Correction: "Local Projections and VARs Estimate the Same Impulse Responses"

Mikkel Plagborg-Møller Christian K. Wolf

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In Example 2 (pp. 967–968) of Plagborg-Møller and Wolf (2021) appears the following *erroneous* statement:

> To estimate relative impulse responses $\Theta_{i,2,h}/\Theta_{1,2,0}$ to the demand shock, the researcher can choose any vector $\tilde{b}$ such that $\tilde{b}'b = 0$, and then implement the local projection (9) with $\tilde{b}$ in lieu of b.

The *correct* statement is:

> To estimate relative impulse responses $\Theta_{i,2,h}/\Theta_{1,2,0}$ to the demand shock, the researcher can choose any vector $\tilde{b}$ such that $\tilde{b}' \operatorname{Var}(w_t \mid \{w_\tau\}_{-\infty<\tau<t})b = 0$, and then implement the local projection (9) with $\tilde{b}$ in lieu of b.

The above condition ensures that the demand shock $\tilde{b}'u_t$ is orthogonal to the previously identified supply shock $b'u_t$, where $u_t \equiv w_t - E(w_t \mid \{w_\tau\}_{-\infty<\tau<t})$.

We are grateful to Gabriel Chodorow-Reich for bringing this typo to our attention.

References

Plagborg-Møller, M. and C. K. Wolf (2021): "Local Projections and VARs Estimate the Same Impulse Responses," *Econometrica*, 89, 955–980.