



Research Working Papers

Uncertainty Shocks in a Model of Effective Demand: Reply

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When prices adjust slowly to changing economic conditions, higher uncertainty about the future can cause a recession.

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de Groot, Richter, and Throckmorton (2018) argue that the model in Basu and Bundick (2017) can match the empirical evidence only because the model assumes an asymptote in the economy's response to an uncertainty shock. In this Reply, we provide new results showing that our model's ability to match the data does not rely either on assuming preferences that imply an asymptote nor on a particular value of the intertemporal elasticity of substitution. We demonstrate that shifting to preferences that are not vulnerable to the Comment's critique does not change our previous conclusions about the propagation of uncertainty shocks to macroeconomic outcomes.

JEL Classification: E32, E52

Additional Files

[Data and Code Files \(2018\)](#)

[Data and Code Files \(Updated 2022\)](#)

Article Citations

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Related Research

- "Uncertainty Shocks in a Model of Effective Demand" with Susanto Basu, *Econometrica*, Volume 85, Number 3, May 2017, Pages 937-958. <https://doi.org/10.18651/RWP2014-15>

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