

An Estimated Monetary DSGE Model with Unemployment and Staggered Nominal Wage Bargaining

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Abstract

We develop and estimate a medium scale macroeconomic model that allows for unemployment and staggered nominal wage contracting. In contrast to most existing quantitative models, employment adjustment is on the extensive margin and the employment of existing workers is efficient. Wage rigidity, however, affects the hiring of new workers. The former is introduced via the staggered Nash bargaining setup of Gertler and Trigari (2006). A robust finding is that the model with wage rigidity provides a better description of the data than does a flexible wage version. Overall, the model fits the data roughly as well as existing quantitative macroeconomic models, such as Smets and Wouters (2007) or Christiano, Eichenbaum and Evans (2005). More work is necessary, however, to ensure a robust identification of the key labor market parameters.