

Persistence of Business Cycles in Multisector RBC Models*

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Abstract

In this paper we explore whether the changing composition of output in response to technology shocks can play a significant role in the propagation of shocks over time. For this purpose we study two multisector RBC models, with two and a three sectors. We find that, whereas the two sectors model requires a high intertemporal elasticity of substitution of consumption to match the dynamic properties of the U.S. data, the three sector model has a strong propagation mechanism under conventional parameterizations, as long as the factor intensities in the three sectors are different enough.

Key Words: Real Business Cycles, Persistence

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