Özet / Abstract:

This paper introduces a new internal propagation mechanism into a baseline multi-sector RBC model by focusing on the cross-sectional interdependencies across the population that are generated by the discrepancy between individuals' consumption behavior and their production activities. In the model, there are two types of agents (L and H-skill) who differ in terms of the occupations that they are specialized in and the composition of their consumption baskets. In particular, both types of agents have non-homothetic preferences which induce a strong desire to consume the good that the other type produces. The resulting mechanism, in response to a positive investment shock, works as follows: as H-skill agents are employed in a more capital-intensive sector, their productivities, and so their incomes, initially increase relatively more compared to the L-skill agents. But they spend their additional income mostly on service goods in which Lskill agents are specialized in, so the demand for L-skill labor subsequently increases as well. On the other hand, as their income rises, L-skill agents start consuming relatively more capital intensive goods, which in turn generates additional demand for H-skill labor that is not related to the original technology shock. Consequently, this mechanism feeds into itself and a circular interaction between the two types of agents emerges as a result of the imposed preference structure and the division of labor. I show, through a series of quantitative experiments, that this interaction serves as a very strong internal propagation mechanism that can significantly increase the amplification of exogenous shocks- a long quest in the RBC literature. I also discuss the way the same mechanism gives rise to an endogenous variation in the capital content of the goods consumed over the business cycle and how this endogenous variation generates more persistence in the model.