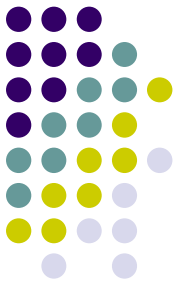


# Discussion of Dungey and Fry (2010): "*Fiscal and Monetary Policy in Australia: an SVAR model*"

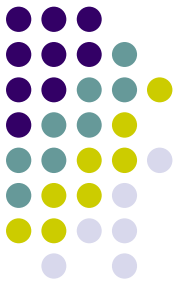
Ida Wolden Bache  
Handelsbanken Capital Markets

# The paper



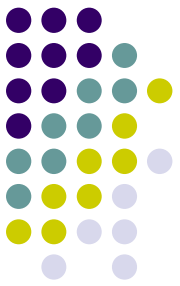
- Authors estimate 14 variable SVAR model for Australian economy 1981(?) -2006
- Fiscal policy variables: government spending, government revenues and debt/GDP
- Identification achieved through a mix of contemporaneous, long-run (cointegration) and sign restrictions
- Focus on impulse responses to shock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

# General comments



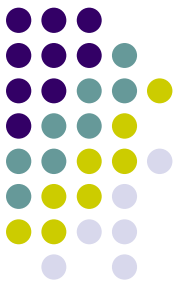
- Topic highly policy relevant
- Authors have set themselves a challenging task!
- Very sympathetic to general approach of combining different identification strategies

# Some comments on the identification scheme



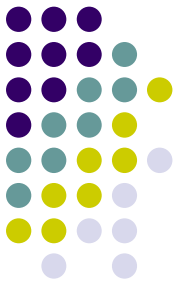
- Common to use SVARs to guide construction of DSGE models
  - Would be useful if the authors could relate the identification restrictions/shocks to theoretical SOE literature
- How to interpret the permanent shocks to foreign output, output, exports, domestic absorption?
  - Typical SOE model has one 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?