THE INTERNATIONAL DIMENSION OF PRODUCTIVITY AND DEMAND SHOCKS IN THE US ECONOMY

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Abstract
This paper analyzes the cross-country effects of productivity and demand disturbances in the US identified with sign restrictions based on standard theory. Productivity gains in US manufacturing increase US consumption and investment vis-à-vis foreign countries, resulting in a trade deficit and higher international prices of US goods, despite the rise in their supply. Financial adjustment works via a higher global value of US equities, real dollar appreciation, and an expansion of US gross foreign liabilities as well as assets. Positive demand shocks to US manufacturing also increase investment and cause a real dollar appreciation, but have limited effects on the trade balance and net foreign assets. Our findings emphasize the importance for macroeconomic interdependence of endogenous fluctuations in aggregate demand across countries in response to business cycle shocks. (JEL: F32, F41, F42)