

# Endogenous Money or Sticky Wages?

## (Preliminary)

Guangling “Dave” Liu\*

September 20, 2009

### **Abstract**

This paper attempts to answer a similar question as Ireland (2003) asked: what explains the correlations between nominal and real variables in the postwar US data? More precisely, the present paper aims to investigate whether endogenous money, or sticky wages, or the combination of the two are necessary features in a dynamic New Keynesian model in explaining the correlations between nominal and real variables in the postwar US data. To do so, we estimate a medium-scale dynamic stochastic general equilibrium model of endogenous money. The model is estimated using Bayesian maximum likelihood and compared with a restricted version of the structural model, in which wages are flexible. We conclude that both endogenous money and sticky wages are necessary features in a dynamic New Keynesian model in explaining the variation in key macroeconomic variables, both real and nominal.

*Journal of Economic Literature* Classification:

Keywords: Keywords: Business cycle, Endogenous money; Sticky wages; New Keynesian model; Bayesian analysis.

---

\*Contact Details: Department of Economics, University of Stellenbosch, Stellenbosch, 7602, South Africa. Tel: +27 21 808 2238; fax: +27 21 808 4637. E-mail address: daveliu@sun.ac.za (G. Liu)