

Migration in the estimated new Keynesian DSGE model for Armenia and Russia

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Abstract

This paper develops DSGE model for Armenia and Russia allowing the Armenian household to supply labor both domestically and abroad. Paper models migration cost arising in a reallocation process of labor, which is absent in a basic New Keynesian framework. Russian migration policy is also taken into account during the construction of the model. The model is estimated by Bayesian technique using 22 time series of Armenian and Russian variables and 22 structural shocks.

The estimation shows that the model reproduces Armenian and Russian data. Estimated structural shocks are supported by stylized facts and historical events. The model is able to generate real remittances data and represent Russian migration policy. Historical stimulations show that the estimated model predicts quite well the observed moments of the business cycle. The paper also discusses the transmission mechanism of different structural shocks on the migration and real remittances.

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