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## identification of Taylor rules

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**Martin S Eichenbaum** <eich@northwestern.edu>**Thu, Dec 1, 2011 at 6:18 PM**

To: David Backus &lt;dbackus@stern.nyu.edu&gt;

Hi Dave,

I pointed out to John that the Taylor rule is obviously not identified if you allow for arbitrary serial correlation in the error term. Like all GE models, identification ultimately relies on exclusion restrictions to preference and technology.

As an aside, if the Taylor has an  $E(t)$  of future inflation in it, estimation and identification is a standard GMM problem. Of course if the error term to the rule has arbitrary serial correlation then you are cooked. Just like an Euler equation estimation is standard asset pricing exercises.

There's just nothing special here about identification. John writes as if the issues are special to Taylor rules or NK models. But they're not. Identification is always hard in GE models.

Hope all is well.

Marty

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