

Measuring the effects of Fiscal policy: theory and evidence
UPF Spring 2009
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Homework 1

Take quarterly data for output (Y), consumption (C), investment(I), hours (employment) (N), real wages (W), real exchange rate (REE) and the trade balance (TB), government expenditure (G) and government revenues (T) of your favorite country (go to OECD or IMF data bases) for as long period as you can (one country per group).

Using the programs I have posted examine the response of C, I, N, W, Y, REE, TB) over two subsamples to expenditure increases and revenues cuts shocks identified using Blanchard and Perotti scheme or sign restrictions. In the latter case, use the restriction that output and the deficit would increase in response to each of the impulses. You are free to choose how many horizons you want to restrict and the exact dates where you want to break the sample. You must jointly identify the shocks.

Since running a VAR with 9 variables is complicated run sub-models where output, and government variables are always present and in turn you add two other variables.

I want to report to me a couple of graphs for each identification scheme where you show me the responses across subsamples and a couple of pages describing the assumptions you have made and of comments of the results (Max size of the report: 4 pages). Groups can work together on the programs, but reports are to be done independently by group. Keep the programs and clearly document them - I will ask you at the end of the course for them.