

**You are kindly invited to attend a Joint Seminar of the  
National Bank of Belgium, CES-KUL, Ecares-ULB and UCL**

by

**Giorgio Primiceri  
(Northwestern University)**

on

**Potential and Natural Output  
with Alejandro Justiniano (Federal Reserve Bank of Chicago)**

#### **Abstract**

We estimate a DSGE model with imperfectly competitive products and labor markets, and sticky prices and wages. We use the model to back out two counterfactual objects: potential output, i.e. the level of output that would prevail under perfect competition, and natural output, i.e. the level of output that would prevail with flexible prices and wages. We find that potential output is smooth, resulting in an output gap that closely resembles traditional measures of detrended output. Meanwhile natural output is extremely volatile, due to the very high variability of markup shocks. These disturbances, however, are very similar to measurement errors because they only explain price and wage inflation at very high frequencies. Under this alternative interpretation, potential and natural output move one-to-one.

The seminar will take place on Monday, **22 March 2010** from **16.30 until 18.00**. The seminar will be held in the Auditorium of the National Bank of Belgium (**Room A**), **Entrance: Warmoesberg 61**, Brussels.

Please reply by email to [Yvette.Vandenbosch@nbb.be](mailto:Yvette.Vandenbosch@nbb.be) if you wish to participate to this seminar. With name and car plate number to access the NBB Parking Warmoesberg 41.

Kind regards,

H. De Wachter (KUL), R. Kollmann (ULB), C. Poily (UCL) and R. Wouters (NBB)