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A menu on output gap estimation methods

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Abstract: This paper presents a review of output gap modeling techniques, which are of special interest for policy making institutions. We distinguish between univariate -which estimate trend output on the basis of actual output, without taking into account the information contained in other variables-, and multivariate methods -which incorporate useful information on some other variables, based on economic theory. We present the main advantages and drawbacks of the different methods.

Keywords: output gap, potential output, business cycle, trend output.

JEL codes: E32, O4.

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