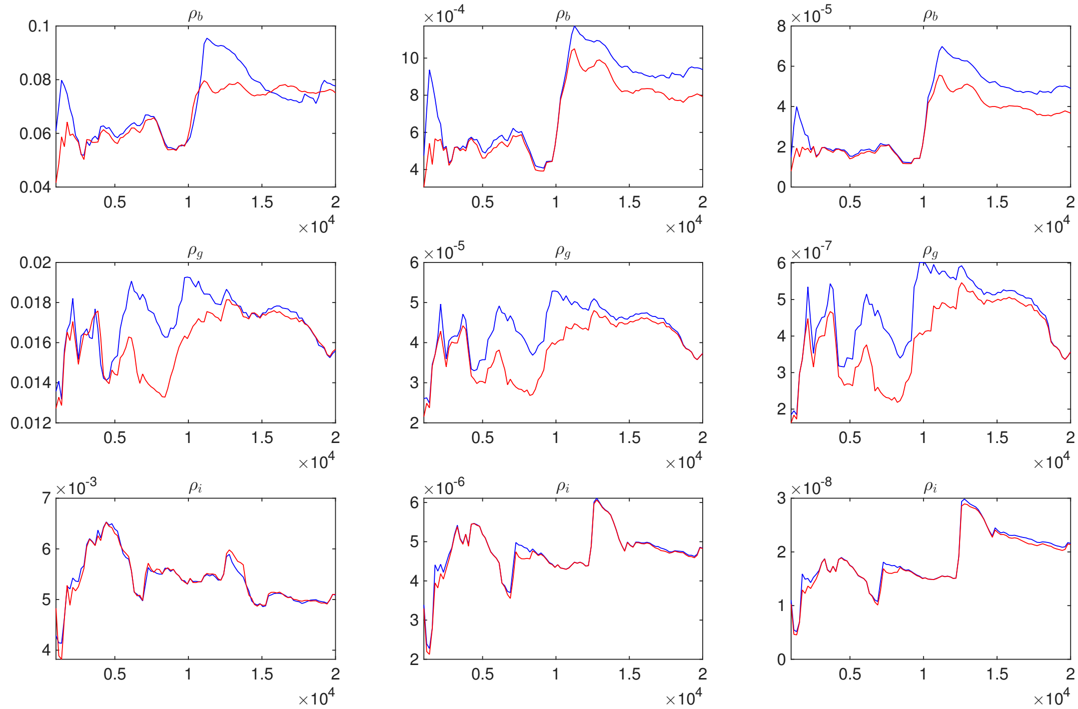

Figure 22: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

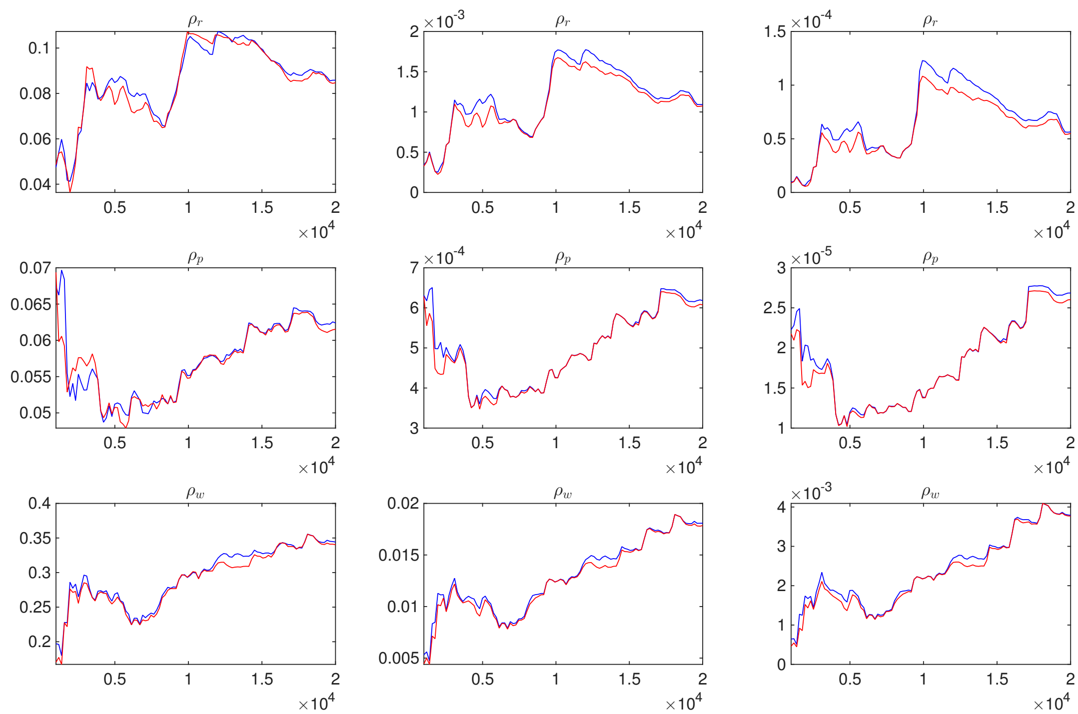

Figure 23: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

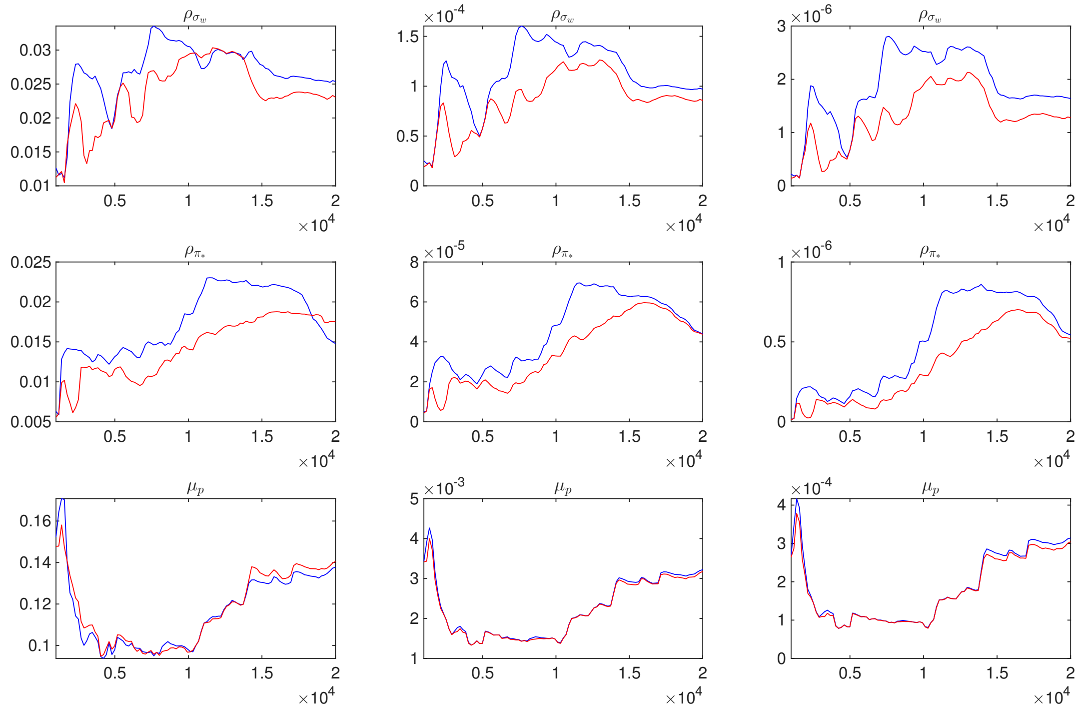

Figure 24: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third columns are respectively the criteria based on the eighty percent interval, the second and third moments.

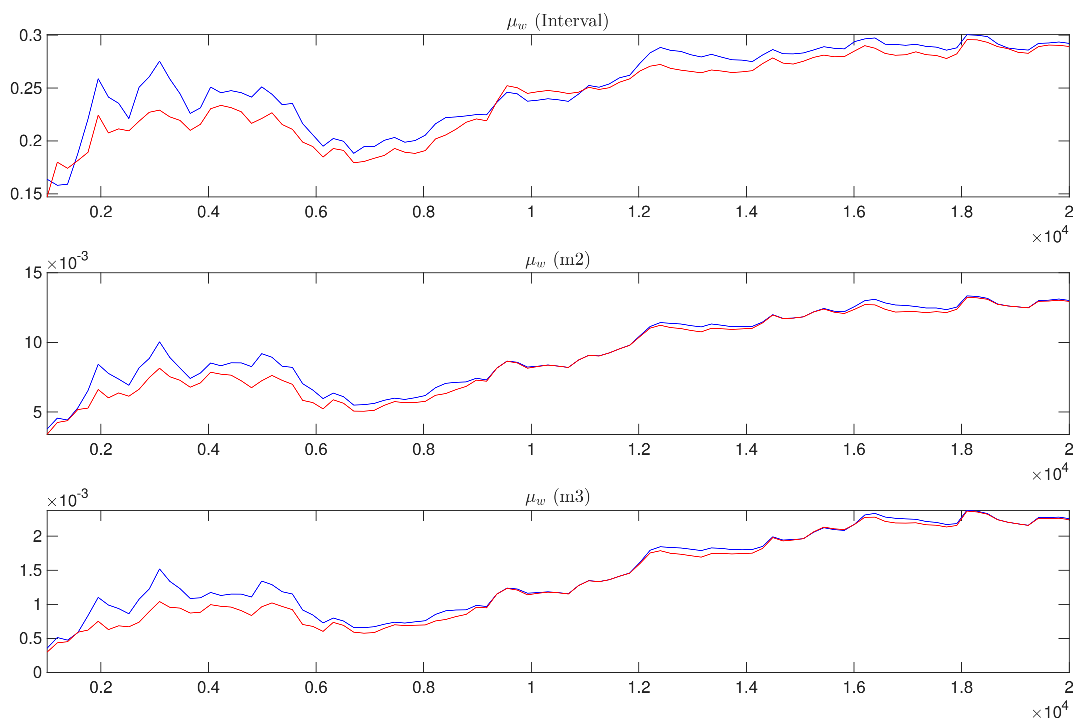

Figure 25: Univariate convergence diagnostics for the Metropolis-Hastings. The first, second and third rows are respectively the criteria based on the eighty percent interval, the second and third moments.

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	0.339241	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.00000	
η^b	0.000000	0.017301	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.00000	
η^g	0.000000	0.000000	6.482289	0.000000	0.000000	0.000000	0.000000	0.000000	0.00000	
η^i	0.000000	0.000000	0.000000	3.640308	0.000000	0.000000	0.000000	0.000000	0.00000	
η^m	0.000000	0.000000	0.000000	0.000000	0.118550	0.000000	0.000000	0.000000	0.00000	
η^p	0.000000	0.000000	0.000000	0.000000	0.000000	0.033765	0.000000	0.000000	0.00000	
η^w	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.248156	0.000000	0.00000	
η^{σ_w}	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.005604	0.00000	
η^{π_*}	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.00877	
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}	0.5821	0.0276	0.0000	0.1023	0.1482	0.1498
σ_{η^b}	0.1284	0.0115	0.0000	0.4134	0.5010	0.5464
σ_{η^g}	2.5478	0.1342	0.0000	0.0637	0.1079	0.1224
σ_{η^i}	1.9531	0.2460	0.0000	0.0010	0.0042	0.0072
σ_{η^m}	0.3379	0.0264	0.0000	0.0001	0.0023	0.0118
σ_{η^p}	0.1854	0.0146	0.0000	0.0216	0.0716	0.1280
σ_{η^w}	0.4952	0.0343	0.0000	0.0383	0.1165	0.1984
$\sigma_{\eta^{\sigma w}}$	0.0768	0.0100	0.0000	0.6220	0.6854	0.7241
$\sigma_{\eta^{\pi *}}$	0.0598	0.0165	0.0000	0.0010	0.0102	0.0340
α	0.3897	0.0240	0.0000	0.4236	0.4987	0.5407
ψ	0.5922	0.0446	0.0275	0.7957	0.8289	0.8431
Φ	1.1773	0.0504	0.2095	0.8908	0.9051	0.9067
ι_w	0.2084	0.0807	0.0000	0.0025	0.0087	0.0163
ξ_w	0.9039	0.0146	0.0000	0.5671	0.6228	0.6352
ι_p	0.1694	0.0570	0.0000	0.4752	0.5499	0.5602
ξ_p	0.8667	0.0360	0.0000	0.4644	0.5615	0.6073
σ_c	1.4914	0.0834	0.0000	0.0933	0.1318	0.1379
σ_l	0.3813	0.4170	0.0000	0.5918	0.6482	0.6494
λ	0.3071	0.0651	0.0000	0.1527	0.2324	0.2747
φ	0.0803	0.0167	0.0000	0.0000	0.0003	0.0008
r_π	1.7504	0.2005	0.0000	0.0016	0.0075	0.0097
r_y	0.0695	0.0305	0.0000	0.3401	0.4555	0.5230
$r_{\Delta y}$	0.2936	0.0231	0.0000	0.0013	0.0097	0.0197
ρ	0.9389	0.0184	0.0000	0.0019	0.0136	0.0321
n_*	3.3772	0.8940	0.0000	0.4872	0.5901	0.6508
γ	0.5501	0.0789	0.0000	0.0039	0.0188	0.0336
ζ_{sp}	0.0429	0.0044	0.0000	0.0509	0.0672	0.0545
$\bar{\pi}$	0.3681	0.0513	0.0315	0.8212	0.8524	0.8641
ρ_{ga}	0.5841	0.1688	0.0000	0.0189	0.0601	0.0793
ρ_a	0.9725	0.0088	0.0000	0.0036	0.0167	0.0425
ρ_b	0.8578	0.0239	0.0000	0.1244	0.2163	0.3026
ρ_g	0.9790	0.0070	0.0000	0.2201	0.2939	0.3241
ρ_i	0.9951	0.0023	0.8974	0.9873	0.9886	0.9878
ρ_r	0.0768	0.0343	0.1605	0.8933	0.9175	0.9310
ρ_p	0.9581	0.0234	0.0211	0.7599	0.7814	0.7986
ρ_w	0.2919	0.1254	0.0000	0.2620	0.3705	0.4590
ρ_{σ_w}	0.9870	0.0082	0.3191	0.9205	0.9352	0.9409
ρ_{π_*}	0.9883	0.0078	0.0000	0.0000	0.0000	0.0001

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Table 7: (continued)

	Posterior		p-values			
Parameter	*Mean*	*Std*	*No Taper*	4% *Taper*	8% *Taper*	15% *Taper*
μ_p	0.8124	0.0499	0.0000	0.5081	0.6023	0.6516
μ_w	0.4594	0.1150	0.0000	0.4021	0.5276	0.6168

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}	0.5800	0.0325	0.0000	0.1190	0.2143	0.2917
σ_{η^b}	0.1290	0.0135	0.0000	0.5540	0.6507	0.7090
σ_{η^g}	2.5570	0.1201	0.0000	0.0007	0.0025	0.0039
σ_{η^i}	1.8360	0.2236	0.0000	0.0538	0.0946	0.0998
σ_{η^m}	0.3357	0.0284	0.0000	0.0278	0.0908	0.1567
σ_{η^p}	0.1860	0.0125	0.0000	0.0619	0.1277	0.1533
σ_{η^w}	0.4947	0.0338	0.0000	0.0498	0.1337	0.2176
$\sigma_{\eta^{\sigma w}}$	0.0812	0.0135	0.0000	0.0001	0.0046	0.0257
$\sigma_{\eta^{\pi *}}$	0.0941	0.0507	0.0000	0.0000	0.0000	0.0000
α	0.3843	0.0247	0.0000	0.1091	0.1696	0.1974
ψ	0.6067	0.0539	0.0000	0.0774	0.1553	0.2146
Φ	1.1911	0.0552	0.0000	0.0184	0.0655	0.1093
ι_w	0.2286	0.0831	0.0000	0.0001	0.0018	0.0076
ξ_w	0.9061	0.0182	0.0000	0.6023	0.6904	0.7479
ι_p	0.1801	0.0600	0.0000	0.2377	0.3309	0.3720
ξ_p	0.8510	0.0417	0.0000	0.0000	0.0010	0.0061
σ_c	1.4944	0.0894	0.0000	0.0389	0.0905	0.1158
σ_l	0.3092	0.4873	0.0000	0.0000	0.0002	0.0014
λ	0.3194	0.0651	0.0000	0.4483	0.5328	0.5821
φ	0.0834	0.0207	0.0000	0.2450	0.3365	0.3825
r_π	1.8141	0.2374	0.0000	0.0005	0.0093	0.0348
r_y	0.0894	0.0396	0.0000	0.0000	0.0000	0.0000
$r_{\Delta y}$	0.2888	0.0284	0.5293	0.9465	0.9568	0.9608
ρ	0.9397	0.0202	0.0000	0.0000	0.0000	0.0000
n_*	3.2234	0.8213	0.0000	0.0000	0.0008	0.0065
γ	0.5730	0.0814	0.3334	0.9122	0.9270	0.9324
ζ_{sp}	0.0440	0.0047	0.0022	0.7205	0.7454	0.7480
$\bar{\pi}$	0.3710	0.0516	0.5036	0.9423	0.9557	0.9633
ρ_{ga}	0.6144	0.1720	0.0000	0.0000	0.0002	0.0016
ρ_a	0.9677	0.0113	0.0000	0.0003	0.0037	0.0085
ρ_b	0.8488	0.0321	0.0000	0.0000	0.0003	0.0026
ρ_g	0.9824	0.0064	0.0002	0.6439	0.7070	0.7448
ρ_i	0.9951	0.0021	0.0000	0.1206	0.2019	0.2200
ρ_r	0.0812	0.0363	0.0000	0.0003	0.0068	0.0296
ρ_p	0.9563	0.0276	0.0003	0.6707	0.7132	0.7384
ρ_w	0.2656	0.1291	0.0000	0.0010	0.0083	0.0192
ρ_{σ_w}	0.9821	0.0121	0.0000	0.0000	0.0002	0.0036
ρ_{π_*}	0.9918	0.0042	0.0000	0.0179	0.0743	0.1434

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Table 8: (continued)

	Posterior		p-values			
Parameter	*Mean*	*Std*	*No Taper*	4% *Taper*	8% *Taper*	15% *Taper*
μ_p	0.8043	0.0584	0.0000	0.6273	0.6904	0.7182
μ_w	0.4409	0.1018	0.0000	0.0049	0.0270	0.0552

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	$\underline{\gamma}$	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 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	0.384	capital share
ψ	0.597	capacity utilization cost
φ	0.081	investment adjustment cost
δ	0.025	depreciation rate
σ_c	1.507	risk aversion
λ	0.307	external habit degree
Φ	1.175	fixed cost share
ι_w	0.228	Indexation to past wages
ξ_w	0.906	Calvo parameter wages
ι_p	0.167	Indexation to past prices
ξ_p	0.871	Calvo parameter prices
σ_l	0.419	Frisch elasticity
r_π	1.753	Taylor rule inflation feedback
$r_{\Delta y}$	0.296	Taylor rule output growth feedback
r_y	0.092	Taylor rule output level feedback
ρ	0.949	interest rate persistence
ζ_{sp}	0.043	Spread elasticity
γ^*	0.990	Wealth parameter
v^*	2.471	Wealth parameter
n_*	3.152	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}	0.616	Feedback technology on exogenous spending
μ_w	0.447	coefficient on MA term wage markup
μ_p	0.801	coefficient on MA term price markup
ρ_{σ_w}	0.986	persistence Financial shock
ρ_{π_*}	0.990	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	0.970	persistence productivity shock
ρ_b	0.851	persistence risk premium shock
ρ_g	0.980	persistence spending shock
ρ_i	0.995	persistence risk premium shock
ρ_r	0.081	persistence monetary policy shock
ρ_p	0.957	persistence price markup shock

Table 12 – Continued

Parameter	**Value**	**Description**
ρ_w	0.285	persistence wage markup shock
$\underline{\gamma}$	0.561	Adjusted trend
$r\bar{k}$	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
$\frac{\underline{yp}}{\bar{y}}$	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
$\bar{\pi}$	0.370	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

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Table 13: (continued)

	Distribution	Mean	Mode	Std.dev.	Bounds* Lower	Upper	90% HPDI 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 14: COEFFICIENTS OF AUTOCORRELATION

Order	1	2	3	4	5
y	0.9943	0.9863	0.9776	0.9687	0.9599
c	0.9957	0.9900	0.9841	0.9781	0.9720
i	0.9911	0.9740	0.9532	0.9311	0.9091
π	0.9162	0.8834	0.8586	0.8350	0.8115
r	0.9568	0.9023	0.8484	0.7980	0.7517
w	0.9956	0.9899	0.9828	0.9743	0.9646
k^s	0.9978	0.9951	0.9919	0.9883	0.9843
l	0.9921	0.9805	0.9677	0.9546	0.9416
q	0.9937	0.9882	0.9830	0.9781	0.9732
n	0.9958	0.9914	0.9866	0.9815	0.9761
r^{ktil}	0.3277	0.3421	0.3429	0.3372	0.3285
OG	0.9939	0.9846	0.9745	0.9641	0.9537

Table 15: MATRIX OF CORRELATIONS

$Variables$	y	c	i	π	r	w	k^s	l	q	n	r^{ktil}
y	1.0000	0.9667	0.8860	0.2485	0.2543	0.3004	0.7430	0.7424	-0.3536	0.4521	[illegible]
c	0.9667	1.0000	0.8385	0.2183	0.1944	0.2885	0.7494	0.6902	-0.3909	0.4618	[illegible]
i	0.8860	0.8385	1.0000	0.3339	0.3382	0.4840	0.8204	0.4895	-0.4541	0.5613	[illegible]
π	0.2485	0.2183	0.3339	1.0000	0.7818	0.6875	0.4943	-0.1217	-0.0113	0.4955	[illegible]
r	0.2543	0.1944	0.3382	0.7818	1.0000	0.5784	0.3944	-0.0080	-0.0398	0.3058	[illegible]
w	0.3004	0.2885	0.4840	0.6875	0.5784	1.0000	0.7898	-0.3402	-0.3020	0.7293	[illegible]
k^s	0.7430	0.7494	0.8204	0.4943	0.3944	0.7898	1.0000	0.1065	-0.5739	0.7998	[illegible]
l	0.7424	0.6902	0.4895	-0.1217	-0.0080	-0.3402	0.1065	1.0000	0.0499	-0.1236	[illegible]
q	-0.3536	-0.3909	-0.4541	-0.0113	-0.0398	-0.3020	-0.5739	0.0499	1.0000	-0.2618	[illegible]
n	0.4521	0.4618	0.5613	0.4955	0.3058	0.7293	0.7998	-0.1236	-0.2618	1.0000	[illegible]
r^{ktil}	0.2158	0.1847	0.2432	0.6316	0.4930	0.4053	0.2992	0.0241	-0.0129	0.2764	[illegible]
OG	0.9164	0.8867	0.7693	0.3213	0.3307	0.2450	0.5727	0.7958	-0.0113	0.3538	[illegible]

Table 16: THEORETICAL MOMENTS

$VARIABLE$	$MEAN$	$STD.DEV.$	$VARIANCE$
y	0.0000	12.3902	153.5171
c	0.0000	14.7313	217.0106
i	0.0000	20.0008	400.0317
π	0.0000	0.7673	0.5888
r	0.0000	0.8696	0.7561
w	0.0000	14.6932	215.8914
k^s	0.0000	18.5002	342.2564
l	0.0000	11.4346	130.7511
q	0.0000	8.4101	70.7303
n	0.0000	19.4327	377.6306
r^{ktil}	0.0000	1.2239	1.4979
OG	0.0000	11.3796	129.4943

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	0.80	1.93	1.66	13.67	24.95	1.39	0.06	0.28	48.20	7.06
c	0.58	2.16	0.70	16.89	21.98	0.59	0.06	0.31	49.54	7.19
i	1.39	2.35	0.02	23.34	26.79	4.43	0.38	8.53	29.10	3.67
π	1.27	0.41	0.03	0.02	2.56	24.20	0.87	0.17	9.47	61.01
r	1.62	26.19	0.45	1.01	1.79	5.41	0.66	1.82	10.10	50.94
w	3.01	0.04	0.07	11.66	3.26	9.47	0.95	0.23	8.10	63.21
k^s	2.13	0.31	0.13	39.76	12.90	3.02	0.12	1.06	27.48	13.09
l	0.92	2.59	2.47	2.68	19.80	0.41	0.20	0.25	30.19	40.49
q	0.02	0.07	0.00	99.72	0.10	0.02	0.00	0.06	0.01	0.01
n	2.11	3.53	0.18	28.90	9.42	2.09	0.11	7.82	23.86	21.97
r^{ktil}	0.90	4.34	0.11	43.97	6.25	11.41	0.75	2.80	5.46	24.02
OG	0.37	2.28	0.12	0.24	29.58	1.65	0.07	0.33	57.14	8.20

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

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

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

$$clandap = \Phi$$

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

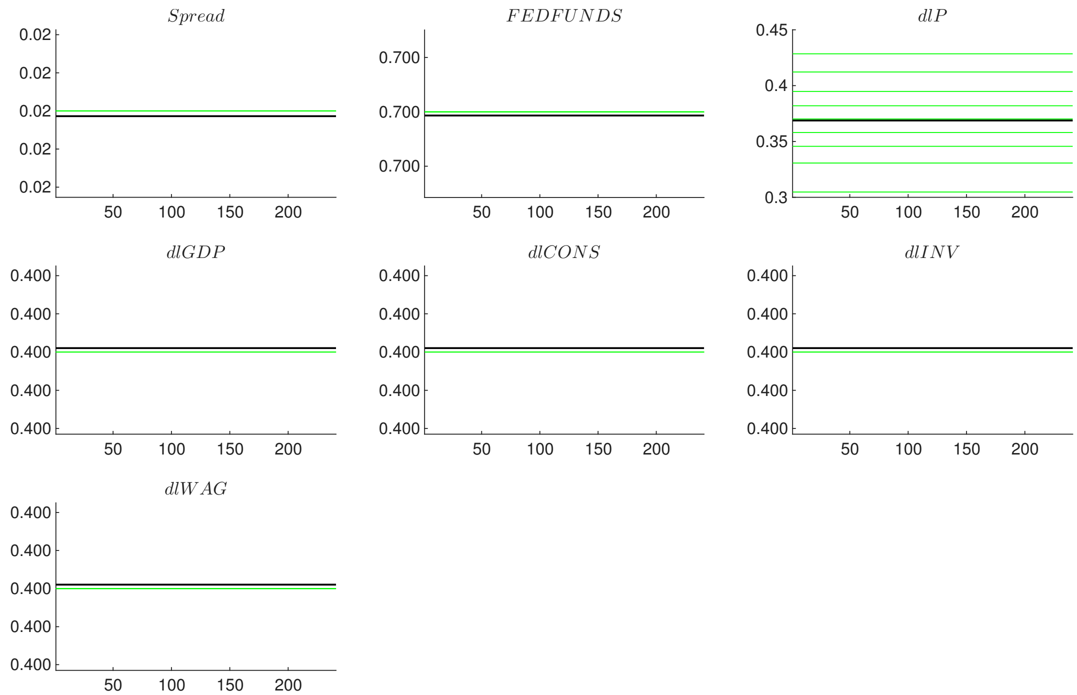

Figure 26: Smoothed constant

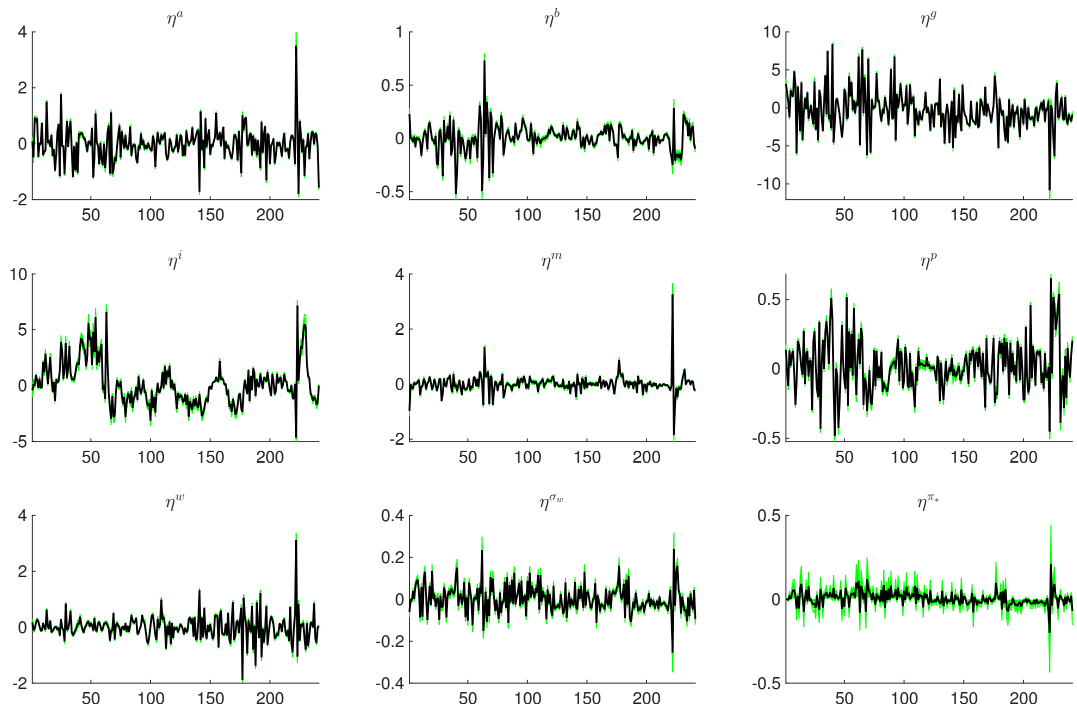

Figure 27: Smoothed shocks

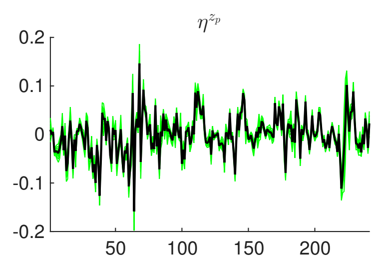

Figure 28: Smoothed shocks

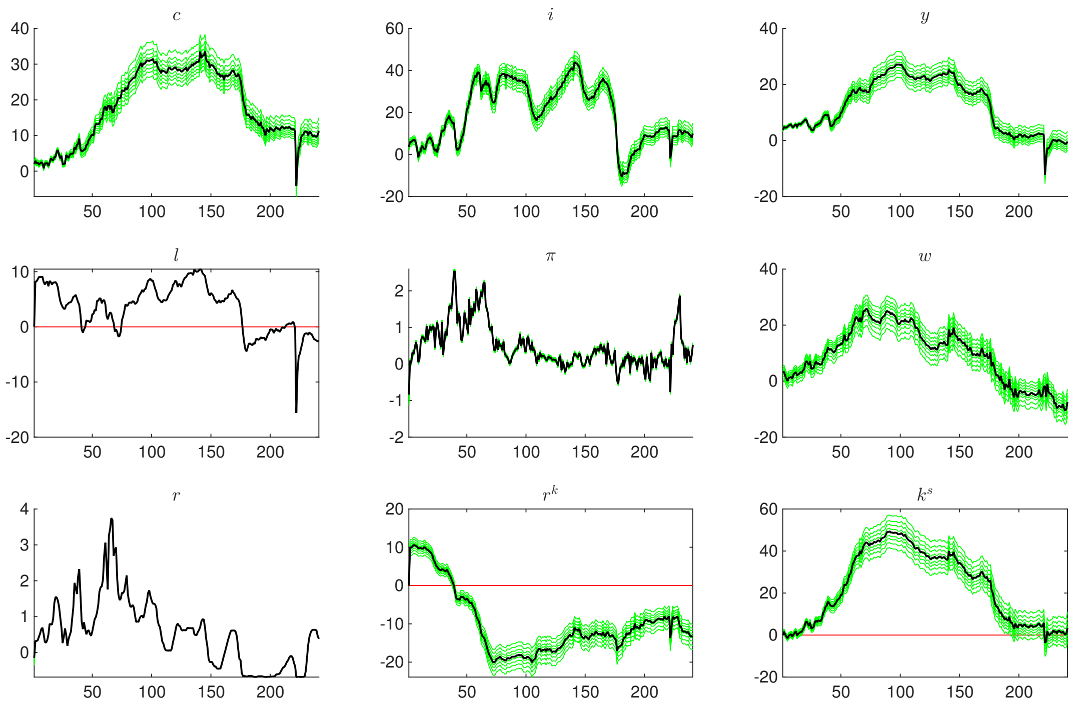

Figure 29: Smoothed variables

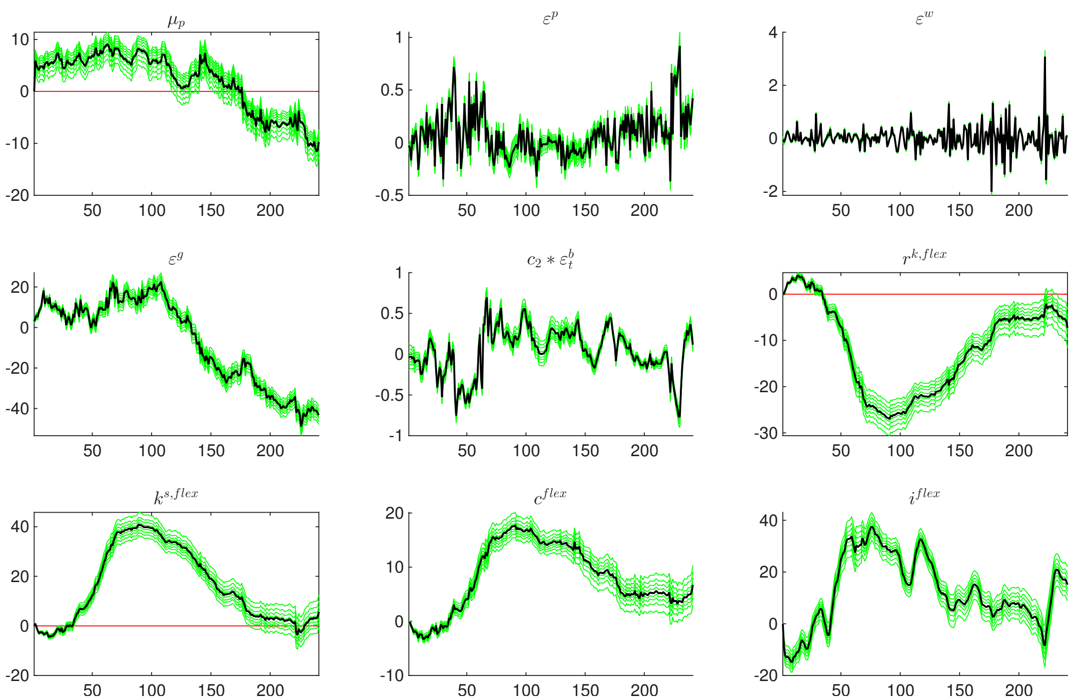

Figure 30: Smoothed variables

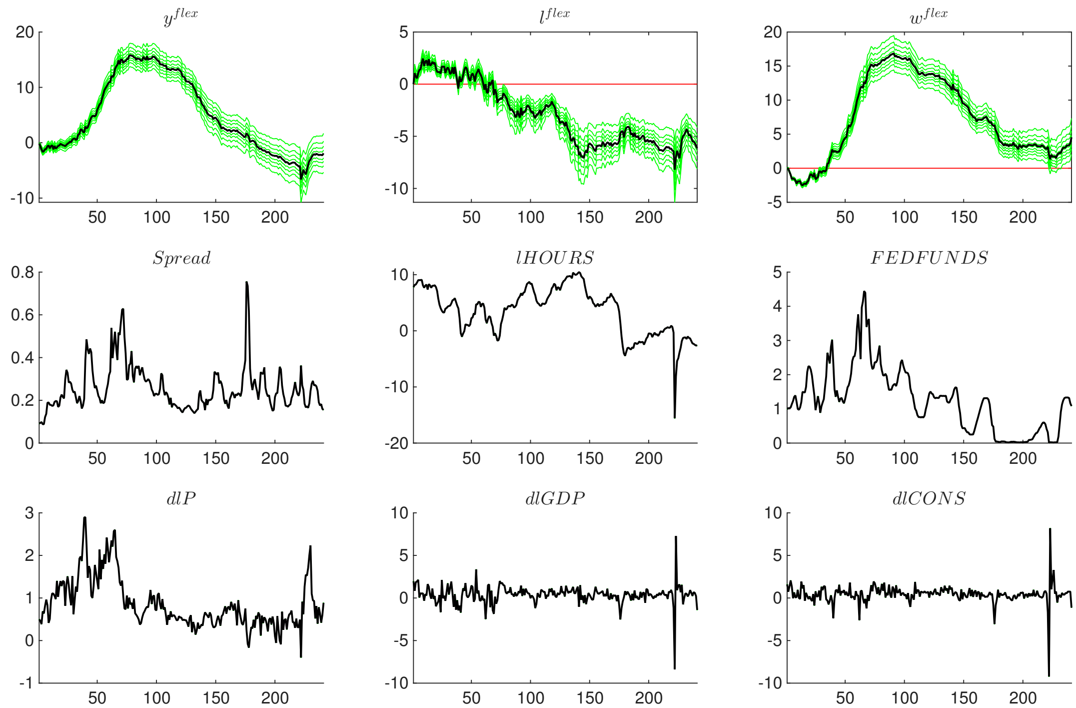

Figure 31: Smoothed variables

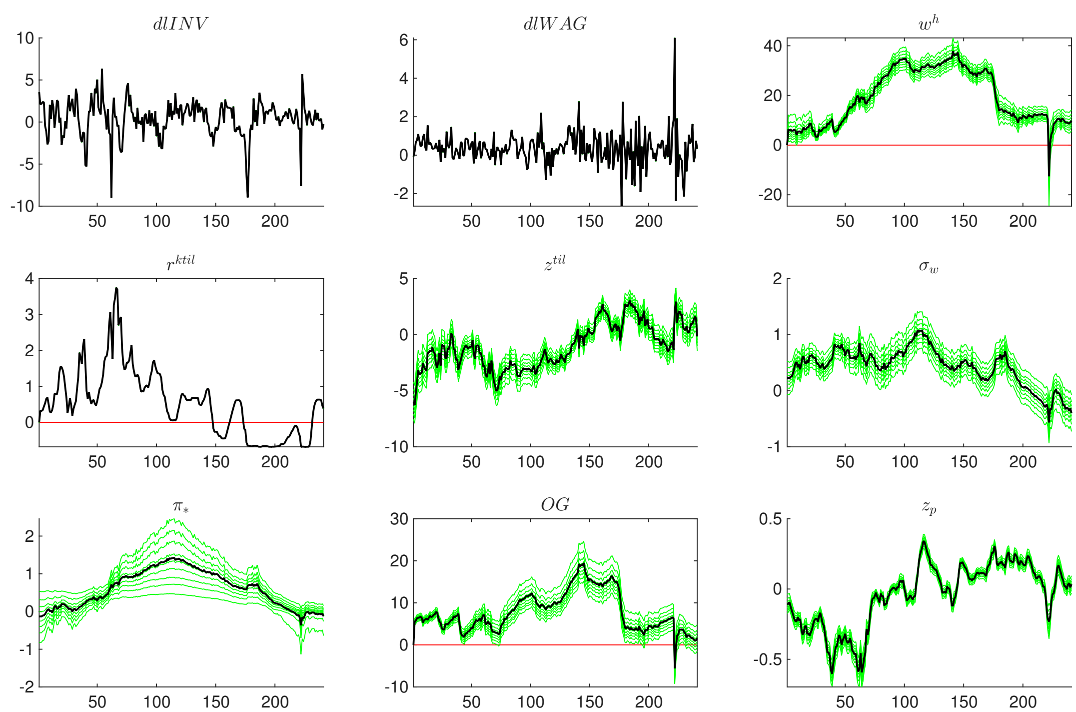

Figure 32: Smoothed variables

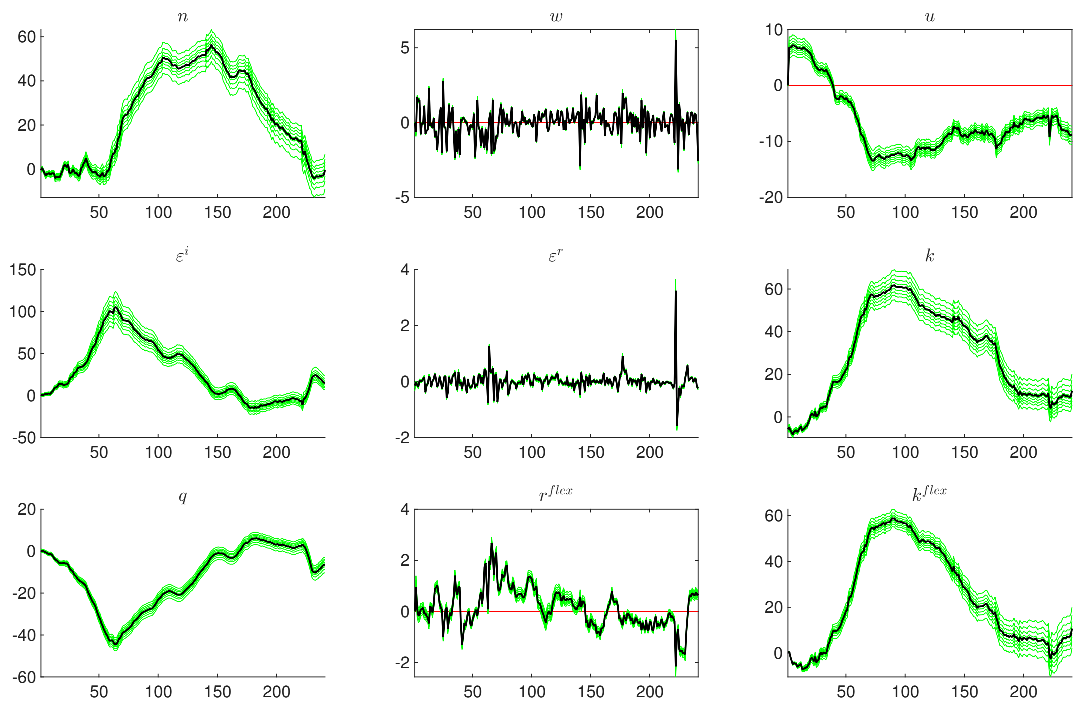

Figure 33: Smoothed variables

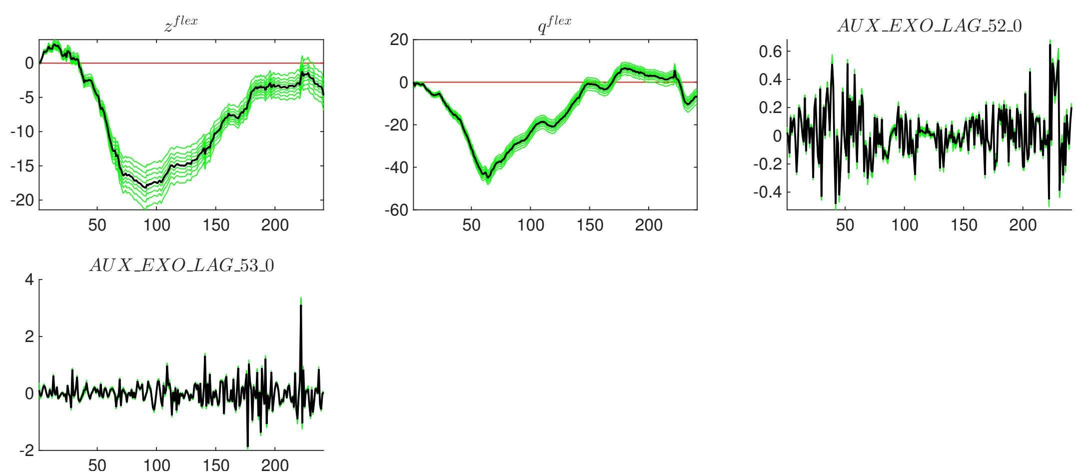

Figure 34: Smoothed variables

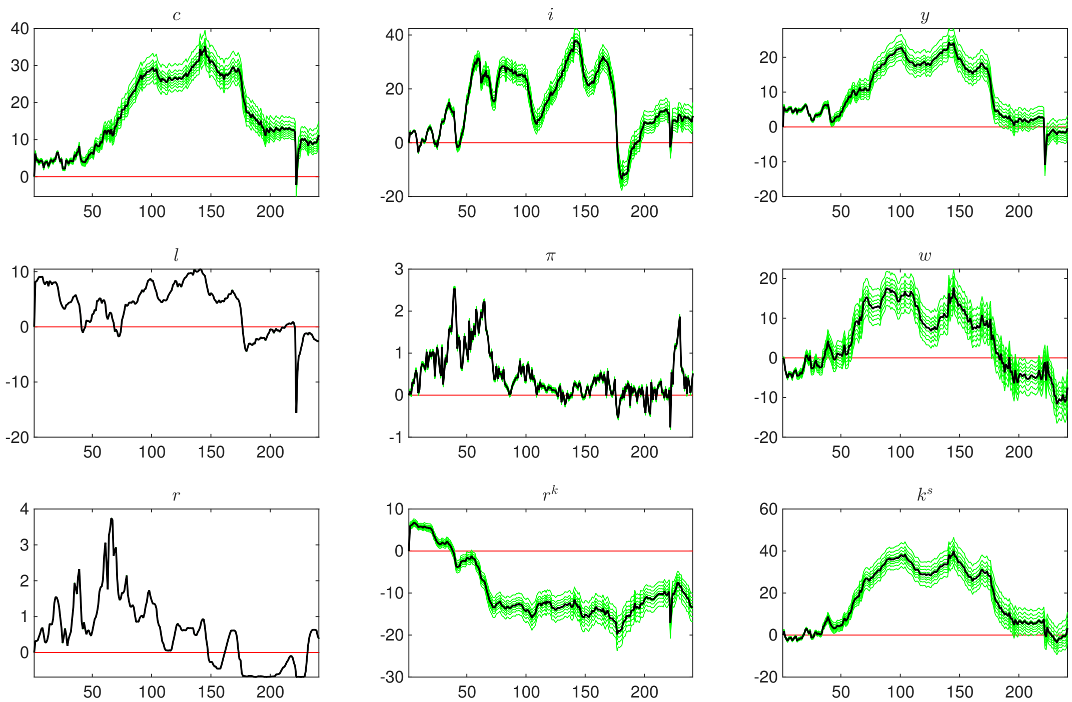

Figure 35: Updated Variables

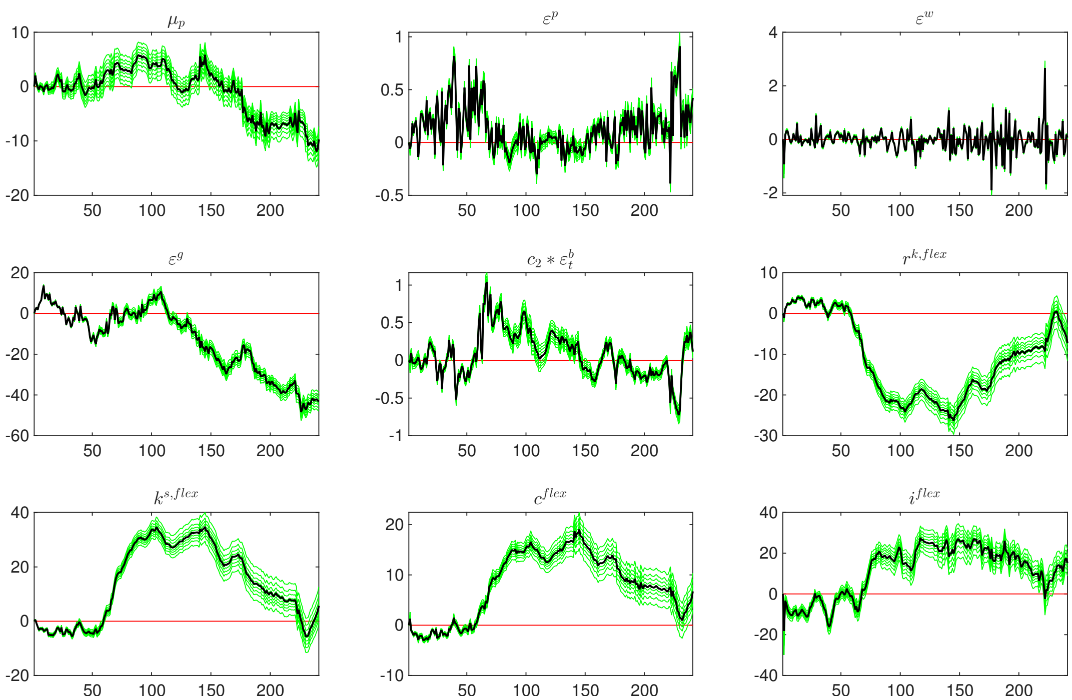

Figure 36: Updated Variables

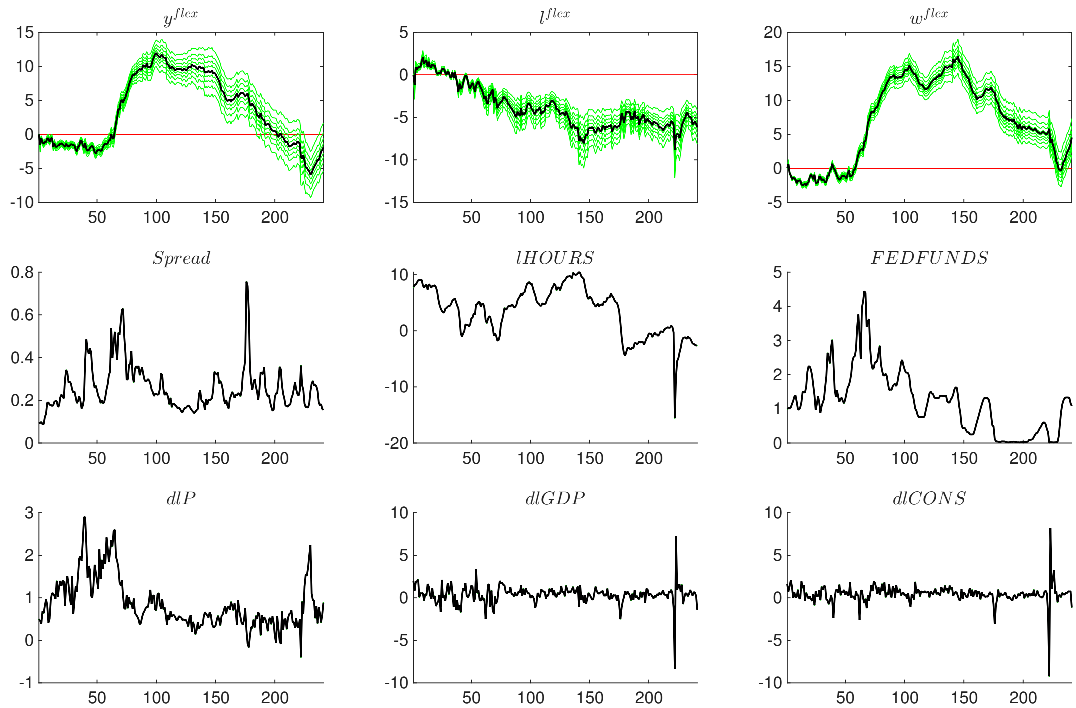

Figure 37: Updated Variables

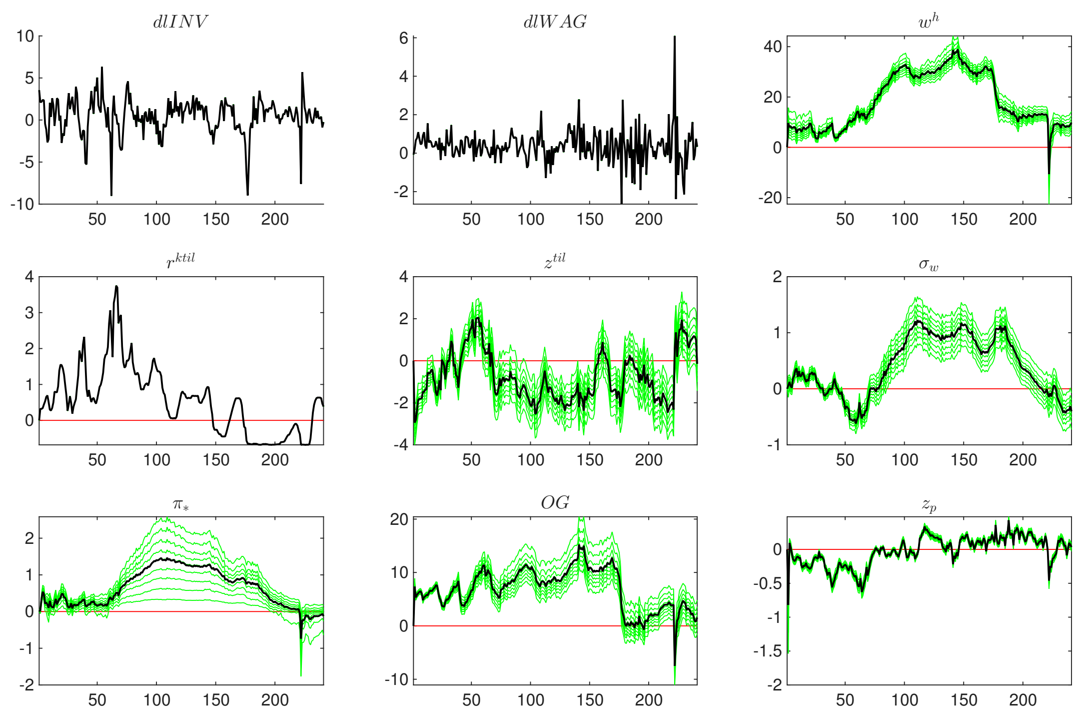

Figure 38: Updated Variables

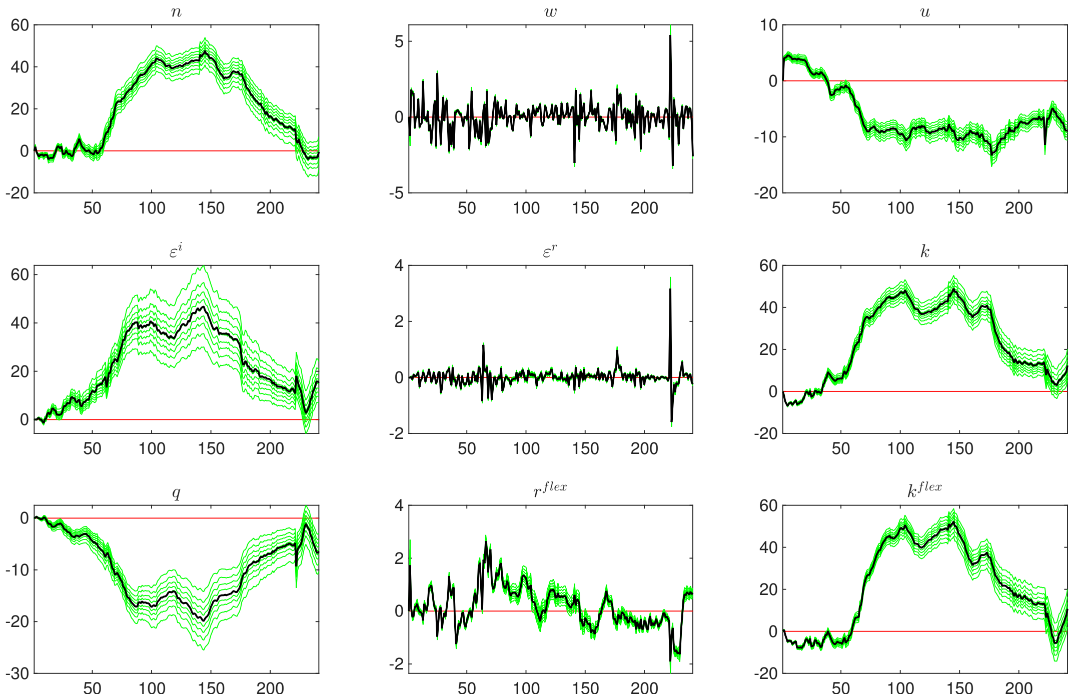

Figure 39: Updated Variables

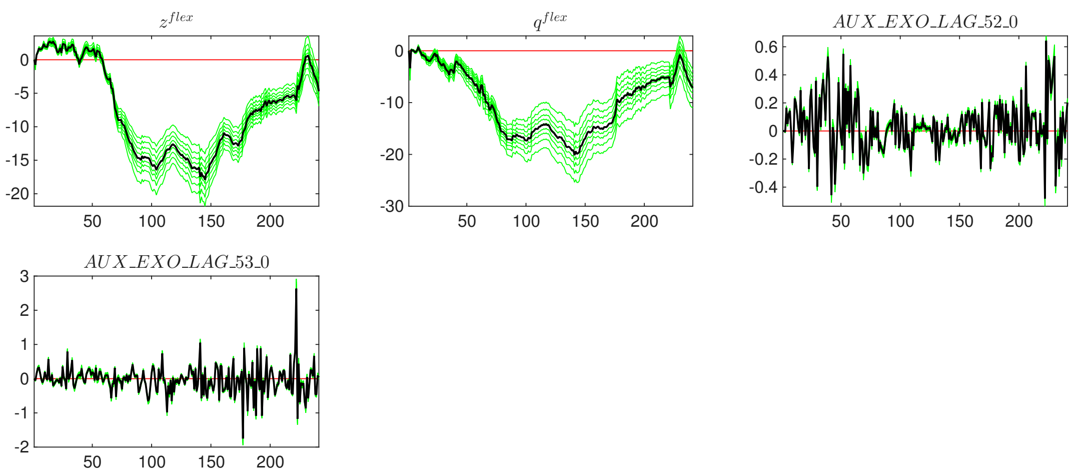

Figure 40: Updated Variables

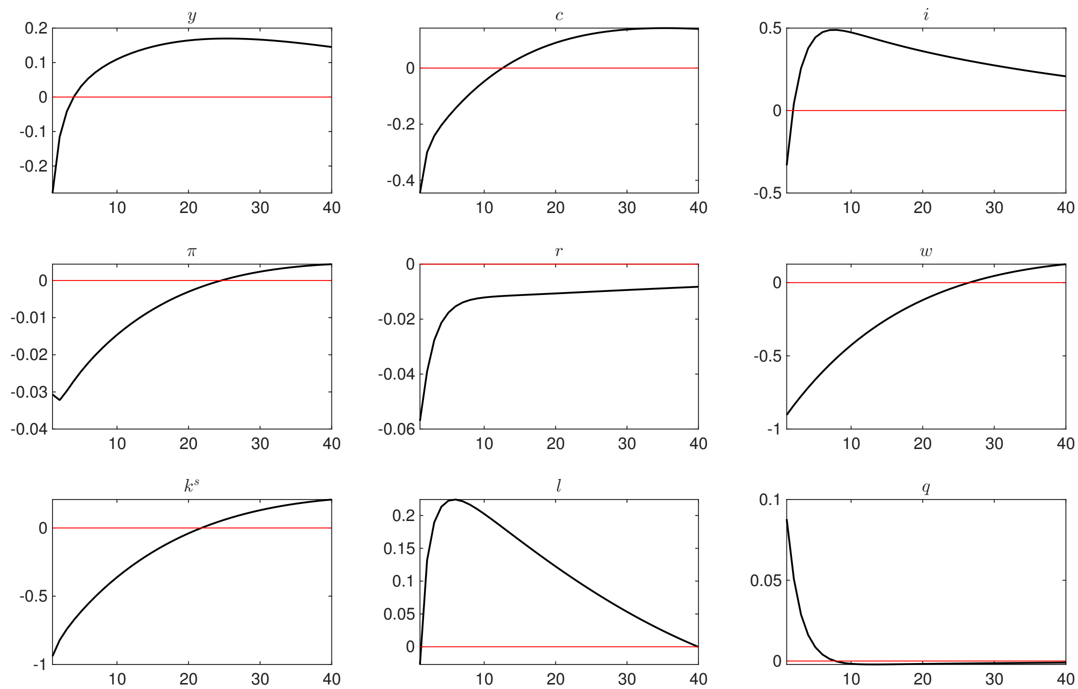

Figure 41: Impulse response functions (orthogonalized shock to η^a).

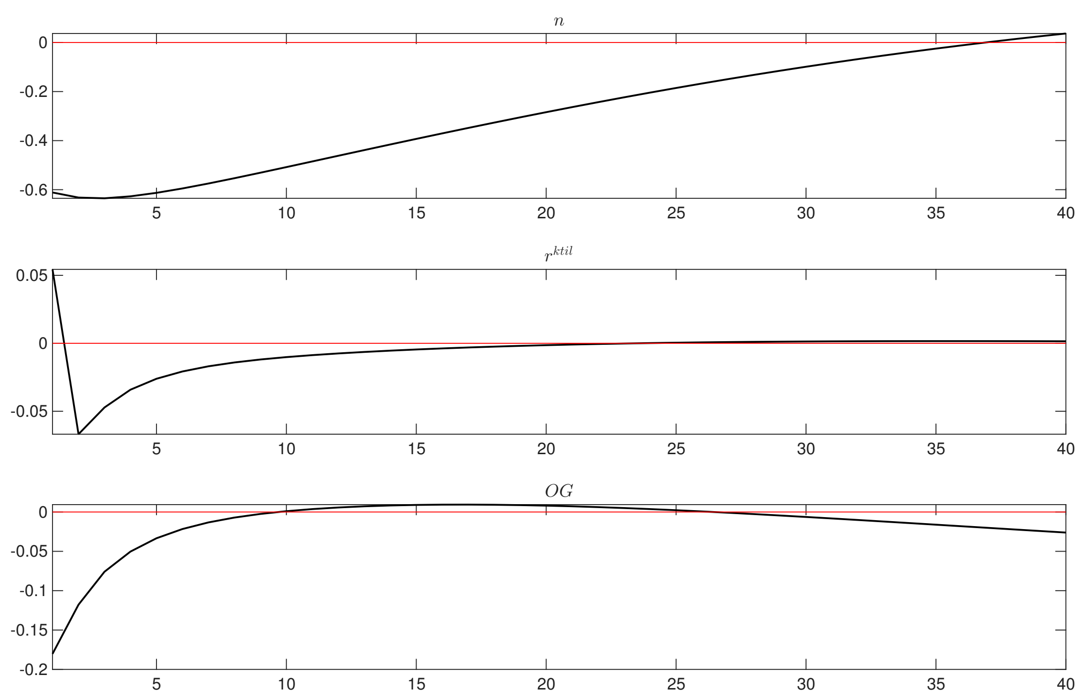

Figure 42: Impulse response functions (orthogonalized shock to η^a).

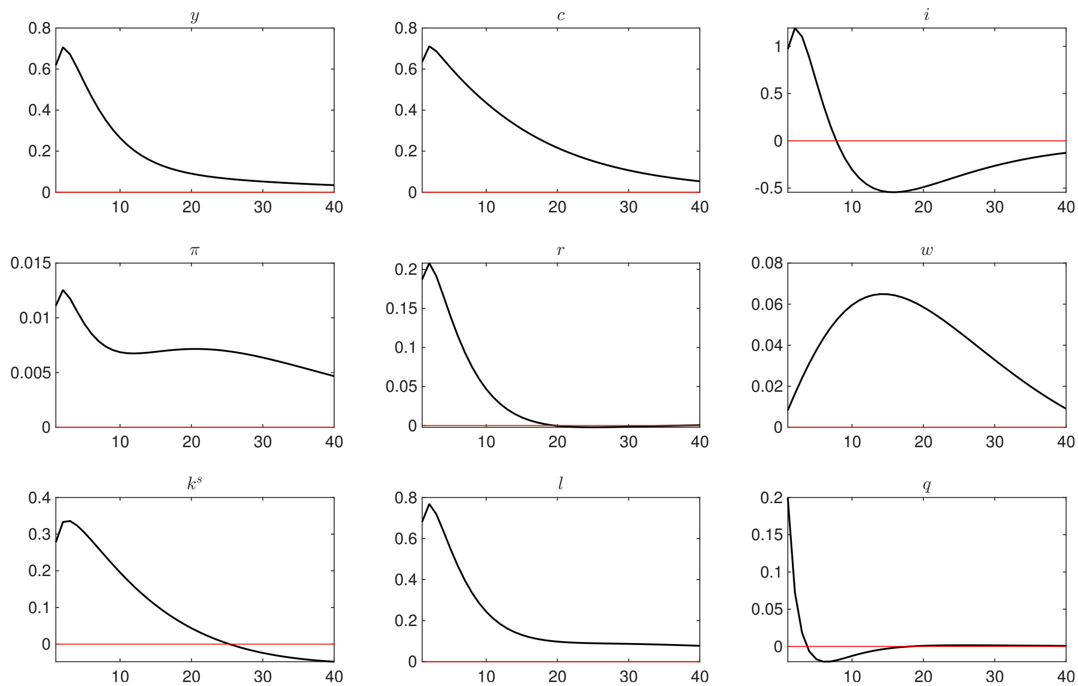

Figure 43: Impulse response functions (orthogonalized shock to η^b).

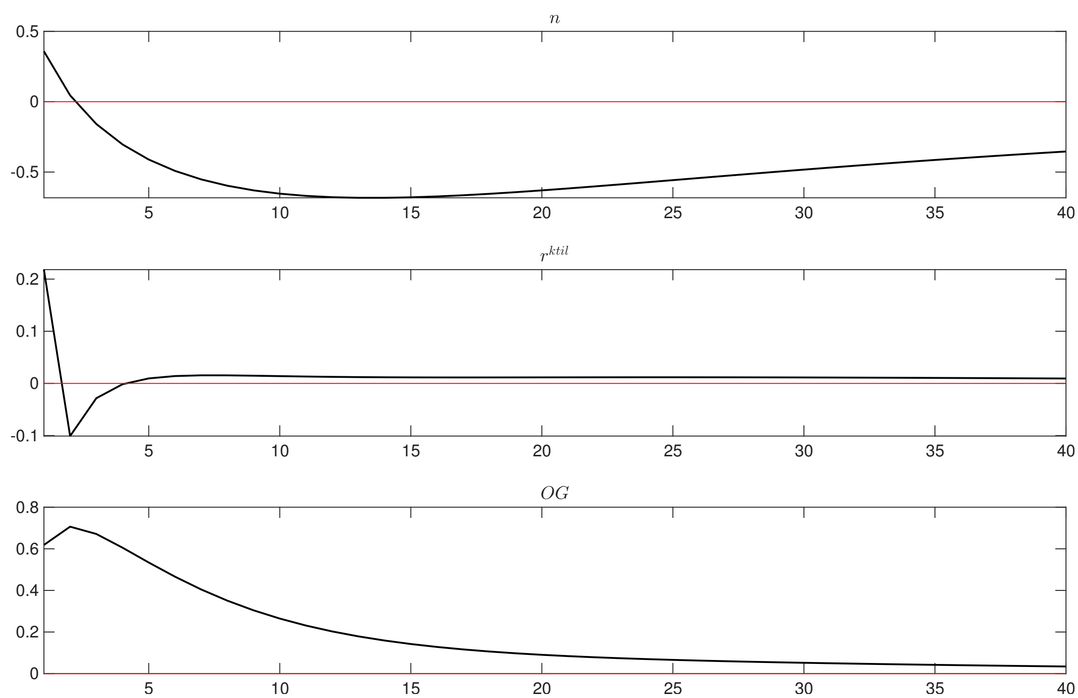

Figure 44: Impulse response functions (orthogonalized shock to η^b).

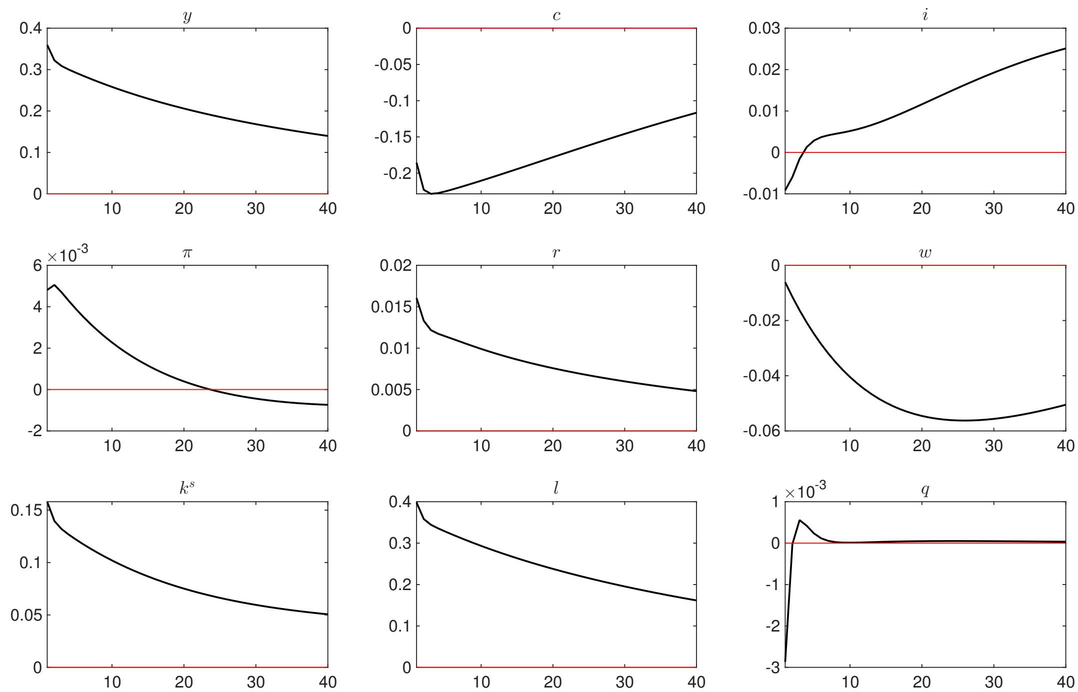

Figure 45: Impulse response functions (orthogonalized shock to η^g).

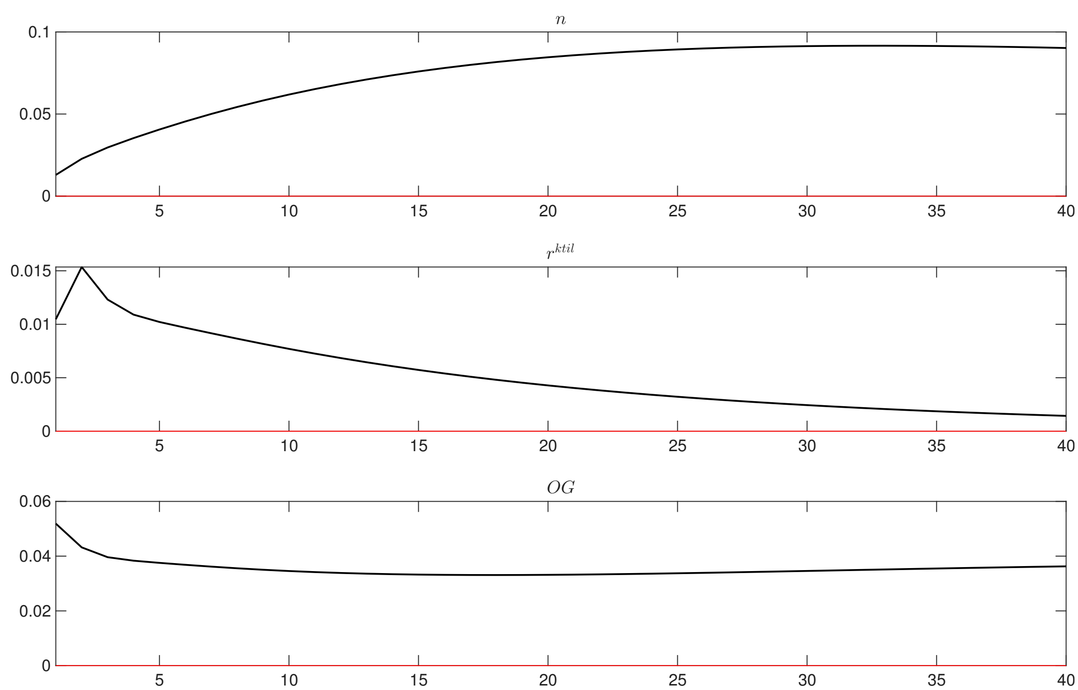

Figure 46: Impulse response functions (orthogonalized shock to η^g).

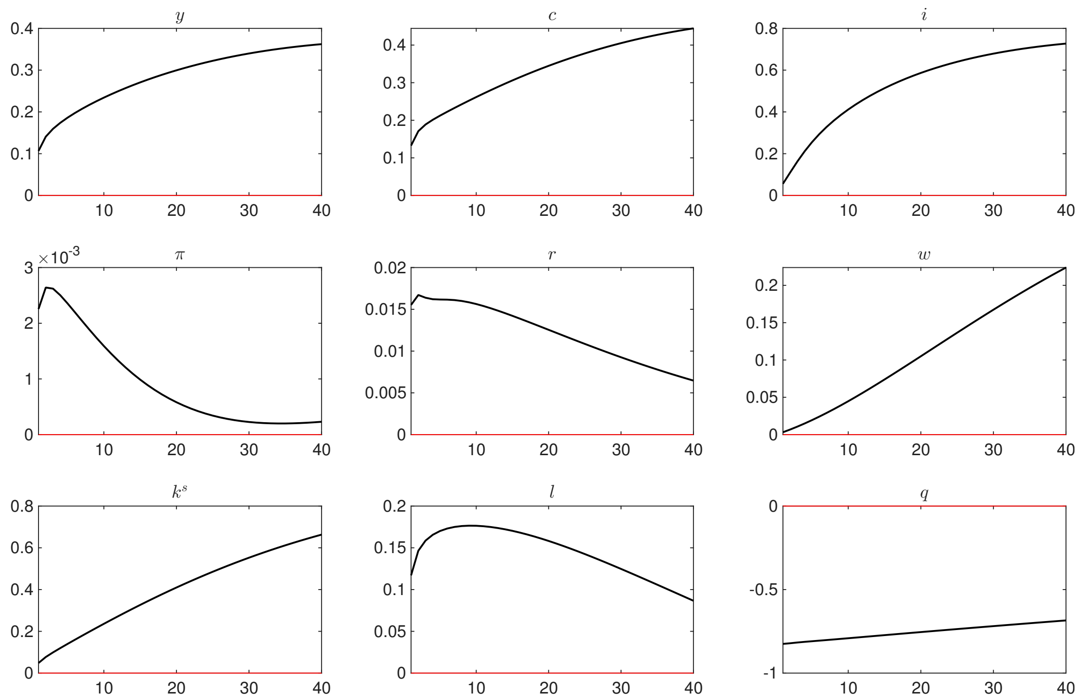

Figure 47: Impulse response functions (orthogonalized shock to η^i).

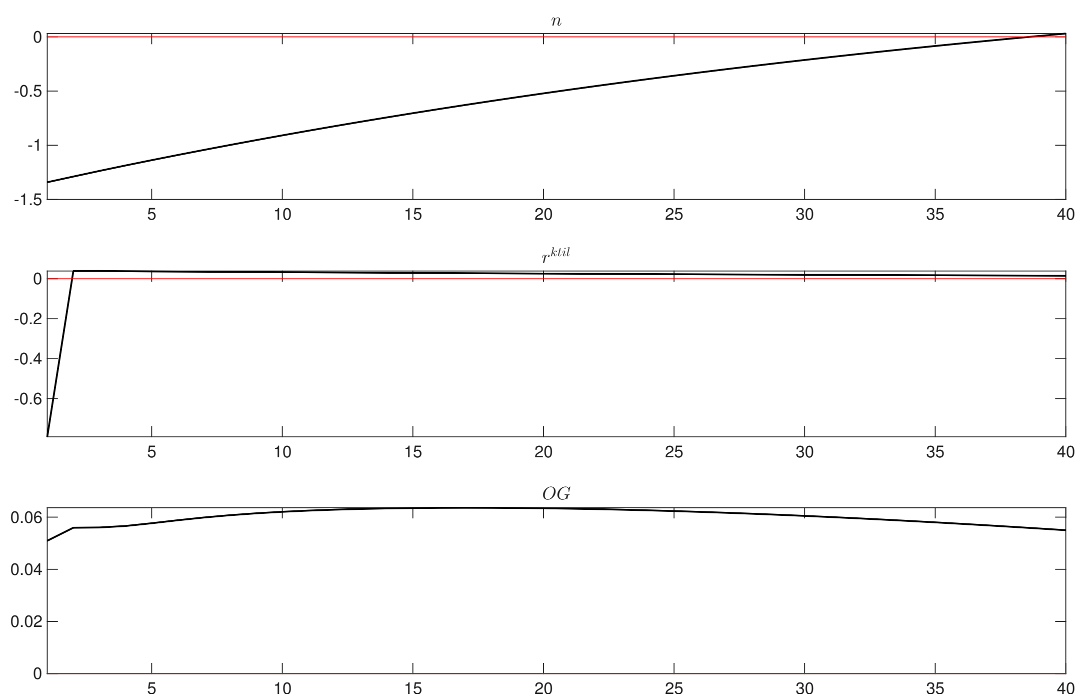

Figure 48: Impulse response functions (orthogonalized shock to η^i).

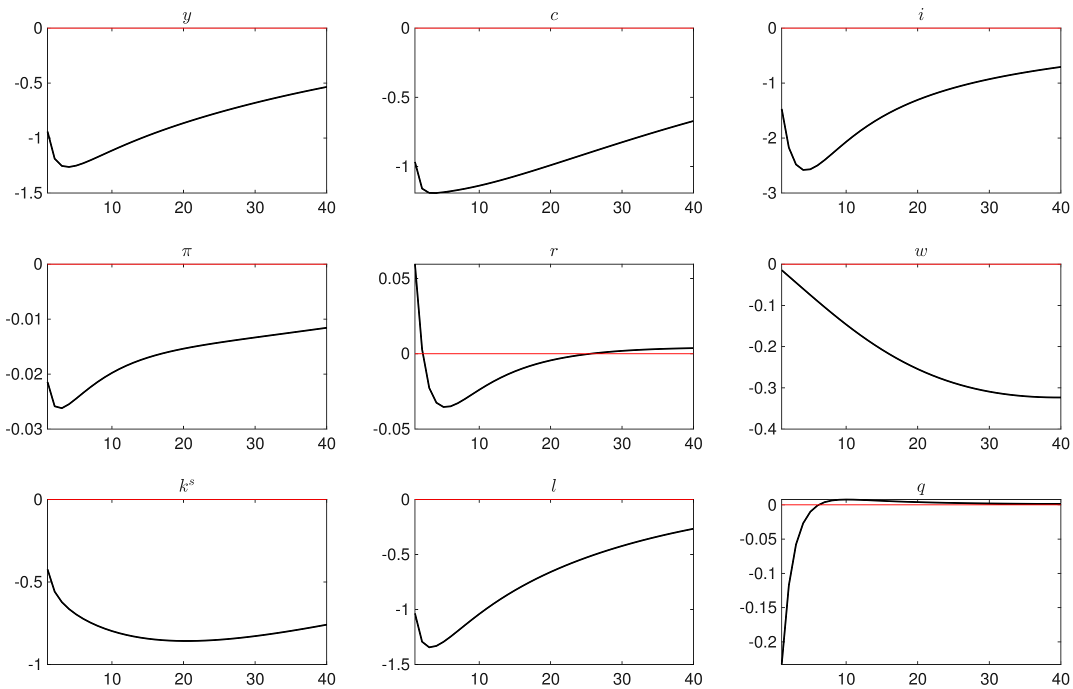

Figure 49: Impulse response functions (orthogonalized shock to η^m).

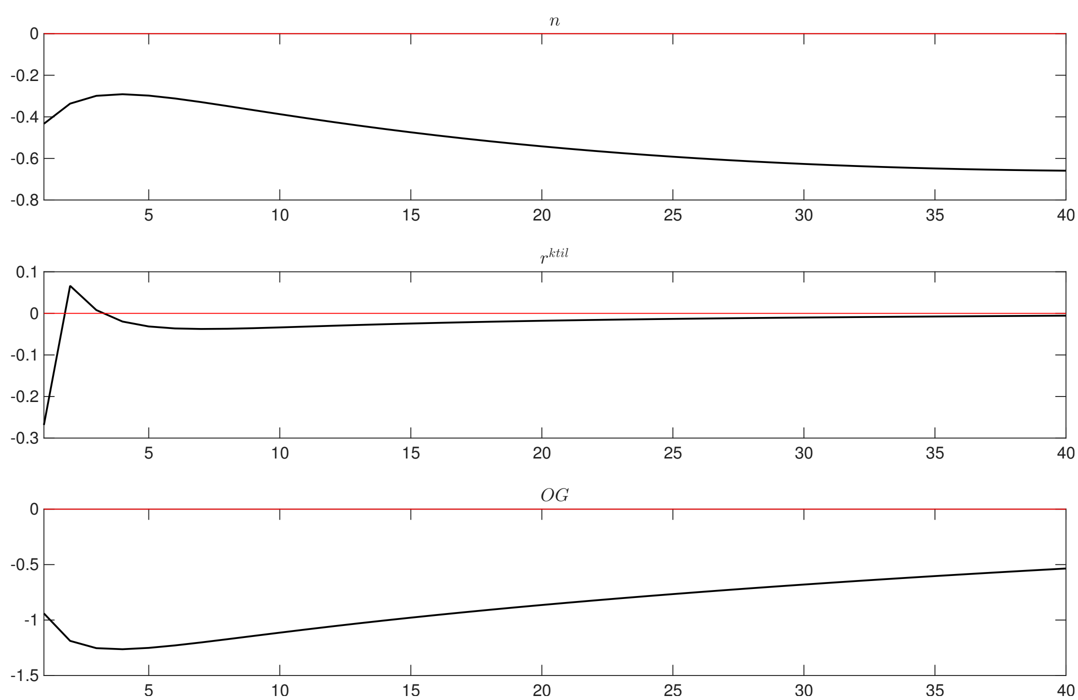

Figure 50: Impulse response functions (orthogonalized shock to η^m).

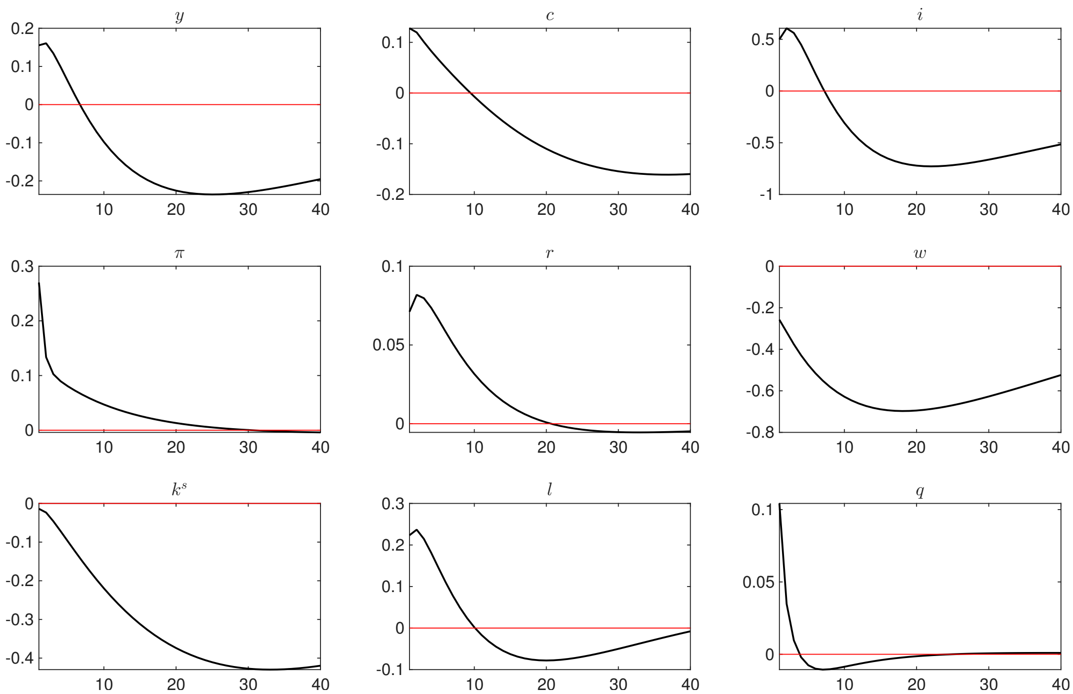

Figure 51: Impulse response functions (orthogonalized shock to η^p).

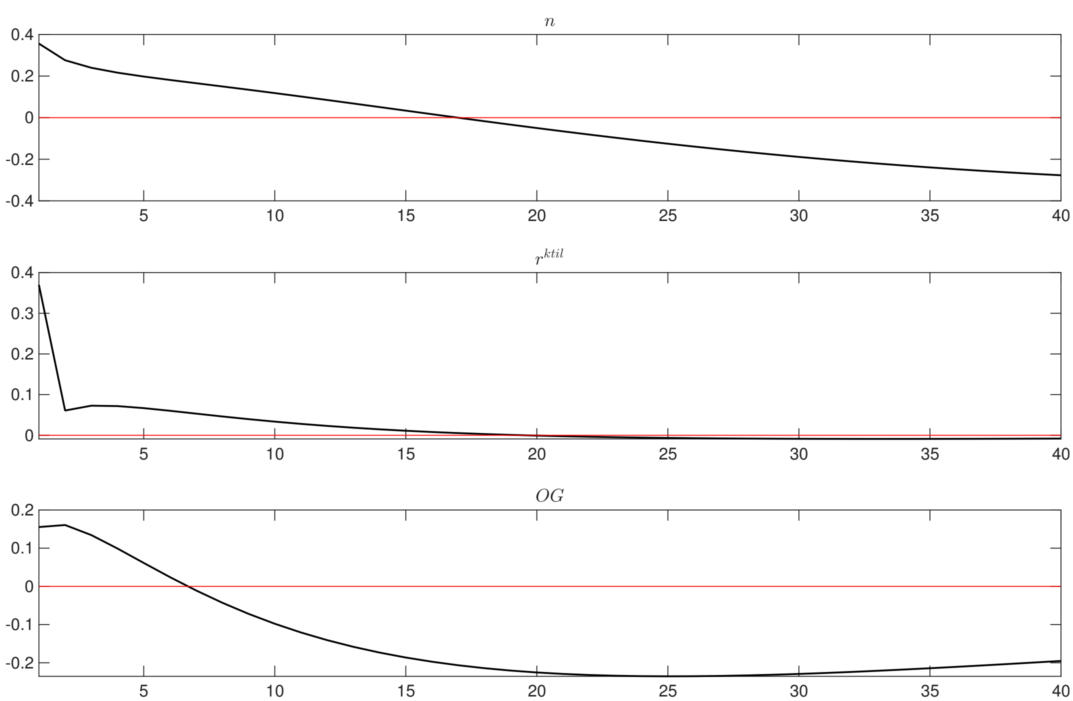

Figure 52: Impulse response functions (orthogonalized shock to η^p).

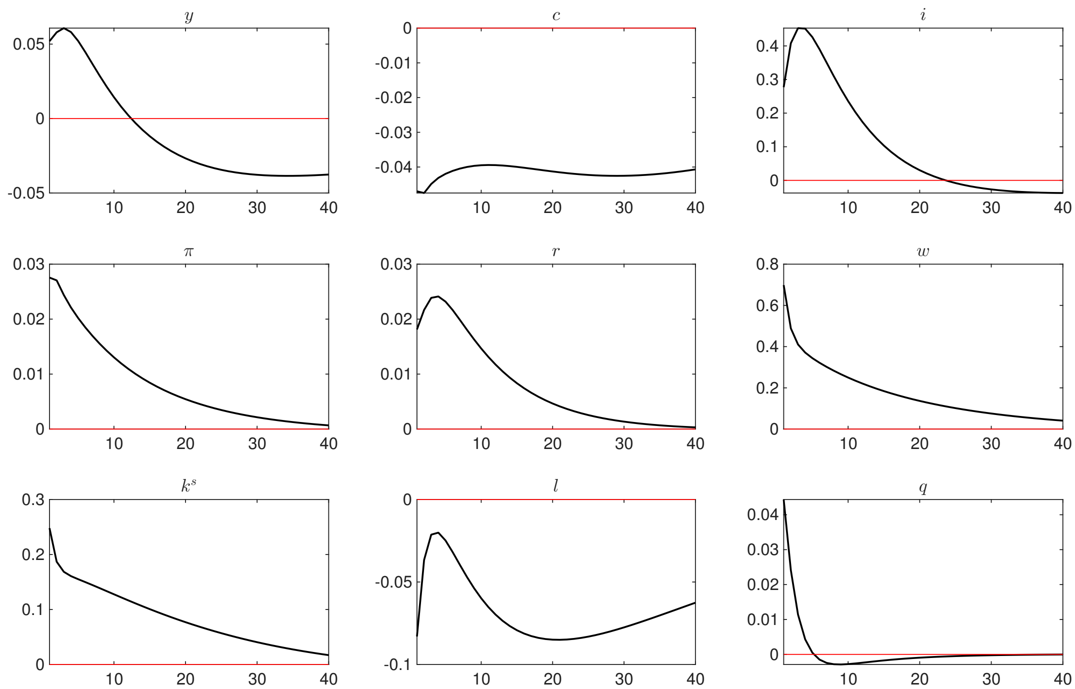

Figure 53: Impulse response functions (orthogonalized shock to η^w).

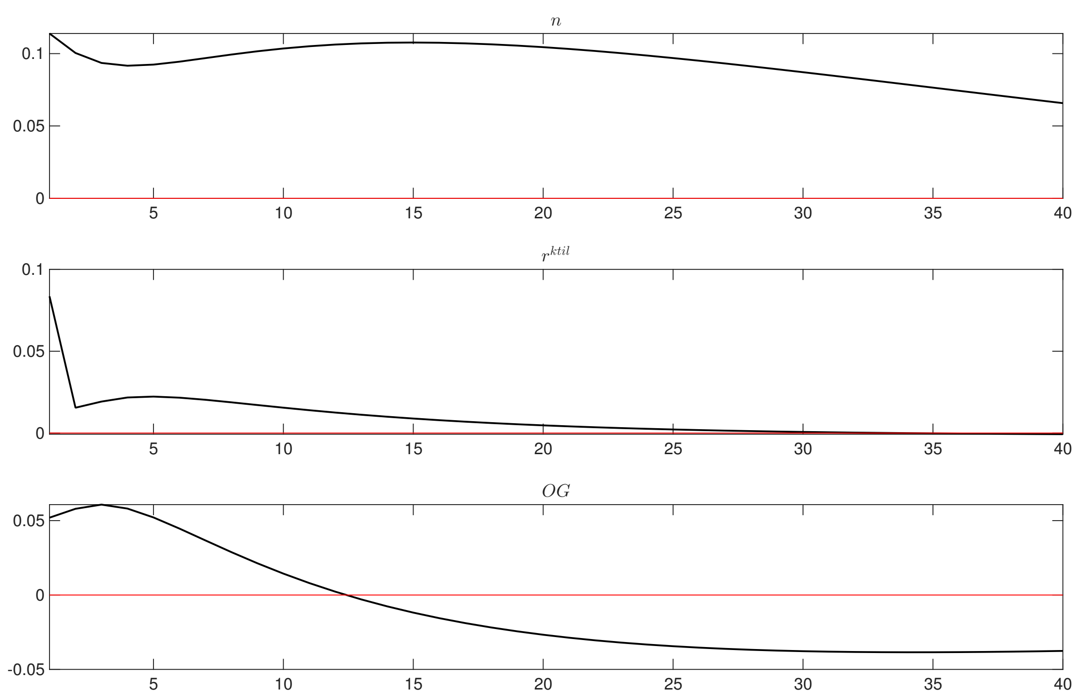

Figure 54: Impulse response functions (orthogonalized shock to η^w).

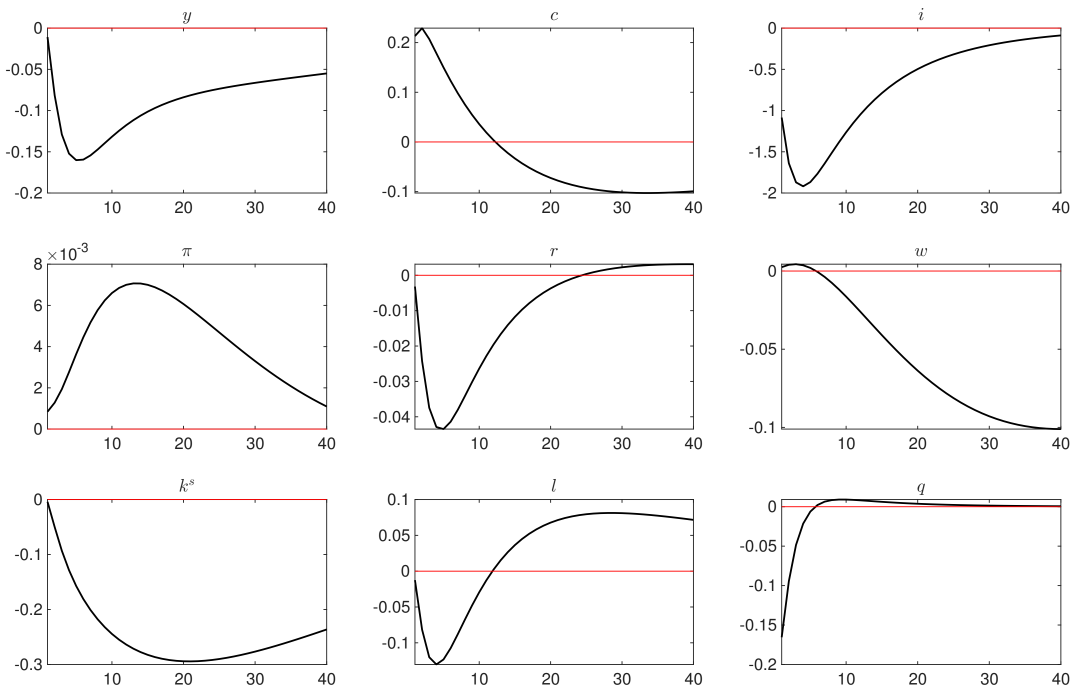

Figure 55: Impulse response functions (orthogonalized shock to η^{σ_w}).

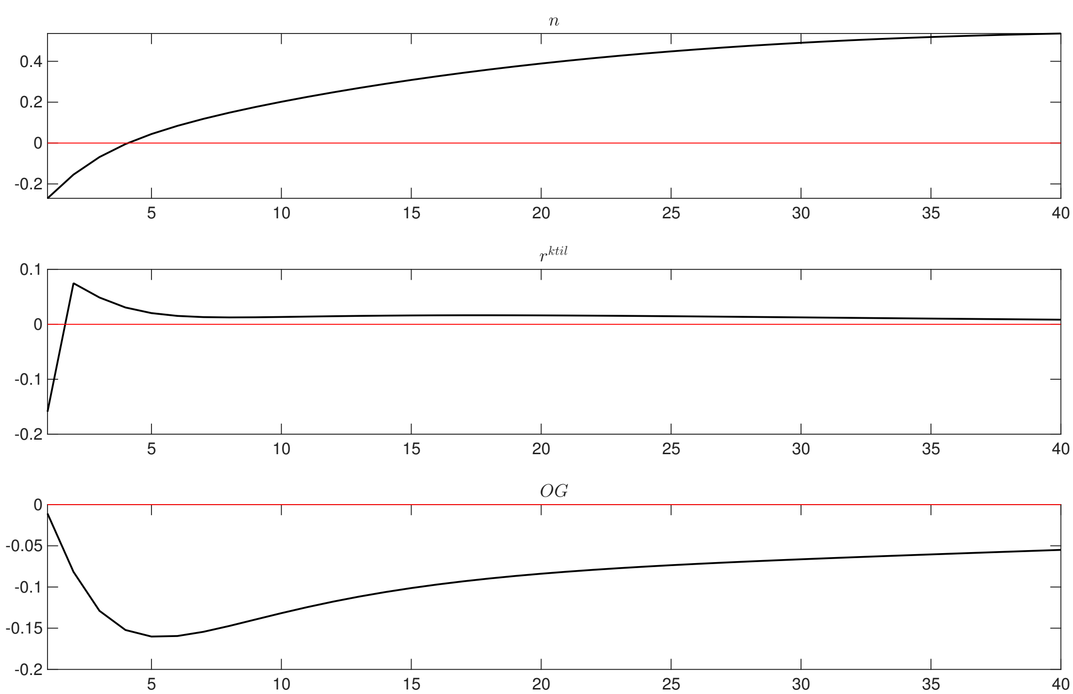

Figure 56: Impulse response functions (orthogonalized shock to η^{σ_w}).

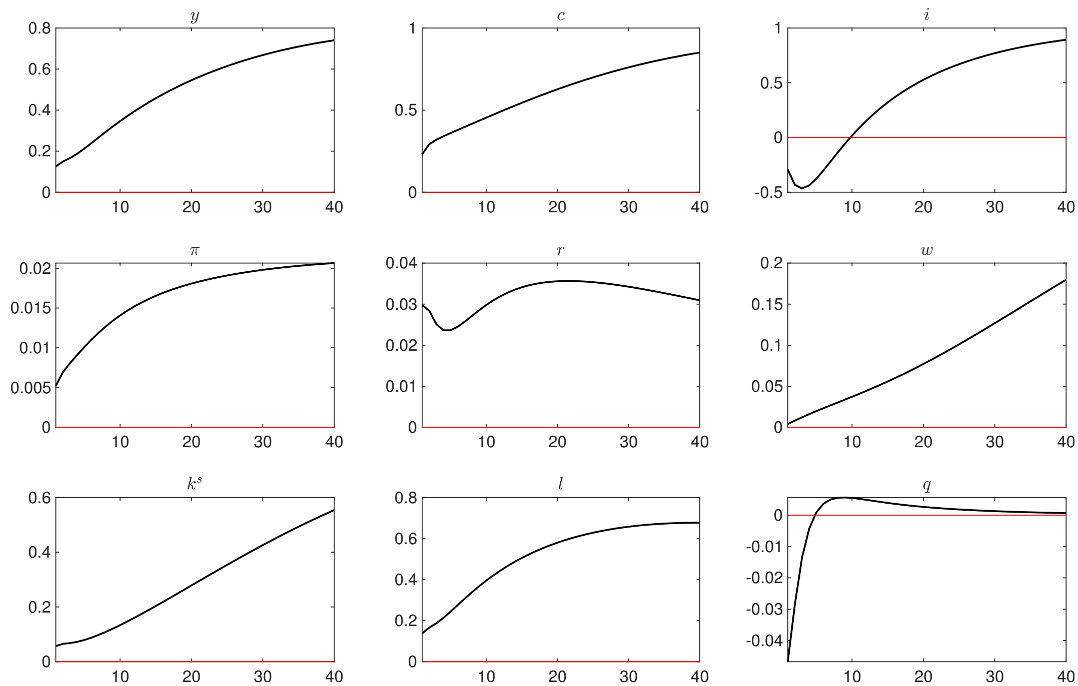

Figure 57: Impulse response functions (orthogonalized shock to η^{π_*}).

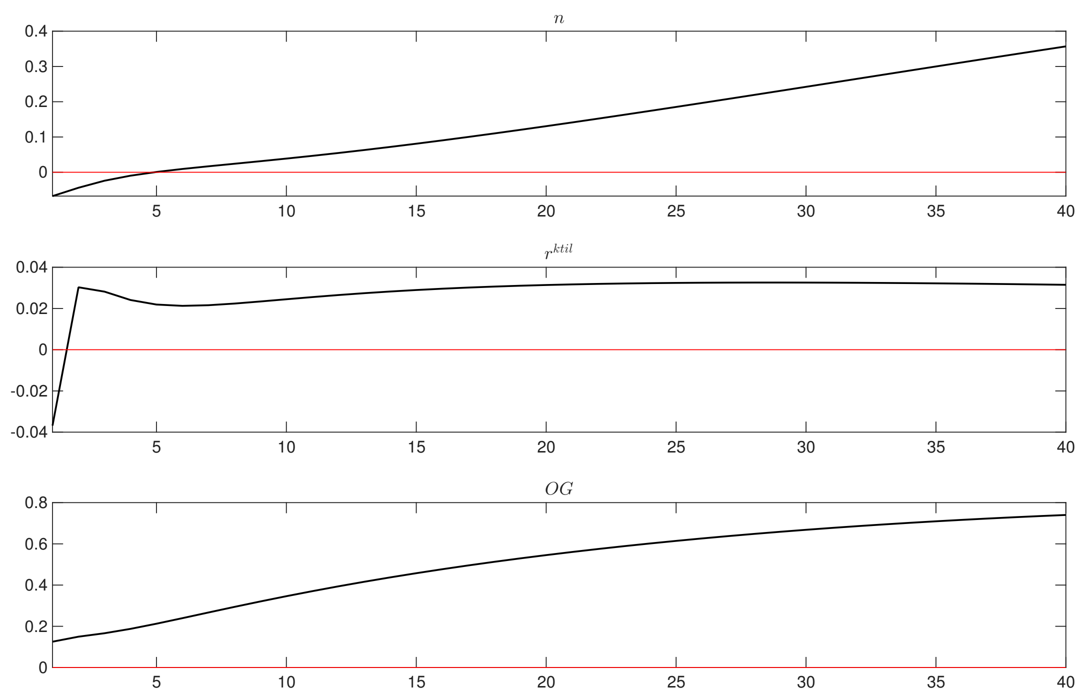

Figure 58: Impulse response functions (orthogonalized shock to η^{π_*}).

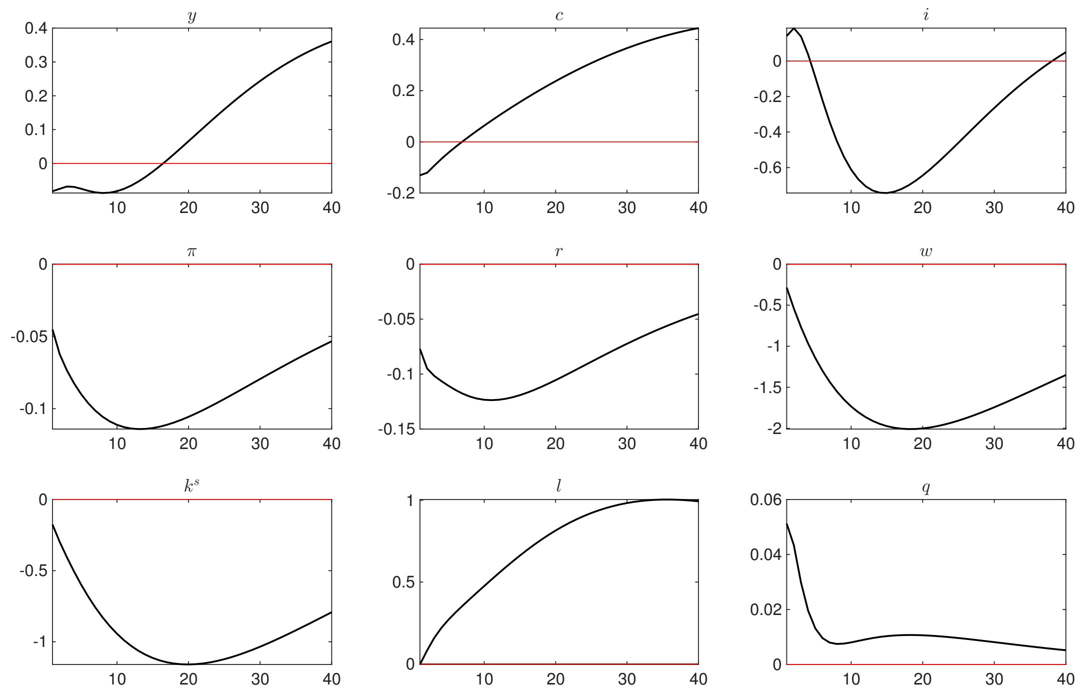

Figure 59: Impulse response functions (orthogonalized shock to η^{z_p}).

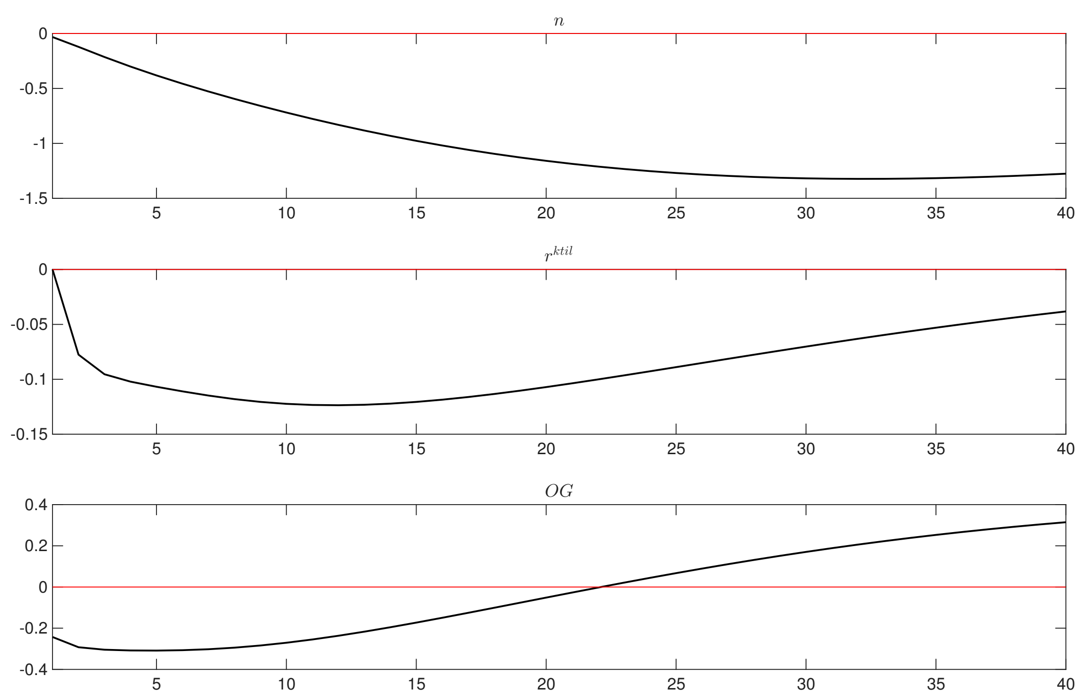

Figure 60: Impulse response functions (orthogonalized shock to η^{z_p}).