Long-Term Asset Price Volatility and Macroeconomic Fluctuations

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We analyze a stochastic growth model with lags in the operation of new technologies. Stock values are impacted by news on technological innovations and some other external shocks affecting the economy. We assess the quantitative importance of various macroeconomic variables in accounting for both the observed volatility of stock values and the less pronounced volatility of real macroeconomic aggregates. Our analysis singles out price markups and leverage as key determinants of asset price volatility, and confers a rather limited role to technology shocks, adjustment costs, interest rate policies, input costs, taxes, and labor and financial frictions.

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