Estimating nominal and real frictions for Bolivia

Martín Vallejos

Abstract

In a small and open economy, there are several nominal and real frictions that generate distortions in the social-economic welfare function. The objective of the present work is to estimate the duration and magnitude of these rigidities through a DSGE model for the Bolivian economy; then, we analyze the forces and mechanisms that influence on the path of the main variables of interest through the Impulse-Response Function. In this sense, parameters of reaction of the fiscal and monetary sectors to different shocks that appear in the economy are estimated. The main results show that rigidity of wages and prices is an important element in designing economic policies in Bolivia. On the other hand, the shocks analyzed suggest that fiscal and monetary policies must be coordinated for the implementation of their instruments in order to achieve their objectives efficiently and simultaneously.