

## General Discussion\*

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After thanking the discussants, Martin Eichenbaum noted that assumptions about monetary policy are very important in examining correlations when the Galí model of sticky prices is used for the data-generating process. He also observed that it is easy to put shocks into a structural model, but that it is difficult to identify them in the data. He cited counter-cyclical markups as one possible reason why many of the technology shocks are Granger-caused by monetary policy.

The participants raised a number of issues, particularly related to monetary policy. David Laidler noted that since technology shocks originated from the residuals of a production function, which are linked to the interest rate through the aggregation of capital and output, it was not surprising to find that technology shocks were Granger-caused by monetary policy. Eichenbaum responded that capital utilization and labour variables are more important than the stock of capital, but he allowed for the possibility that more disaggregation may be necessary in exploring this issue. James Nason also mentioned that he was not surprised to see the monetary authority accommodating technology shocks in the real-business-cycle monetary model, given the aggregate demand and supply equations combined with a strong quantity-theory component.

Nason suggested that to be consistent with Galí's point of correlation, the axes in the paper's scatter plots should be the correlation between permanent and transitory components from the SVAR. Citing previous work, he suggested that the best way to deal with the non-cyclical behaviour of labour

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market variables would be to examine the real wage over the cycle and to consider issues such as worker heterogeneity.

Given the fact that real-business-cycle models do not explain short- and medium-run dynamics very well, Michael Woodford inquired whether the paper's model improved on this shortcoming. Eichenbaum replied that it did not. He added, however, that the paper was more concerned with the identification of shocks than with explaining short-run dynamics.

Citing his work based on Eichenbaum's model, Frank Smets concluded that not only do technology shocks lead to a negative correlation between output and employment, but they are, in fact, significant. Eichenbaum responded that since the model satisfies the identifying assumptions, the different results constitute evidence against the structural model. Further discussion initiated by Steven Ambler regarding the role of monetary policy in the model led Eichenbaum to conclude that the model must be misspecified if one cannot obtain the correct impulse-response functions. He also felt that future work must reach a conclusion in this matter.

