Discussion of "Multiple filtering devices for the estimation of cyclical DSGE models" by Canova-Ferroni

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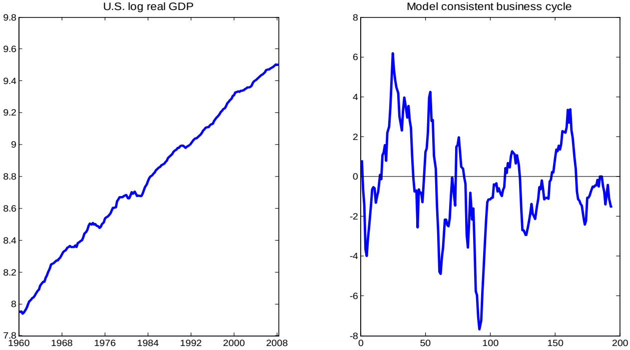
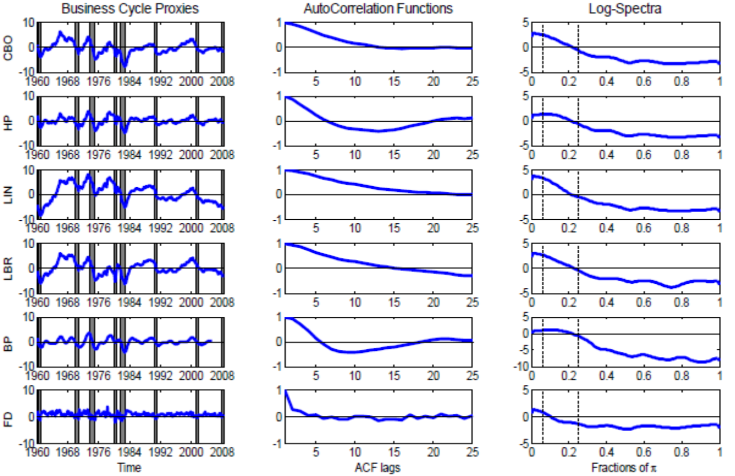
UniPD, Nov. 10 2009

Macro models & the business cycle

- Macro models - designed to describe the *business cycle*
- **Business cycle in the data**? Need to filter information!



'Contaminated proxies'



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1. MC exercise with an operational DSGE model - it works!
2. Same exercise with actual U.S. data, Ireland's model - money is important!

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- Natural way to exploit 'large' information - and easy!
- We can rush and check some many restrictions ... cost-channel and the 'price puzzle', role of stock prices at a macro-level, money [nice first attempt, but I suspect more work to do ...]
- A couple of questions - choice of the filters, trend inflation, time-varying role of money

Contained proxies

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1. How much volatility in the estimated weights? Normalization issues?
2. In theory, if a filter is 'true', very low measurement error ... can we rank the filters? (I get this question everytime ...)

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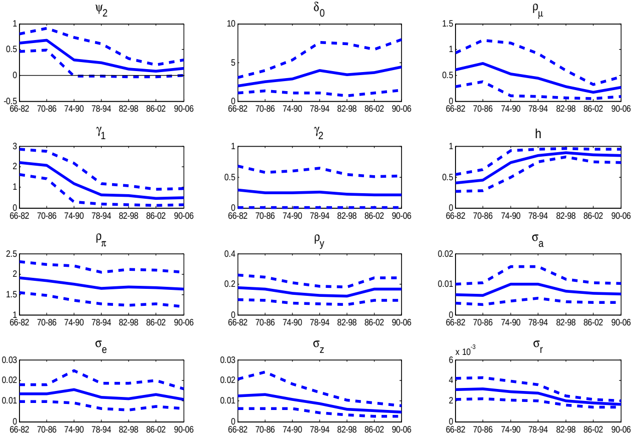
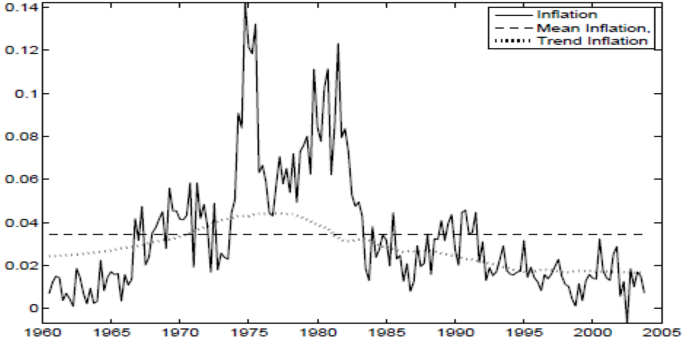
- Long sample: Time-varying role of money? ...
- ... let's go for a Canova (2009)-type of analysis: **Rolling windows** to a model with money

Money: ... & stability



Time varying trend inflation

- Should we filter inflation? In your application you don't



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- Either you filter also inflation, or you model trend inflation (your approach: neither nor)
- Is money still important if trend inflation is there?
- [Btw, should we filter inflation if we model trend inflation?]

Wrapping up

- Nice paper. Hopefully followers soon - convince DYNARE guys!
- More words on filter selection appreciated - rule of thumb?
- Model consistent trend inflation - issue you may want to discuss
- Multiple filter + stability = the *'Canova combo'* ... seems promising!