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Finance and Economics Discussion Series: The Responses of Wages and Prices to Technology Shocks (Paperback)

By Rochelle M Edge

Bibliogov, United States, 2013. Paperback. Book Condition: New. 246 x 189 mm. Language: English . Brand New Book ***** Print on Demand *****.This paper reexamines wage and price dynamics in response to permanent shocks to productivity. We estimate a micro-founded dynamic general equilibrium (DGE) model of the U.S. economy with sticky wages and sticky prices using impulse responses to technology and monetary policy shocks. We utilize a flexible specification for wage- and price-setting that allows for the sluggish adjustment of both the levels of these variables-as in standard contracting models-as well as intrinsic inertia in wage and price inflation. On the price front, we find that in our VAR inflation jumps in response to an identified permanent technology shock, implying that, on average, prices adjust quickly and that there is little evidence for any intrinsic inflation inertia like that commonly found in models used for monetary policy evaluation. On the wage front, we find evidence for significant inertia in wages and some intrinsic inertia in nominal wage inflation. Our results provide support for the standard sticky-price specification of the New Keynesian model; however, the evidence on the high degree of wage inertia presents a challenge for standard models of wage...



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