An Open Economy DSGE Model Linking the Euro Area and the US economy

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This paper develops an open economy DSGE model with sticky prices and wages linking the euro area and the US. The model is estimated with Bayesian techniques using nine country-specific macroeconomic variables (GDP, CPI, import deflator, real wages, investment and consumption, nominal interest rates, trade balance and employment (or hours worked)) together with the oil price and the euro/dollar exchange rate. The introduction of a complete set of domestic and typical open economy shocks allows for an empirical investigation of their contribution to the business cycle fluctuations in output, trade balance and exchange rate of the euro area and the US economy.