Abstract

In this paper, we incorporate endogenous productivity growth a la Romer (1990) in a medium-scale new Keynesian dynamic stochastic general equilibrium (DSGE) model proposed by Smets and Wouters (2007) to decompose the Japanese macroeconomy to business cycles and economic growth after 1980, including bubble burst in 1991, Asian currency crisis in 1997 and Lehman Bro's failure in 2008. Because impulse responses to individual structural shocks measure the effects on her trend as well as her cycles, our model gives different implications of the effects of monetary and fiscal policies from those of standard DSGE models. And we shows factors contributing to huge declines of output in the three economic crises from calculating historical decompositions of the trend.