

Can RBC Models Explain the Business Cycles in Korea?

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Abstract

I examine whether an RBC model with a growth shock can generate higher volatility of consumption relative to output and strong negative correlations between output and trade balance and/or output and the real interest rate, phenomena that have been observed in the business cycles of emerging economies including Korea. I calibrate a model based on Korean data for the period 1996 to 2011 and do a Bayesian estimation of the model. The estimation results suggest that the RBC model cannot successfully explain the stylized facts about business cycle in Korea. The results further show that RBC models supplemented with various aspects of financial frictions do not improve the performance of the simple RBC model, either.

JEL classification: E3, O5

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