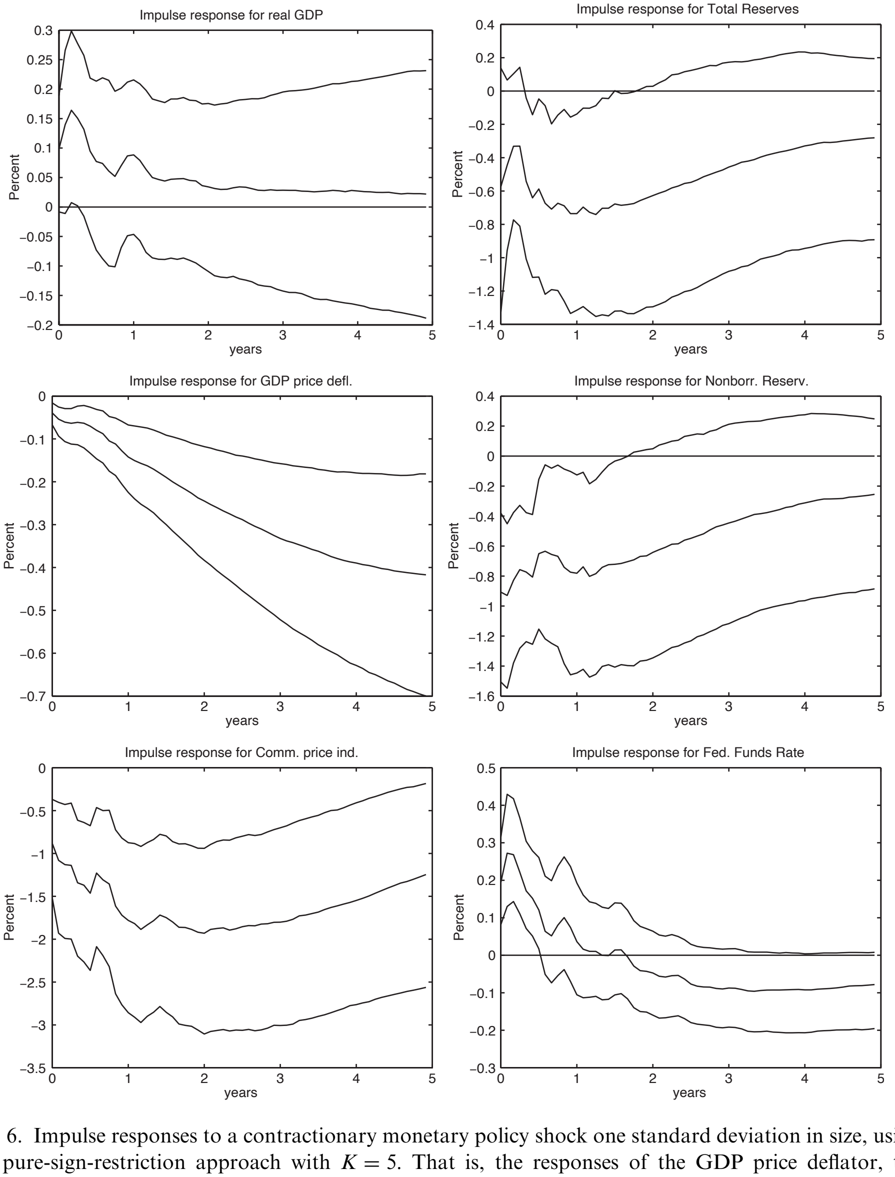

Fig. 6. Impulse responses to a contractionary monetary policy shock one standard deviation in size, using the pure-sign-restriction approach with $K = 5$. That is, the responses of the GDP price deflator, the commodity price index and nonborrowed reserves have been restricted not to be positive and the federal funds rate not to be negative for months $k, k = 0, \ldots, 5$ after the shock. The error band for the real GDP impulse response is a ± 0.2 interval around zero: while consistent with the textbook view of declining output after a monetary policy shock, it is also consistent with e.g. monetary neutrality.

quickly than the GDP deflator, since commodities are traded on markets with very flexible prices. As for reserves and interest rates, note that these impulse responses contain the endogenous reaction of monetary policy to its own shocks. The federal