**NK\_GSSZ17: Gilchrist, Schoenle, Sim, and Zakrajšek (2017)**

Gilchrist et al. (2017) present a small-scale DSGE models with financial frictions to explain inflation dynamics during the financial crisis. In response to contractionary financial or demand shocks, financial frictions create incentives for firms to raise prices, therefore mitigating the deflationary effects of shocks.

* Aggregate Demand: Households maximize their lifetime utility, where the per-period utility function is separable in consumption and labour. Household utility from consumption is subject to good-specific external habits a la Ravn, Schmitt-Grohe and Uribe (2006).
* Aggregate Supply: Intermediate goods production is done by a continuum of monopolistically competitive firms using a production function with decreasing returns to scale and fixed operating costs. Firms maximize the present value of discounted dividends and must commit to pricing and production decisions prior to realizations of their idiosyncratic shock. Depending on the shock realization, firms must raise external funds in order to pay workers. Firms can obtain external funds by issuing new equity subject to dilution costs reflecting agency problems in the financial markets. Firms also face Rotemberg (1982) quadratic adjustment costs when changing nominal prices.
* Shocks: Technology shock, demand shock, financial shock and a monetary policy shock.
* Calibration/Estimation: The model is calibrated for the US using standard values for the core block and following previous literature for the deep habits, the elasticities of substitution and financial market frictions.
* Replication: We simulated the impulse response functions to a demand shock in the economy with financial frictions and nominal rigidities, Figure 5 (red line) in the paper.