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EVIDENCE ON FEATURES OF A DSGE BUSINESS CYCLE MODEL FROM BAYESIAN MODEL AVERAGING[†]

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The empirical support for features of a Dynamic Stochastic General Equilibrium model with two technology shocks is evaluated using Bayesian model averaging over vector autoregressions. The model features include equilibria, restrictions on long-run responses, a structural break of unknown date, and a range of lags and deterministic processes. We find support for a number of features implied by the economic model, and the evidence suggests a break in the entire model structure around 1984, after which technology shocks appear to account for all stochastic trends. Business cycle volatility seems more due to investment-specific technology shocks than neutral technology shocks.

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