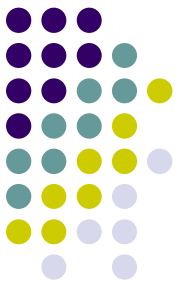




Discussion of Dungey and Fry (2010): "*Fiscal and Monetary Policy in Australia: an SVAR model*"

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The paper



- Authors estimate 14 variable SVAR model for Australian economy 1981(?) -2006
- Fiscal policy variables: government spending, government revenues and debt/GDP
- Identification achieved through a mix of contemporaneous, long-run (cointegration) and sign restrictions
- Focus on impulse responses to shock to monetary and fiscal policy shocks

General comments



- Topic highly policy relevant
- Authors have set themselves a challenging task!
- Very sympathetic to general approach of combining different identification strategies

Some comments on the identification scheme



- Common to use SVARs to guide construction of DSGE models
 - Would be useful if the authors could relate the identification restrictions/shocks to theoretical SOE literature
- How to interpret the permanent shocks to foreign output, output, exports, domestic absorption?
 - Typical SOE model has one permanent shock (exception; Binning et al. 2009)
 - Different productivity trends in different sectors and/or markets? Permanent "preference" shocks?
- Test cointegration restrictions from SOE model(s) (possibly with several permanent shocks)?

Some comments on the identification scheme



- Contemporaneous restrictions
 - IS- curve, Phillips Curve and monetary policy reaction function motivated by appealing to NK literature
 - But need additional assumptions about expectations formation and/or the information set of the agents?
 - Private agents or central bank cannot observe exchange rate in current quarter?
 - But do observe exogenous foreign variables (e.g., terms of trade)?

Some comments on the results



- Increasing government spending looks attractive!
 - Strong effect of fiscal sustainability condition?
- Long-lasting price puzzle in response to monetary policy shock
- How do the estimates of the fiscal and monetary policy responses compare to other estimates found in the literature?