An IV framework for combining sign and long-run parametric restrictions in SVARs

Hyeon-seung Huh
Yonsei University,Republic of Korea (South Korea)
hshuh@yonsei.ac.kr

Abstract:

This paper develops a method to impose a long-run restriction in an instrumental variables (IV) framework in a SVAR which is comprised of both I(1) and I(0) variables when the shock associated with one of the I(0) variables is made transitory. This is the identification which is utilized in the small open economy SVAR that we take from the literature. The method is combined with a recently developed sign restrictions approach which can be applied in an IV setting. We then consider an alternate identification in this SVAR which makes the shocks associated with all of the I(0) variables transitory. In this case, we show that another method can be used to impose the long-run restrictions. The results from both methods are reported for the SVARs estimated with Canadian data.

Keywords: sign restrictions, long-run parametric restrictions, IV estimation, algorithms, generated coefficients, small open economy, Canada

JEL Codes: C32, C36, C51, F41