1 Comments on "New Evidence on News-Driven Business Cycles," MS# 89-1

This paper presents new evidence on the Beaudry and Portier (2006)-hypothesis of news-driven business cycles from German data. Following Beaudry and Portier (2006), the authors run two VARs for the time series of TFP and stock prices. In the first one, the authors apply the short-run restriction. They identified a shock $\varepsilon_{1,t}$, which by assumption does not affect TFP in the impact period. Then the authors run the second VAR using the long-run restriction. They identify another shock $\tilde{\varepsilon}_{2,t}$, which is the only one affecting TFP in the long-run. Since these two identified shocks are colinear, we can arguably call $\varepsilon_{1,t}$ as the news shock about the future TFP.

The new finding of this paper is that the identified shocks $\varepsilon_{1,t}, \tilde{\varepsilon}_{2,t}$ indeed Granger-cause patents. So these are rightly considered as technology shocks. In my view this is the most interesting part of this paper. My suggestion is that the authors put more focus on this part since the VARs part is almost identical to Beaudry and Portier (2006).

Beaudry and Portier (2006) also show that the identified shocks $\varepsilon_{1,t}$ have a lot explaining power for other macro variables. Does the shock cause co-movement of business cycle? How much variance of consumption, output, investment, employment can be explained by $\varepsilon_{1,t}$ in German? Similarly how much variance of patents is caused by $\varepsilon_{1,t}$? Are the results robust if the VARs contains more variables? With these question in mind, I have difficulty accepting that the evidence is supportive to the standard business cycle facts.

If the authors are going to have a convincing argument, I think that they must demonstrate the identified shock $\varepsilon_{1,t}$ explains a lot fraction of volatility of key macro variables. In addition, it must cause comovement in business cycles. The volatility of consumption, output, investment must be in the right order as in data. In short, the authors have to show that the business cycle phenomena generated by the identified shocks are consistent with the standard stylized business cycle facts in the literature.