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What's so great about the Great Moderation?

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Highlights

Changes in volatility for output growth and inflation are examined over a long period for eight countries and found robust to a variety of different econometric methods.

Volatility typically falls during the Great Moderation and eventually reaches a sample minimum, however, these reductions in volatility pale in comparison with stability gains achieved during two other periods.

During the Postwar Moderation, which begins near the end of World War II, the decline in volatility is impressive and volatility is often at or very near its lowest level up to that point in a sample.

A second fall in volatility occurs for inflation during the 1920s, and in nearly all cases the decline in volatility exceeds that of the Great Moderation.

Implementation of a broad-based fixed exchange rate system is associated with a substantial reduction in macroeconomic volatility.

Changes in volatility for each variable are primarily driven by a fundamentally different type of disturbance.

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