Identifying Taylor rules in macro-finance models*

David Backus, † Mikhail Chernov, ‡ and Stanley Zin §

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[†] Stern School of Business, New York University, and NBER; david.backus@nyu.edu.

[‡] Anderson School of Management, UCLA, and CEPR; mikhail.chernov@anderson.ucla.edu.

[§] Stern School of Business, New York University, and NBER; stan.zin@nyu.edu.

Abstract

Identification problems arise naturally in forward-looking models when agents observe more than economists. We illustrate the problem in several macrofinance models with Taylor rules. Identification of the rule's parameters requires restrictions on the form of the policy shock. We show how such restrictions work when we observe the state of the economy directly or infer it from observable macro variables or asset prices.