

## **Bayesian Comparison of the Classical Gold Standard and the Great Moderation**

**Authors:** Gabriel Flagan, James R. Lothian and Paul D. McNelis

**Abstract:** Drawing on research about the sources of the Great Moderation, this paper investigates the extent to which the high macroeconomic volatility experienced in the classical Gold-Standard era of US history can be attributed to the monetary policy regime per se as distinct from other shocks. For this purpose, we estimate a small Dynamic Stochastic General Equilibrium model for the classical Gold-Standard and Great-Moderation eras. We use this model to investigate how a Taylor rule characterizing the Great-Moderation data would have led to different outcomes for macroeconomic volatility and welfare in the Gold-Standard era. We find that the counterfactual Taylor rule reduces inflation volatility but does not improve welfare.