Discussion of

What's News in International Business Cycles?

by D. Siena

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[1]The views expressed here are solely those of the author and should not be taken to represent those of the Bank of England.

This paper: 1-Minute Summary

- This paper studies 'news' shocks as a source of international business cycle fluctuations
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- Makes several interesting points...
- **Closed economy SVAR models with identified news shocks might be subject to 'international non-fundamentalness'**
  - True for euro area and Canada, not for the US

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- Makes several interesting points...
- **Foreign news shocks in open economy VARs generate comovement in real variables**
  - Like output, consumption and investment. But...
  - ... these foreign news shocks account for little variation of domestic variables

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- This paper studies 'news' shocks as a source of international business cycle fluctuations
- Makes several interesting points...
- **International business cycle model with complete markets can explain the VAR evidence ...**
  - ... if augmented with adj costs on investment and Jaimovich-Rebelo preferences

My Remaining 4-Minutes Discussion

- Can't do justice to the paper in my 4 remaining minutes...

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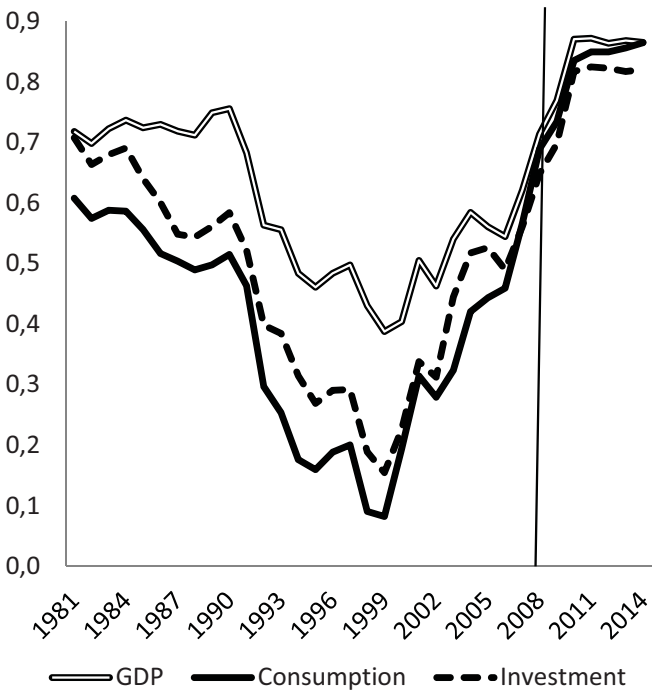
- Plan
  1. The "Motivation Disconnnect"
     1.1 Interlude
  2. Dynamics in VAR-X models

The "Motivation Disconnect"



(a) USA

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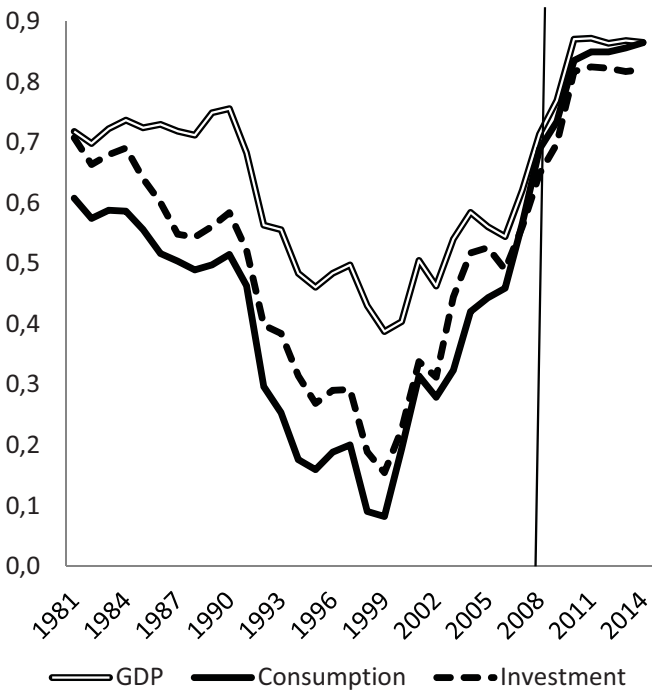

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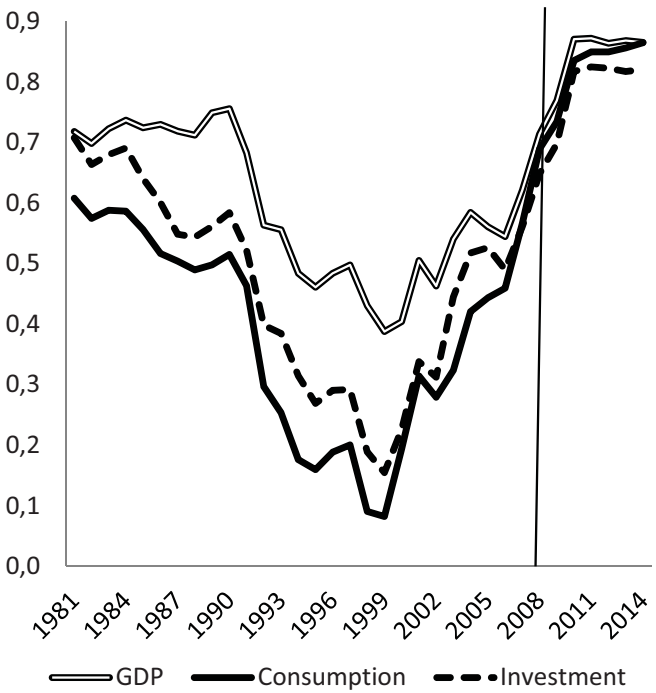

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  - But the subsequent increase in synchronization goes against this conjecture

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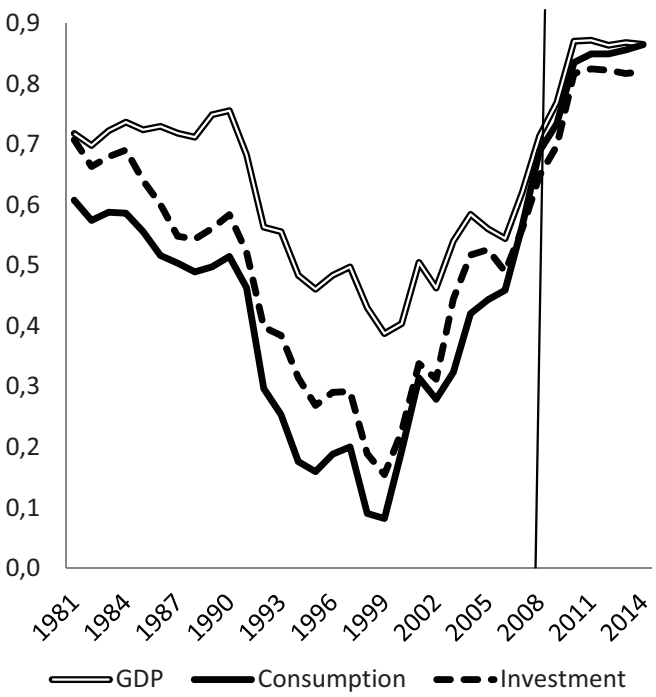

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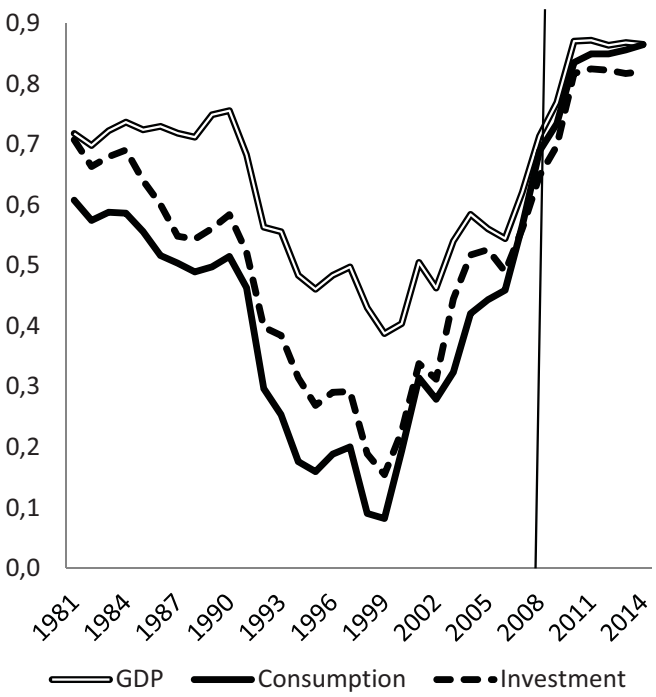

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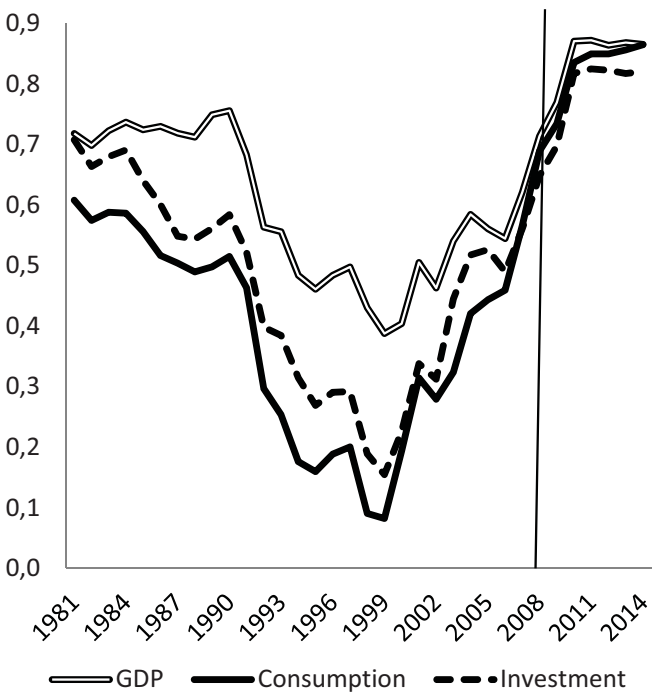

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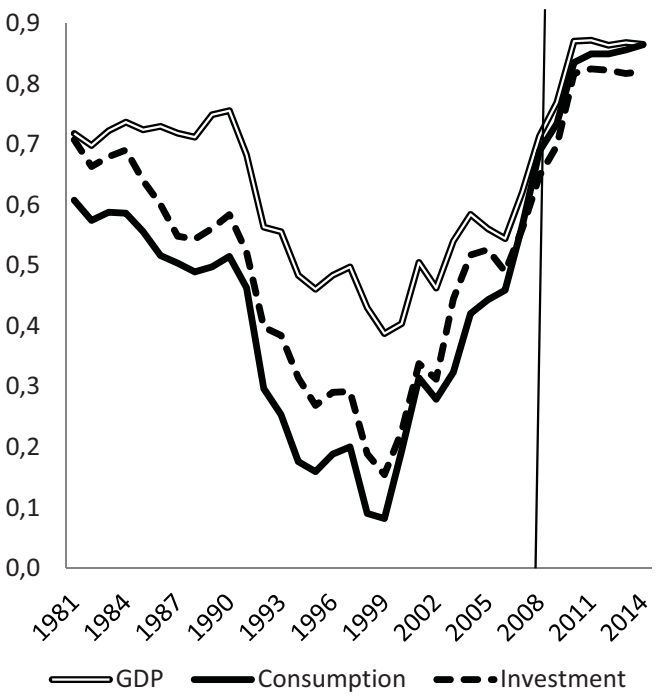

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  1. Pre-2000s: fin. integration $\uparrow \Rightarrow$ Synch $\downarrow$
  2. Post-2000s: news shocks $\uparrow \Rightarrow$ Synch $\uparrow$
- But does it mean that new shocks were not present in the 1990s? Or is the story different?

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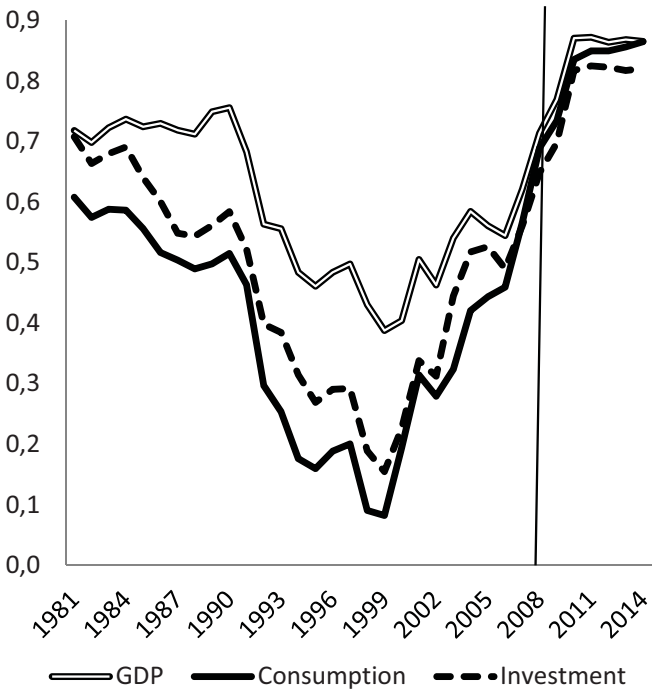

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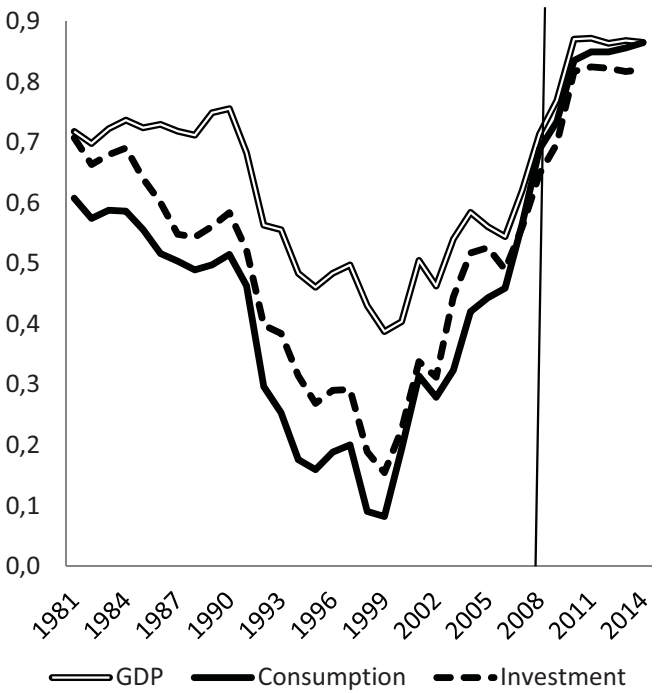

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- ...but never gets back to the issue of the (spectacularly) V-shaped behaviour of synchronization it begins with

Interlude: an Alternative View of the Time Variation in Synchronization

- An increase in the variance of common shocks maps directly into an increase in measured correlation between the variables that load on the common factor (Forbes and Rigobon, 2003)

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  - Low when computed over Great Moderation period (small, idiosyncratic shocks)
  - High again when sample includes the global financial crisis (high global shocks again)

Dynamics in VAR-X models

- Paper reports impulse responses (IRFs) of euro area and Canada variables to a US news shock
- There are no equations, but I believe the model is

$$X_{i,t} = F_i X_{i,t-1} + B\varepsilon_{i,t} + \lambda_i \varepsilon^{news}_{US,t}$$

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$$X_{i,t} = F_i X_{i,t-1} + B\varepsilon_{i,t} + \lambda_i \varepsilon^{news}_{US,t}$$

- And IRFs (dynamic multipliers) are computed as

$$IR_{i,0} = \lambda_i$$
$$IR_{i,h} = F_i \cdot IR_{i,h-1} \quad \text{for } h = 1, ..., H$$

- If that's true, then you might miss the impact that the shocks has on the US – and in turn on the domestic economy.

Dynamics in VAR-X models (cont'd)

- Could estimate instead

$$X_{i,t} = F_i X_{i,t-1} + G_i X_{US,t-1} + B\varepsilon_{i,t} + \lambda_i \varepsilon^{news}_{US,t}$$

- And compute IRFs as

$$\begin{aligned} IR_{i,0} &= \lambda_i \\ IR_{i,h} &= F_i \cdot IR_{i,h-1} + G_i \cdot IR_{US,h-1} \qquad \text{for } h = 1, ..., H \end{aligned}$$

- Note that $IR_{US,h-1}$ can be obtained from the closed-economy US VAR

Summing up

- Nice paper
- Lots of interesting results – needs to be tied up!