The structural dynamics of US output and inflation: what explains the change?

(with Luca Gambetti (UPF) and Evi Pappa (LSE, IGIER))

Abstract

The paper examines the dynamics of US output and inflation using a structural time varying coefficient VAR. We show that there are changes in the volatility of both variables and in the persistence of inflation. Technology shocks explain changes in output volatility, while a combination of technology, demand and monetary shocks explain variations in the persistence and volatility of inflation. We detect changes over time in the transmission of technology shocks and in the variance of technology and of monetary policy shocks. Hours and labor productivity always increase in response to technology shocks.