The "Great Moderation" and the US External Imbalance /

Perri, Fabrizio
Fogli, Alessandra

National Bureau of Economic Research,
2006

Monografía

The early 1980s marked the onset of two striking features of the current world macro-economy: the fall in US business cycle volatility (the "great moderation") and the large and persistent US external imbalance. In this paper we argue that an external imbalance is a natural consequence of the great moderation. If a country experiences a fall in volatility greater than that of its partners, its relative incentives to accumulate precautionary savings fall and this results in an equilibrium permanent deterioration of its external balance. To assess how much of the current US imbalance can be explained by this channel, we consider a standard two country business cycle model in which households are subject to country specific shocks they cannot perfectly insure against. The model suggests that a fall in business cycle volatility like the one observed for the US relatively to other major economies can account for about 20% of the current total US external imbalance

Título: The "Great Moderation" and the US External Imbalance Alessandra Fogli, Fabrizio Perri

Editorial: Cambridge, Mass. National Bureau of Economic Research 2006

Descripción física: 1 online resource

Mención de serie: NBER working paper series no. w12708

Autores: Perri, Fabrizio Fogli, Alessandra

Entidades: National Bureau of Economic Research

Punto acceso adicional serie-Título: NBER working paper series no. w12708