

VAR Identification: A Practical Session

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Exercise

File `Exercise.m` loads the data and estimates a baseline VAR(12) with four variables: CPI, IP, 1-year rate, and Excess Bond Premium (EBP) as in Gertler & Karadi (2015)

Objective: Identify a monetary policy shock using three approaches and, for each, plot the impulse responses of all four variables:

1. **Cholesky** — recursive identification
2. **Sign restrictions**
3. **External instruments**

Compare the three sets of impulse responses and discuss: which assumptions are needed for each approach? Which is most credible, and why? How do the results differ across approaches, and why?