Accounting for Business Cycles with Wedges

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[Abstract] In this article we aim to shed light upon which classes of models hold most quantitative promise in explaining the Great Recession. We focus on 19 OECD countries and find that most episodes where due to mechanisms that show up as total factor productivity or labor wedge. Focusing on the latter, we provide some results regarding the inability of standard search models to match observed fluctuations in the labor wedge and argue that changes in firms’ markups due to changes in the share of intermediate goods on final production holds quantitative promise.