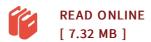# Which Are the Effects of Monetary Policy Identifying Policy Shocks in Recursive Vars

By Felix Miebs

GRIN Verlag. Paperback. Book Condition: New. Paperback. 28 pages. Dimensions: 10.0in. x 7.0in. x 0.1in.Seminar paper from the year 2006 in the subject Economics - Monetary theory and policy, grade: 1, 0, University of Frankfurt (Main), 17 entries in the bibliography, language: English, abstract: 1 Introduction In the mid 70s people started to doubt the validity of macroeconomic models as they were not able to forecast the worldwide recession due to the oil-price shock. These models needed an a priori seperation into endogenous or exogenous variables. This need for seperation was criticized by Sims (1980), who proposed as solution for this problem a Vector Autoregressive model (VAR). A VAR is an n-equation, n-variable linear model in which each variable is in turn explained by its own lagged values, plus current and past values of the remaining n-1 variables. 1 This offers the possibility that these variables influence each other mutually, which makes each of them endogenous. 2 Let us put some economic background to these definitions. As we focus on monetary policy, we might be interested in the mutual relation and behaviour of the interest rate (r) and inflation (). For simplicity we just take these two variables with one...

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