

[DOI: 10.20472/IAC.2016.027.003](https://doi.org/10.20472/IAC.2016.027.003)

PAWEŁ BARANOWSKI

University of Lodz, Poland

ZBIGNIEW KUCHTA

University of Lodz, Poland

CHANGES IN NOMINAL RIGIDITIES IN POLAND - A REGIME SWITCHING DSGE PERSPECTIVE

Abstract:

We estimate a dynamic stochastic general equilibrium model that allows for regimes Markov switching (MS-DSGE). Existing MS-DSGE papers for the United States focus on changes in monetary policy or shocks volatility, contributing the debate on the Great Moderation and/or Volcker disinflation. However, Poland which here serves as an example of a transition country, faced a wider range of structural changes, including long disinflation, EU accession or tax changes.

The model identifies high and low rigidity regimes, with the timing consistent with menu cost explanation of nominal rigidities. Estimated timing of the regimes captures the European Union accession and indirect tax changes. The Bayesian model comparison results suggest that model with switching in both analyzed rigidities is strongly favored

by the data in comparison with switching only in prices or in wages. Moreover, we find significant evidence in support of independent Markov chains.

Keywords:

nominal rigidities, Markov switching DSGE models, bayesian model comparison

JEL Classification: C11, E31, J30