Econometrica Supplementary Material

SUPPLEMENT TO "THE IMPACT OF UNCERTAINTY SHOCKS"
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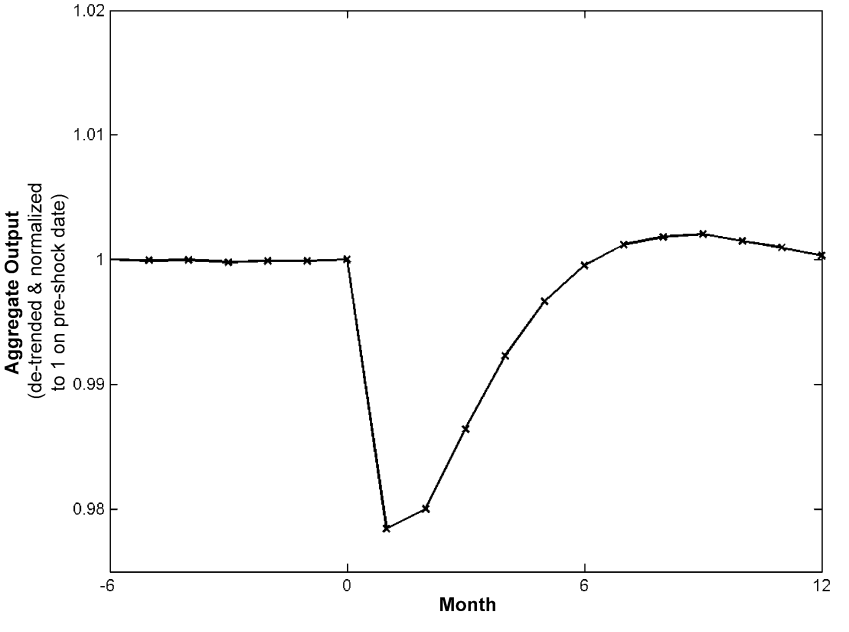

FIGURE S1.—Simulation with a stationary autoregressive demand process. *Notes*: Simulations run on 1000 units. This is repeated 10,000 times with the average plotted here. All micro and macro shocks drawn randomly except at month 0, when all simulations have σ_t set to σ_H. Adjustment costs for capital are taken from the All values in Table III. No adjustment costs for labor. Business conditions ($A_{i,j,t}$), follow a stationary autoregressive process, $A_{i,j,t} = \rho A_{i,j,t-1} + v_t$ where $v_t \sim N(0, \sigma_{t-1})$. Following Cooper and Haltiwanger (2006), set monthly $\rho = 0.885^{1/12}$. The month is normalized to zero at the date of the uncertainty shock. Full program available at http://www.stanford.edu/~nbloom/.

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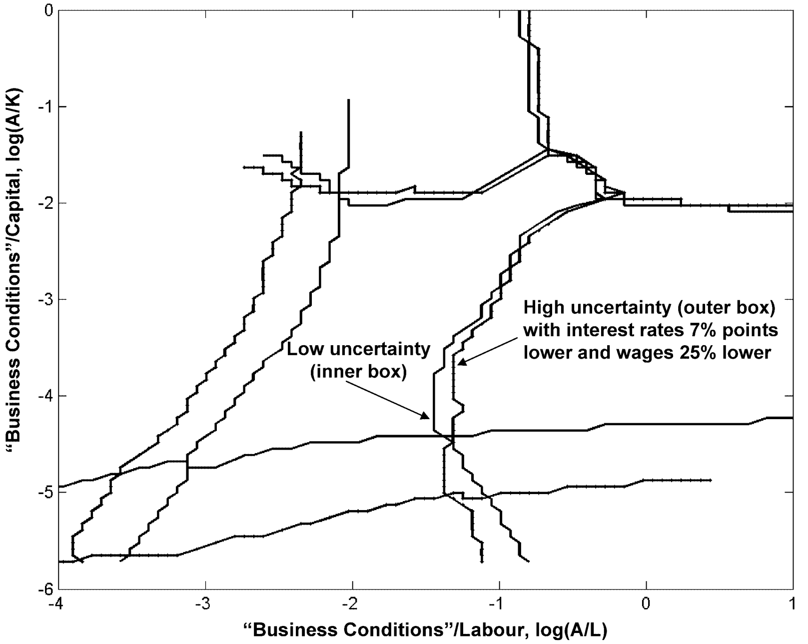

FIGURE S2.—Quantifying the size of the real-options effect. *Notes*: Simulated thresholds using the adjustment cost estimates All in Table III. At $\sigma_t = \sigma_H$ interest rates are 7% points (700 basis points) lower and wages 25% lower, to quantify the approximate size of the short-run rise in uncertainty. All other parameters and assumptions as outlined in Sections 3 and 4.

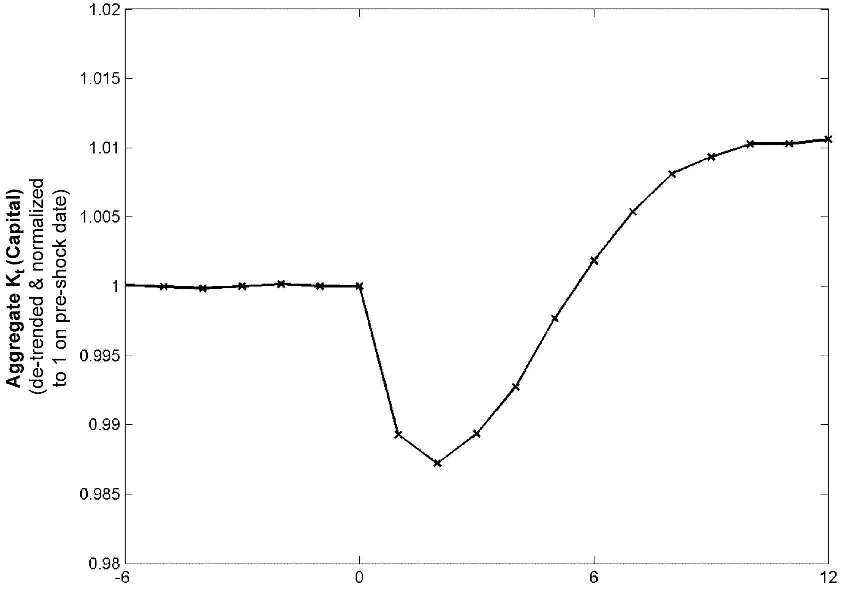

FIGURE S3.—Aggregate (detrended) capital drops, rebounds, and overshoots. *Notes*: Simulations run on 1000 units. This is repeated 25,000 times with the average plotted here. All micro and macro shocks drawn randomly except at month 0, when all simulations have σ_t set to σ_H. Adjustment costs are taken from the All values in Table III. All other parameters and assumptions as outlined in Sections 3 and 4. The aggregate figures for K_t are calculated by summing up across all units within the simulation. They are detrended by removing their long-run growth rate. The month is normalized to zero at the date of the uncertainty shock.

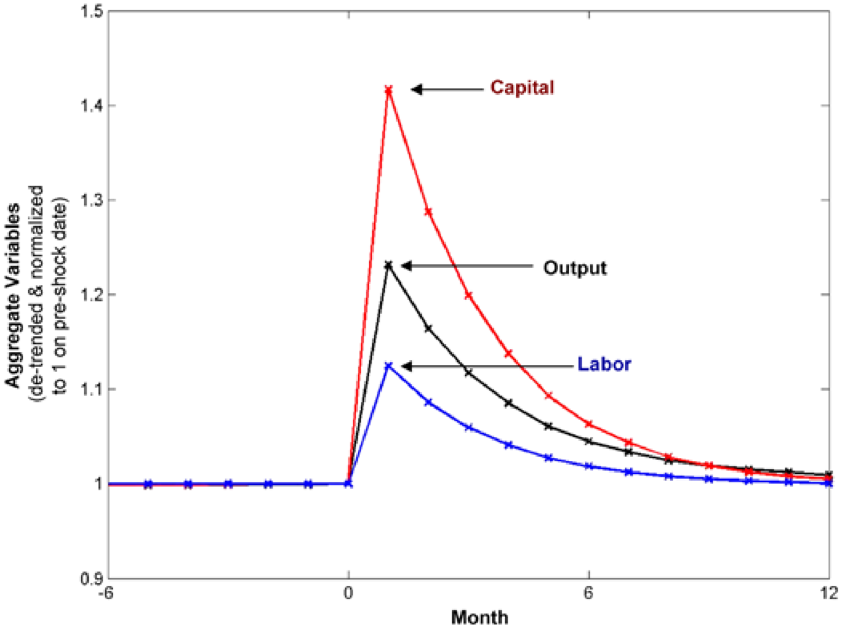

FIGURE S4.—Impact of pseudo-GE price changes without adjustment costs. *Notes*: Simulation run on 1,000 units. This is repeated 25,000 times with the average plotted here. All micro and macro shocks drawn randomly except at month 0, when all simulations have σ_t set to σ_H. All adjustment costs are set to zero. All other parameters taken from the estimated All column in Table III and as outlined in Sections 3 and 4. The simulation is Pseudo-GE, so interest rates, prices and wages are 1.1% points, 0.5%, and 0.3% lower during periods of high uncertainty. All series are detrended by removing their long-run growth rate. The month is normalized to zero at the uncertainty shock.

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