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

by G. Ricco

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Banca d’Italia

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1Usual disclaimers apply
Overview

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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

- Fiscal shocks, fiscal foresight and measurement of news: this paper and the literature
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- Large Information Fiscal Expectational VAR (LIFE-VAR) estimation: identification, results
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- Large Information Fiscal Expectational VAR (LIFE-VAR) estimation: identification, results
- Interpreting estimation results in the light of theory: some caveats
Fiscal shocks, news and fiscal foresight

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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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- **Systematic comparison of** \( (\Delta g_{t|t} - \Delta g_{t|t-1}) \) and \( (\Delta g_{t|t-1} - \Delta g_{t|t-2}) \)? 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?**
Concluding remarks

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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