

CEE questions, continued (10/14)

- The alternative shock measures are poorly correlated. (Figure 1) Doesn't this indicate that at least two of them are seriously wrong?
- What happens if you put output or prices after ff in the orthogonalization?
- What is the "price puzzle", how is it resolved?
- What happens if you follow Friedman and use M aggregates as the shock?
- What happens if you use fed funds futures to define the expected change in Fed funds rate
- What do we learn from subsamples?
- Do monetary policy shocks account for much variation in output? In inflation?
A: p. 50 Tables missing, but report 21%, 44%, 38% of output variance at 4, 8 12 quarter horizon from ff shocks, but only 7%, 10% 8% using NBR. Very small for prices no matter what.
- Is the variance decomposition the right way to answer the question "how much of recessions and inflation are the Fed's fault?" question? Why or why not?
- If you look at the fed funds *rule* in a VAR (the equation $ff_t = b' \text{stuff}_{t-1} + \varepsilon_t$) it looks completely nuts. The Fed responds marginally at t to the 11th lag of output – or ff, or m!?!? Isn't this a big problem?

Questions on Cochrane and Piazzesi, "The Fed and Interest Rates – A High-Frequency Identification"

- What's the point of Figure 1?
- Figure 2?
- Figure 3?
- Figure 4?

Questions on Cochrane, "What do the VARs mean?"

- Look at the M2 responses. How might we avoid the implication that a model needs to generate the long drawn out response of output to a shock?

- Why go through all this algebra rather than just estimate the ‘structural’ models directly?
- Suppose you run a old fashioned dynamic simulation,

$$y_t = a_1y_{t-1} + a_2y_{t-2} + \dots + b_0m_t + b_1m_{t-1} + \dots + \varepsilon_{yt}$$

then compute the response of y to an m shock. Can this recover something interesting? How is this related to the impulse response function?

- Confining yourself to the anticipated/unanticipated model, which view does the data say is right?
- Does assuming more price stickiness in your model make you think monetary policy has *longer* or *shorter* effects?
- Why do the output and price lines in the sticky price models seem to move before the shocks?

Questions on Romer and Romer

- What does their reading of the FOMC minutes say about the Greenbook forecasts?
- Admitting that some regression errors are not completely random shocks, what property do they think such errors need to have to be valid in impulse response functions?
- What kind of events do they think cause valid shocks in the data?
- What kind of events do they think cause bad shocks in the data, and what do they do to avoid them?

Questions on Cochrane, Comments on Romer and Romer

- Do I think that some ff movements are ok as shocks, even if taken totally predictably in response to an observed event?
- Somehow, I seem to avoid running the whole VAR. By what magic can I get a shock series with no lags of y , p , M , $pcom$, etc. as in CEE?
- Suppose you have a time series of shocks and an output series, but no other data. Can you find the impulse response function given you can’t run the whole VAR?

More questions

- I’m going to end with a list of things that bother me about VARs, issues we have not satisfactorily resolved, and “paper topics” on what to do next. Come prepared with an item to add to this list.