Discussion of
"Development of MEGA-D: A DSGE Model for Policy Analysis"
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Quantitative Approaches to Monetary Policy in Open
Economies
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Purpose of the Paper

- ▶ Built and estimate a DSGE model for the Peruvian economy.
- ▶ Main elements of the model:
  - ▶ Most of the standard ones: Monopolistic competition in final goods sector, price stickiness, interest rate rules, habits in preferences, foreign block, adjustment costs of investment, etc...
  - ▶ Dollarization
- ▶ Bayesian estimation.

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▶ Arguably, developing economies are different from developed economies.

► Distortions in the labor market:

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▶ How about home production (Parente, Rogerson, Wright (2000))? What is its role in explaining dynamics of durable goods and employment in Peru?

▶ Agriculture? Should we include it separately? What is its share in output/employment? Does it help in explaining business cycles (Da Rocha and Restuccia (2005))?

Dollarization in Some Detail

- ▶ Three types:

    - ▶ Dollarization in transactions.
        - ▶ Monetary aggregate of USD and soles in utility function:

        $$Z_t = \left(\frac{M_t^S}{P_t} \right)^{\delta_d} \left(\frac{S_t M_t^D}{P_t} \right)^{1-\delta_d}$$

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    - Dollarization in price-setting.
        - A fraction δ_P of firms sets prices in soles, the remaining $1 - \delta_P$ in USD.
        - Calvo-pricing for both groups.
        - Endogenous decision?
        - In the data, who are these firms: types of goods, sizes, etc. . . .

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  - Financial Dollarization.
    - A fraction δ^{DF} of firms borrows in USD, remaining in soles.

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- Overall, a *very useful* contribution to the decision making at the BCRP.
- Elements absent in most NK-DSGE useful to describe the Peruvian economy?
- Are we losing something by cutting corners in relevant areas (e.g. the labor market)?