Discussion of "A New Identification of Fiscal Shocks Based On The Information Flow"

by G. Ricco

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[1]Usual disclaimers apply

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- Estimate a Large Information Bayesian VAR (similar to Ellahie and Ricco 2012)
- Results: misexpected shocks have contractionary effects, unexpected and expected fiscal shocks have expansionary effects

Road map

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- Interpreting estimation results in the light of theory: some caveats

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- $n_t(1,3)$ provides useful info about fiscal policy actions: forecasters' revisions can reveal the "true" shock

News, SPF forecasts revisions and fiscal shocks: this paper

- Exploit limited information of SPF respondents (2-period lag):

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$$= (\Delta g_t - \Delta g_{t|t}^e) + (\Delta g_{t|t}^e - \Delta g_{t|t-1}^e) + (\Delta g_{t|t-1}^e - \Delta g_{t|t-2}^e)$$

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- **Systematic comparison of $(\Delta g^e_{t|t} - \Delta g^e_{t|t-1})$ and $(\Delta g^e_{t|t-1} - \Delta g^e_{t|t-2})$? Is there a systematic difference in the informational content of the two objects?**

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- **Bottom line: individual data seem to avoid aggregation bias, but how large is the improvement?**

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- **Ordering of $N_t(0)$ and M_t: M_t does not respond to anything, as it $\notin I_t$. So why second?**
- **Question: what about shocks orthogonality? Test only says shocks are shocks, i.e. unpredictable (as opposed to news). But are they correlated to each other? Especially news and forecast revisions shocks?**

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- **Expected vs unexpected shocks: similar effects, different interpretation?**

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- 2. No control for how $\uparrow G$ increase is financed, except that tax rates are included. Expectations do matter, also for tax changes. Combine this approach with e.g Mertens and Ravn (2011), construct empirical measure of what agents expect to be the fiscal "plan" rather than shock (see Alesina, Favero and Giavazzi 2013)

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- Conclusion: hard to reconcile empirical evidence with theory. Wealth effect depends on how the shock is financed and whether it is perceived permanent or transitory. Paper finds neoclassical-like effects in the case in which expectations cannot really influence the responses. Puzzle?

Thanks