Title: Health Shocks in a General Equilibrium Model

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3. Abstract:
This paper presents a dynamic general equilibrium model with a health shock in a multi-sector model. The health shock leads to a reduction in (i) labor supply in sectors that are sensitive to pandemics such as COVID-19, (ii) the demand for products of firms in these sectors, (iii) the willingness of consumers to spend on the products of both sectors, and (iv) the utilization of labor in the pandemic-sensitive sectors. While health shocks have significant supply-side effects on economic activity, the demand-side effects are considerably bigger, particularly for shorter horizons and more rigid prices. Depending on the strength of each effect, the aggregate inflation rate might increase or decrease following the shock. Another important channel through which the health shock impacts economic activity is the reallocation of resources from more susceptible sectors to less susceptible ones.

4. Data description: Model-Based.

5. JEL codes for the project: E31; E32; I10

6. Key-words: Health Shocks, COVID-19, DSGE, Labor Hoarding, Reallocation