TABLE 1

PARAMETERS OF THE STOCHASTIC PROCESSES

FOR BASELINE MODEL[a]

$$\mu_z = 0.00516\ (0.000333),\ \ \sigma_z = 0.0131\ (0.000598)$$

$$\bar{\tau}_l = 0.243\ (0.00199),\ \rho_l = 0.952\ (0.000955),\ \ \sigma_l = 0.0136\ (0.000598)$$

FOR BASELINE MODEL WITH GOVERNMENT CONSUMPTION[b]

$$\bar{g} = 0.17,\ \rho_g = 0.969\ (0.00244),\ \ \sigma_g = 0.0206\ (0.00106)$$

FOR BASELINE MODEL WITH INVESTMENT TAX[c]

$$\bar{\tau}_x = 0.3,\ \rho_x = 0.98,\ \sigma_x = 0.0123\ (0.00146)$$

Note: Parameters were estimated using maximum likelihood with quarterly data on output, hours, investment, and government consumption for the period 1959:1–2004:3. Numbers in parentheses are standard errors. Sources of basic data are the Bureau of Economic Analysis (National Income and Product Accounts) and the Bureaus of Labor Statistics and the Census (Current Population Survey).

[a] Parameters for technology and the labor tax used in our bivariate examples were estimated jointly, holding government consumption and the investment tax constant. For our trivariate examples, we hold estimates of technology and labor tax processes fixed at the values reported in this table and conditionally estimate parameters of either government consumption or the tax on investment.

[b] The parameter $\bar{g}$ was set so that the steady state share of government consumption was 20%.

[c] Parameter $\bar{\tau}_x$ is not identified and was fixed at its reported value. To ensure stationarity of the tax on investment, we had to constrain the parameter ρ_x.