VOLATILITY FINANCIAL CONDITIONS INDEX (VFCI) AND THE BUSINESS CYLCE

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REPLICATION OF "BUSINESS CYCLE ANATOMY"

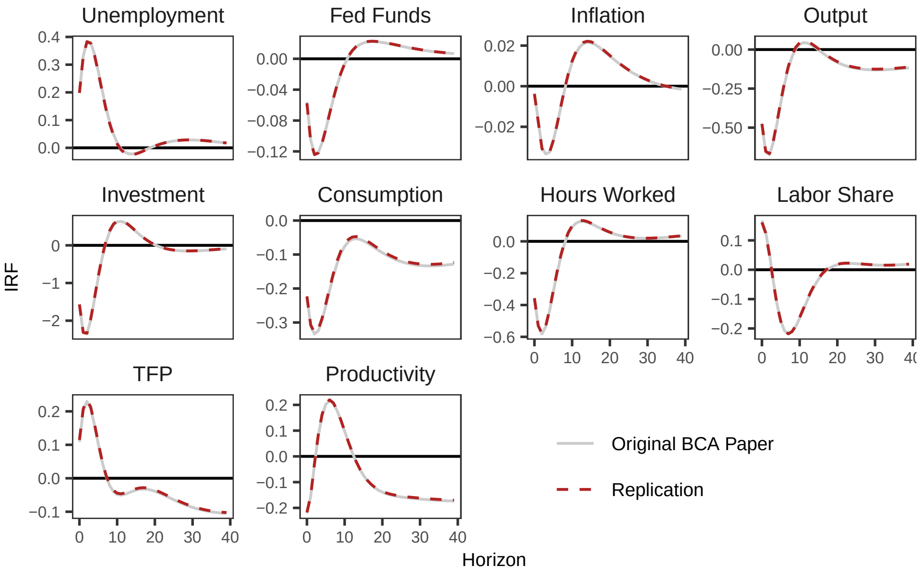
Large VAR with 10 variables

Identification scheme:

Choose the linear combination of empirical shocks that explains the most forecast error variance in a target variable, at a target frequency.

In particular, Angeletos et al. choose to target unemployment at the "business cycle frequency" of $\frac{2\pi}{32}$ to $\frac{2\pi}{6}$, which matches a period of 6 to 32 quarters.

REPLICATION OF "BUSINESS CYCLE ANATOMY"



VOLATILITY FINANCIAL CONDITIONS INDEX (VFCI)

Fincncial Conditions Indexes usually lack theoretical underpinnings.

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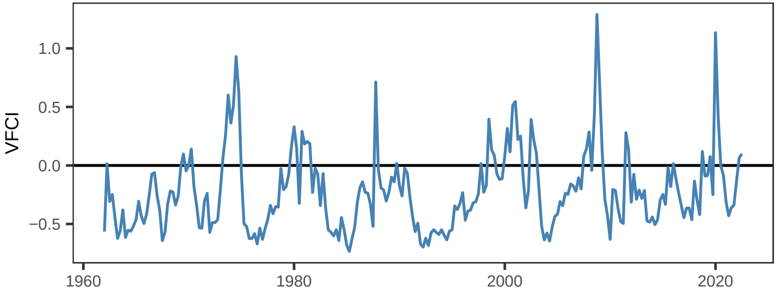
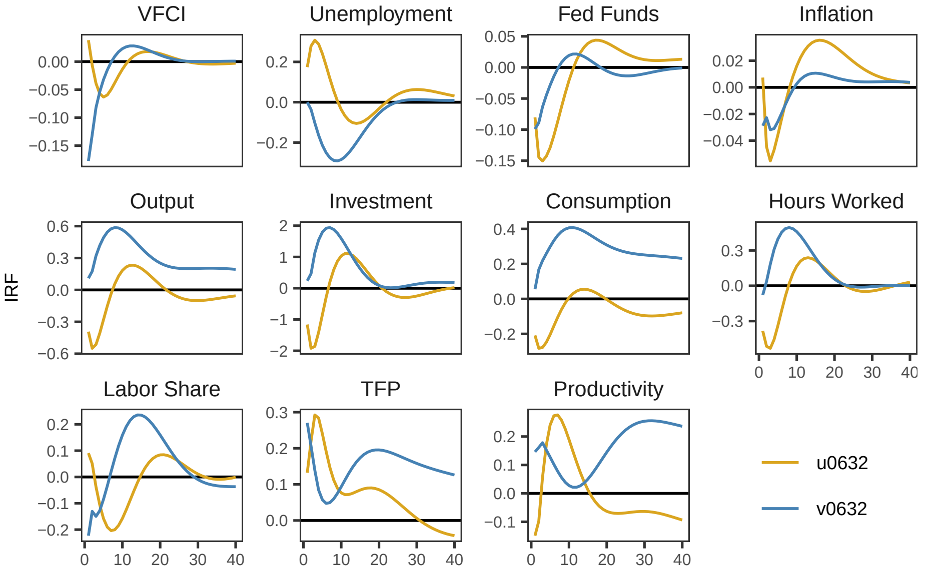
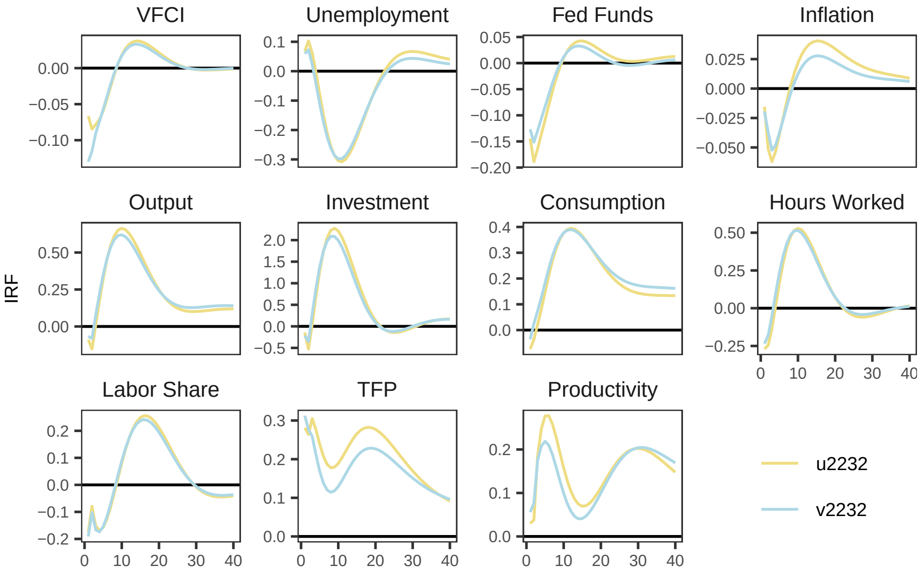


RESULTS 1 - BOTH TARGET BC (6 - 32 Q)

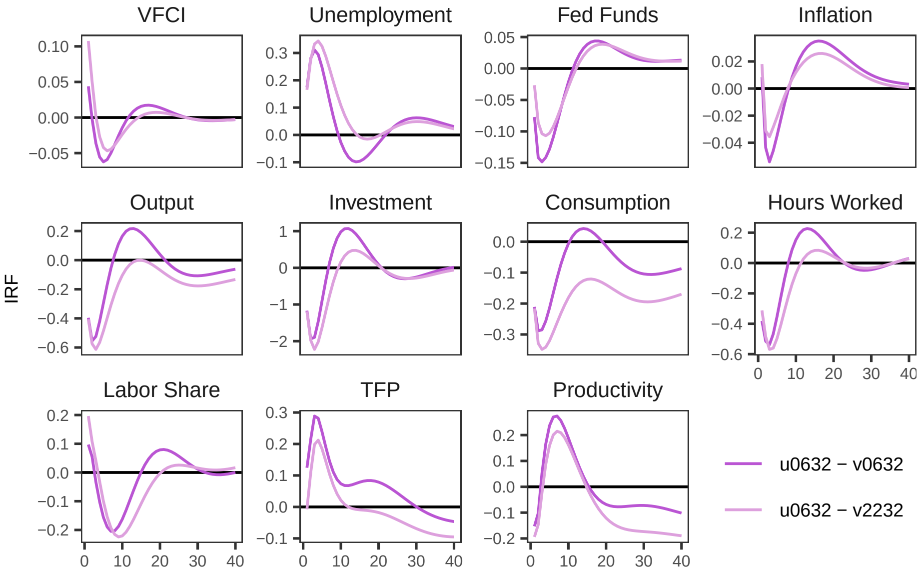


▸ Differences ▸ First Differences

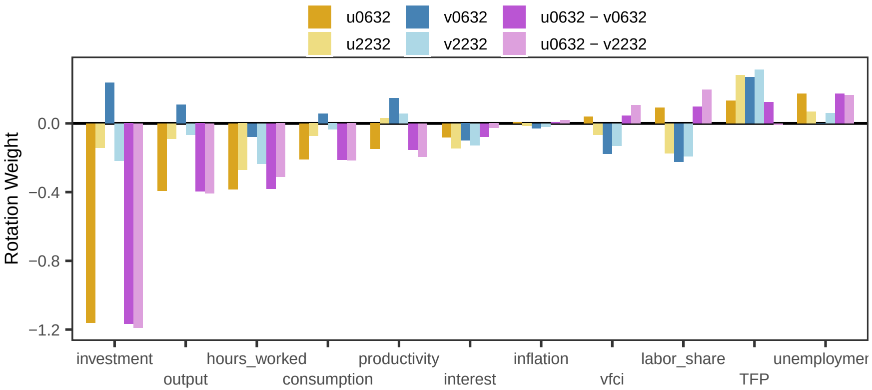
RESULTS 2 - BOTH TARGET 22 - 32 Q



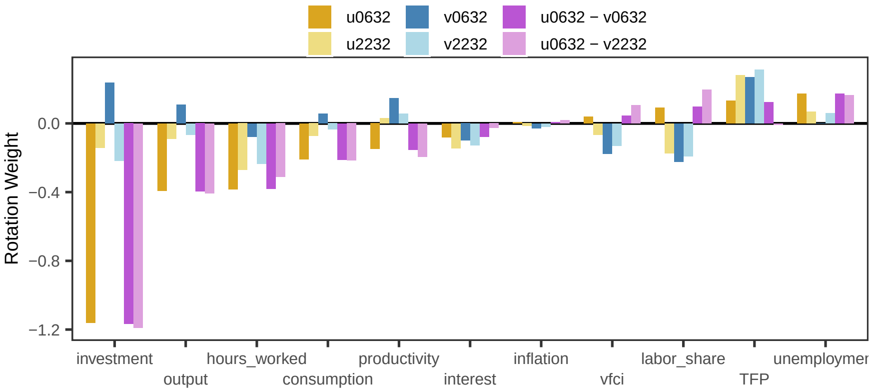
RESULTS 3 - RESIDUAL OF MBC



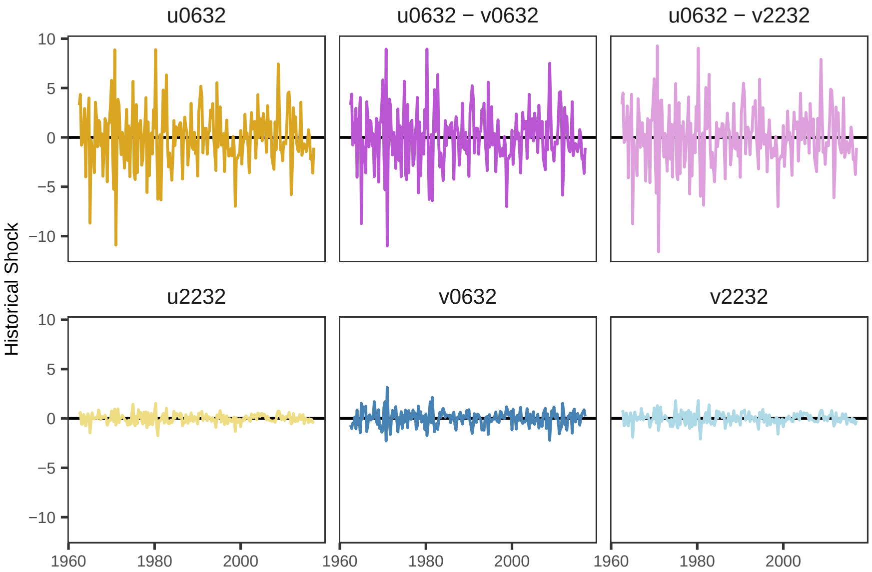
ROTATION WEIGHTS



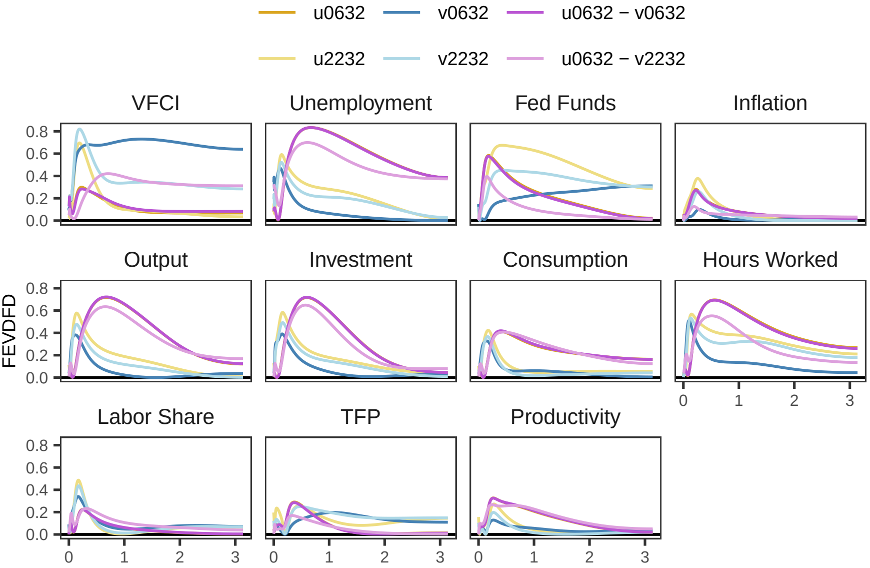
EMPIRICAL SHOCK WEIGHTS



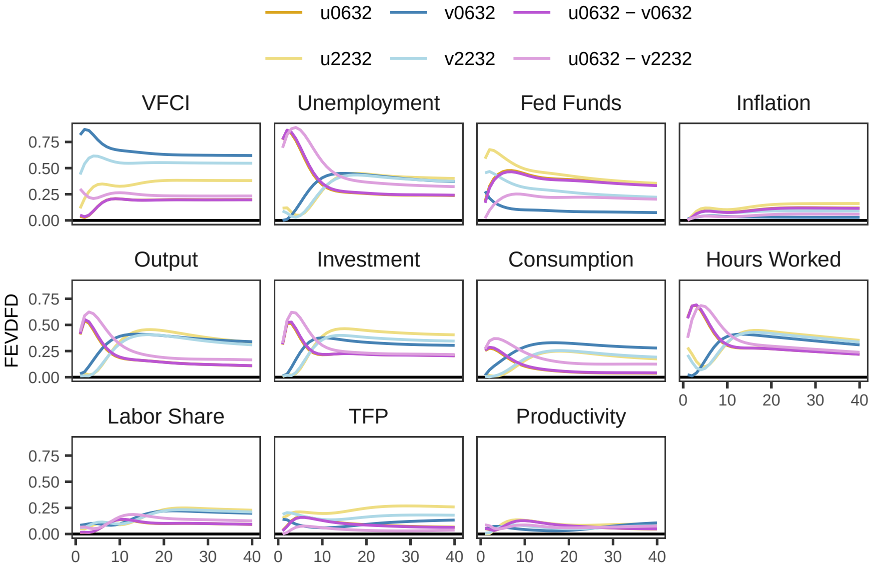
OTHER - HISTORICAL SHOCKS



OTHER - FEVDFD



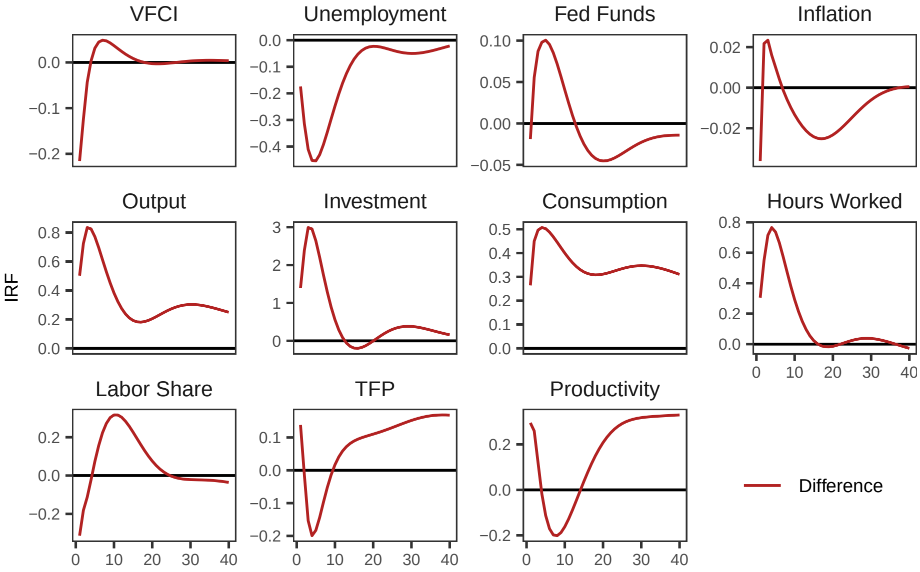
OTHER - FEVD



u0632
v0632
u0632 − v0632
u2232
v2232
u0632 − v2232
VFCI
Unemployment
Fed Funds
Inflation
Output
Investment
Consumption
Hours Worked
Labor Share
TFP
Productivity
FEVDFD
0.75
0.50
0.25
0.00
0
10
20
30
40

APPENDIX

VFCI AND U, 6 - 32 Q, DIFFERENCES



BCA MBC

VFCI AND U, 6 - 32 Q, FIRST DIFFERENCES