

## The Uncertainty Multiplier and Business Cycles

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# The Uncertainty Multiplier and Business Cycles

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## Abstract

I study a business cycle model where agents learn about the fundamentals by accumulating capital. During recessions, agents invest less, and this generates noisier estimates of macroeconomic conditions and an increase in uncertainty. The endogenous increase in aggregate uncertainty further reduces economic activity and thus gives rise to a multiplier effect that amplifies aggregate fluctuations. To discipline learning dynamics, I parametrize the model so that it matches not only standard business cycle moments but also survey data on macroeconomic forecasts. I find that the uncertainty multiplier amplifies output standard deviation by 16%.

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