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The Empirical Foundations of Calibration

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Abstract

Interest in simulating recently developed dynamic stochastic general equilibrium models of the economy stimulated a demand for parameters. This has given rise to calibration as advocated by Finn E. Kydland and Edward C. Prescott (1982). This paper explores the implicit assumptions underlying their calibration method. The authors question that there is a ready supply of micro estimates available to calibrate macroeconomic models. Measures of parameter uncertainty and specification

sensitivity should be routinely reported. They propose a more symbiotic role for calibration as providing signals to microeconomists about important gaps in

coverage. When micro estimates are used to calibrate the empirical underpinning, improving the

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