Comments on

K. Christoffel, K. Kuester, T. Linzert:

„Identifying the Role of Labor Markets for Monetary Policy in an Estimated DSGE Model “

By Monika Merz

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Paper's main message

- augment New-Keynesian type of DSGE model by labor market frictions and real-wage rigidity to investigate role played by labor markets in generating inflation, and in transmitting monetary shocks

- Structure of labor market matters for transmission of shocks that do not originate in the labor market, e.g., monetary shocks

- Labor market shocks are barely transmitted to rest of the economy

Key Equations for Transmission

equilibrium wage: $w_t = g_1 mrs_t + g_2(k_t - l_t + q_t) - (g_2 + g_3)h_t + z_2(c_{t+1|t} - c_t)$

impact of marginal wage rise on total surplus: $c_t = \bar{a}(mrs_t - w_t) - f_L \cdot wages$

New Keynesian Phillips curve:

$$p_t = \bar{b}E_t p_{t+1} + \frac{g_p}{1 + bg_p} p_{t-1} + \frac{(1-j)(1-jb)}{j(1+bg_p)}(x_t + e_t)$$

Important: ϕ_L, γ_p degree of indexation for wages and prices, respectively

Selected Estimation Results

Table 2: Estimated Parameters at the Posterior Mode

Parameter	Posterior		t-statistic
	mode	standard dev.	
γ_p	.264	.069	3.82
ϕ_L	.362	.052	7.04

Are results plausible? NO.

PÄndG (1948, modified in 1999): price and wage indexation has been illegal in Germany since DM was introduced and Bundesbank was founded!

Are estimates indicative of systematic violation of this law? NO.

- no evidence of indexed contracts of any kind
- other loopholes in empirical part, e.g., calibration vs. estimation:

  – no need to use data on Germany that were exposed to "OECD filter"
  – many key model parameters taken straight from studies relevant for the US economy, e.g., labor supply elasticity ϕ
  – labor market tightness θ is set equal to 2/3; using IAB data on vacancies and unemployment from 1975 – 2004, I find θ=1.26 $\approx$**2**$\cdot$2/3
  – $\bar{q}$=M/V=.74 seems low. How are new hires *M* measured?

Role of vacancies

- remains obscure: dynamics of job-openings are not exploited, although "employment dynamics have been driven more by flows out of unemployment (hires) than by flows into unemployment (layoffs)"

- reliable time-series data on job-openings exist for Germany at monthly frequency

- why introduce vacancy-posting-cost-shock? It renders vacancies too volatile

Some Suggestions

- rather than exogenously impose Calvo-price setting, why not try to come up with credible micro-foundation of real-wage rigidity and investigate degree of implied price rigidity, OR

- use DSGE model with detailed labor market and evidence on inflation and several shocks to investigate implied degree of real-wage rigidity