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Monetary, Fiscal and Oil Shocks: Evidence based on Mixed Frequency Structural FAVARs*

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Abstract

Large scale factor models have been often adopted both for forecasting and to identify structural shocks and their transmission mechanism. Mixed frequency factor models have been also used in a reduced form context, but not for structural applications, and in this paper we close this gap. First, we adapt a simple technique developed in a small scale mixed frequency VAR and factor context to the large scale case, and compare the resulting model with existing alternatives. Second, using Monte Carlo experiments, we show that the finite sample properties of the mixed frequency factor model estimation procedure are quite good. Finally, to illustrate the method we present three empirical examples dealing with the effects of, respectively, monetary, oil, and fiscal shocks.

JEL Classification Codes: C32, C43, E32

Keywords: Structural FAVAR, temporal aggregation, mixed frequency data, identification, estimation, impulse response function

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