



The Empirical Foundations of Calibration

Lars Peter Hansen

James J. Heckman

JOURNAL OF ECONOMIC PERSPECTIVES

VOL. 10, NO. 1, WINTER 1996

(pp. 87-104)

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Article Information

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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 knowledge, which when filled will solidify the empirical underpinning, improving the credibility of the quantitative output.

Citation

Hansen, Lars Peter, and James J. Heckman. 1996. "The Empirical Foundations of Calibration." *Journal of Economic Perspectives*, 10 (1): 87-104.

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