STOCHASTIC GROWTH IN THE UNITED STATES AND EURO AREA

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Abstract
This paper estimates, using data from the United States and Euro Area, a two-country stochastic growth model in which both neutral and investment-specific technology shocks are nonstationary but cointegrated across economies. The results point to large and persistent swings in productivity, both favorable and adverse, originating in the US but not transmitted to the EA. More specifically, the results suggest that while the EA missed out on the period of rapid investment-specific technological change enjoyed in the US during the 1990s, it also escaped the stagnation in neutral technological progress that plagued the US in the 1970s. (JEL: E32, F41, F43, O41, O47)