The following problem set is designed to get you familiarized with the monetary VAR literature. In particular, the exercise simply consists in replicating the impulse responses in the Christinano, Eichenbaum and Evans (1997) EER article that you have already seen in Professor Salyer’s class for the original sample and with the larger sample of data that is available today.

Here are the steps you need to take:

1. Read the article carefully to make sure that you obtain the appropriate data and that it is transformed as it is done in the article. Most of the data is available through the HAVER database or through the St. Louis FRED web-site. Some of the variables may be harder to come by (for example, sensitive commodities prices). In that case, use a proxy for it, such as the CPI index for energy. If you have a hard time finding intermediate goods prices, you may use PPI data, and so on. You catch my drift.

2. There are really two VARs that you need to estimate. The first is the CEE VAR, which is identified recursively with the usual Cholesky decomposition given the order of the variables in the paper. The second is the SZ VAR, whose identification is not recursive but can easily be done in EViews (be sure to read the manual, it is easier than you think) given the description in Appendix B.

3. As in any analysis, the first thing you should do is to make sure that you replicate figure 1 in the paper and that your impulse responses match those reported.

4. Once you do this, use the sample with data running until today. Do the conclusions found in 1997 still hold?

5. For those who are more ambitious: Use the impulse-response GAUSS program that is available from my web-site. Choose the lag length for the system using the AICC criterion and then check to see if you can replicate the results you obtained in EViews. For the SZ VAR, you can input the matrix “bet0” by hand from the EViews estimation output. Are there any differences from between the usual impulse responses and the linear and cubic projections? Feel free to experiment.

6. In light of this little extension, comment on whether the main conclusions have been altered due to your findings. If they have, comment on the consequences.

You may do this exercise in groups of at most three. Please, spend time thinking about the problem and MINIMIZE the output that you return to me. I would advise that those less experienced in GAUSS and EViews (such as those that did not take my time series class) pair up with more experienced students (such as those that did take my time series class). Do not waste time getting stuck –talk to me before spending too much time.