Trade balance without interest shocks

The trade balance shown in the last panel of Figure 3 in the JME version of "Financial Crises and Labor Market Turbulence" was computed by feeding both TFP and interest shocks into the model whereas, in the text, we describe an experiment with TFP shocks only. (All other variables in the figure were computed as described in the text.) Without interest shocks, the trade balance behaves as shown in the figure below. Consumption does fall during the crisis with TFP shocks only but not enough to move the trade balance into positive territory. With both TFP and interest shocks, the model does predict a trade balance reversal as shown in the working paper version of the paper.

Figure 1: Impact of the worker productivity shock