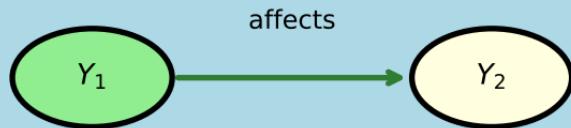


Cholesky Ordering: Order Matters!

Ordering 1: Y_1 first



Y_1 can affect Y_2 contemporaneously

Ordering 2: Y_2 first



Y_2 can affect Y_1 contemporaneously

Key Points:

- Different orderings give DIFFERENT IRFs!
- Ordering should be based on economic theory
- "Fast-moving" variables should come first