Modelling the Australian Economy

Wednesday 10:35pm – 12:15pm

Chair: Mardi Dungey

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Exploring the role of permanent and transitory shocks in explaining the business cycle

Don Harding
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The RBC school emphasize the importance of jointly modelling growth and fluctuations when seeking to understand the business cycle. From that literature we learn that models must have permanent shocks to technology if they are to do a reasonable job of explaining business cycle features. However, analysis of Gali's SVAR suggests that both supply and demand shocks are required to explain business cycle features. This raises the question of whether one can explain the business cycle features with permanent and transitory supply side shocks only? Or is it necessary to have transitory shocks on the demand side of the economy to adequately explain the business cycle. In this paper I explore these questions using a RBC model in which there are both permanent and transitory shocks.

An estimated medium scale DSGE model of Australia

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In this paper we set up and estimate a medium scale structural model of Australia with particular attention paid to modelling long run changes in the terms of trade. The model is estimated using Bayesian methods and the priors are derived from two distinct sources: i) Direct information about the structural parameters and ii) impulse responses to monetary policy and terms of trade shocks that we argue can be identified under weak assumptions that should be robust across many classes of models.

Extending an SVAR model of the Australian economy

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Dungey and Pagan present an SVAR model of the Australian economy which models macro-economic outcomes as transitory deviations from a deterministic trend. In this paper we extend that model in two directions. Firstly, we relate it to an emerging literature on DSGE modelling of small open economies. Secondly we allow for both transitory and permanent components in the series and show how this modification has an impact upon the design of macroeconomic models.