Sign and Zero Restrictions: Optimism Shock on the Australian Business Cycle

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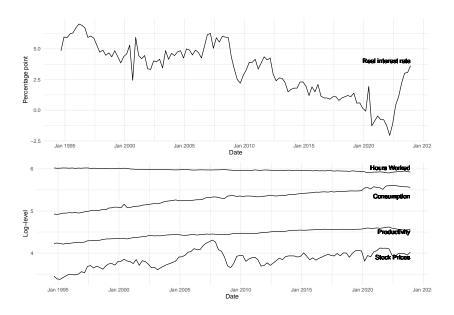
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Kitty!



Figure 1: Hunting!

Data



Optimism shock

- Zero impact on productivity
- Positively affects stock prices

 u_t reduced-form errors, ε_t structural shocks, * = no restrictions

Extension

- Narrative restriction by Antolín-Díaz and Rubio-Ramírez (2018)
- Restriction on sign of structural shocks
- Covid-19 is a negative optimism shock

$$\varepsilon_{2020Q1}^{\mathrm{optimism}} < 0$$

Result

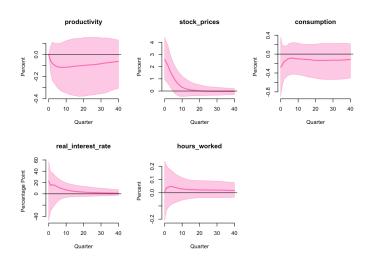


Figure 2: Australian optimism shock impulse responses (68% interval)

Best thing!

► Stealing other people's code



Figure 3: Swamp puppy!

References

Antolín-Díaz, Juan, and Juan F Rubio-Ramírez. 2018. "Narrative Sign Restrictions for SVARs." *American Economic Review* 108 (10): 2802–29.