



Leibniz-Institut für  
Wirtschaftsforschung Halle

# IWH Research Seminar in Economics

Montag, 22. Januar 2018, 14:15 – 15:45 Uhr, Konferenzsaal im Erdgeschoss



## Uncertainty-driven Business Cycles: Assessing the Markup Channel

Professor Dr. Johannes Pfeifer, Universität zu Köln  
(zusammen mit Professor Dr. Benjamin Born, Universität Bonn)

A growing recent literature relies on a precautionary pricing motive embedded in representative agent DSGE models with sticky prices and wages to generate negative output effects of uncertainty shocks. We assess whether this theoretical model channel is consistent with the data. Building a New Keynesian model, we show that indeed with sufficient nominal rigidities markups increase and output falls after uncertainty shocks. The model is also used as a business cycle accounting device to construct aggregate markups from the data. Time-series techniques are employed to study the conditional comovement between markups and output in the data. Consistent with the model's precautionary wage setting, we find that wage markups increase after uncertainty shocks. Price markups in contrast fall. This finding - inconsistent with the model - is corroborated by industry-level data. Overall, these results point to a prominent role for sticky wages in the transmission of uncertainty shocks.

Wissenschaftlicher Ansprechpartner am IWH:

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