

## MODERATE HISTORY

Posted by CHRISTIAN MUELLER

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Reading today's revised GDP estimate for the fourth quarter 2008 (annualized -6.2 percent) reminds me of the outstanding analysis by Gali and Gambetti. Thanks to these two authors the sudden drop in the growth rate of GDP does not come as a surprise at all. Quite to the contrary, careful reading of the model shows that the great moderation was sure to end: Equation (2) on page 33 has it that the productivity growth rate follows a random walk with drift, and hence its variance increases over time. Since hours worked per capita is subject to upper and lower absolute bounds (and therefore, its variance is finite), we must conjecture that the volatility of GDP growth also increases with time. This is exactly what I observed today.