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Keep in mind

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This paper studies the dynamic response of a few key macroeconomic variables to each one of three exogenous shocks: monetary, government spending and technological shocks. By using a cash in advance model with two market frictions, one in the intermediation of loanable funds, and one in the labor market, we address the ability of the model to simulate data embedded with the same dynamic response to shocks observed in historical data (i.e we estimate dynamic multipliers to exogenous shocks by estimating a VARX model to both sets of data). We find evidence on the short run expansionary effects of monetary policy and we highlight the importance of studyng the real interest rate dynamics as opposed to the nominal interest rate. In terms of the former we do observe a coutercyclical movement of money and interest rates, while in term of the latter, we don't. We also find a good performance of the model in tracing out the dynamic response of output after any one of the three shocks. Investment and employment dynamics are well reproduced when the economy is subject to government spending or technological shocks. We make a case for using this particular validation technique as a complementary alternative for testing the performance of calibrated dynamic general equilibrium models.