Technology, Employment, and the Oil-Countries' Business Cycle*

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Abstract

On the ground of the significance and potential dual-nature of oil-price shocks— they may act simultaneously like pure technology and pure expenditure shocks—in the context of the oil-countries—net oil-exporters with a substantial share of oil-income on their total export- and/or fiscal-income—, the paper questions the validity in such context of Gal´ı (1999)'s influential methodology for evaluating—so far, negatively— the empirical merits of the standard Real Business Cycle Model, and introduces an oil-price extended version of it aimed to restore such validity by disentangling oil-price shocks from the rest of shocks. The comparison of the results from the application of both methodologies to Norway, Mexico, Russia, Trinidad&Tobago and Venezuela, besides supporting the dual-nature hypothesis and the necessity of such disentangling, proves the latter to be instrumental to get results consistent with Gal´ı (1999)'s. Additionally, the paper unveil some startling facts about the effects of oil–price shocks in this context—remarkably, the prevalence of their technological-nature when oil-income has a higher weight on export— than on fiscal-income, and of their expenditure-nature otherwise—and shed some light on the influence of institutional reform on such effects.

Keywords: SVAR; identifying restrictions; small open economies; oil economies; dutch disease; resource curse.

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