

A Note on the Real Effects of Monetary Shocks: A Limited Participation Model[†]

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Abstract

This paper presents a monetary stochastic general equilibrium model that allows the real cyclical movements of the economy to be explained as a consequence of exogenous monetary, public spending and technology shocks. The model is calibrated and simulated, and its accuracy in replicating the cyclical movements in the real variables is compared with that of the standard RBC model. We find that our model fits the observed data better than the existing RBC models, specially for the labor market.

JEL classification: D5, E4, E5.

Keywords: Limited Participation Model; Real Business Cycle Model; Monetary Policy; Labor Market Puzzles.

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