

Digression: Comparing sVAR IRFs and Model IRFs

- There are basically two different approaches:
 1. Traditional Approach (pursued here): compare sVARs IRFs to IRFs derived from the model
 2. Cogley-Sims-Nason approach: compare sVARs IRFs to IRFs generated from same sVAR estimated on data generate from the model
- The Cogley-Sims-Nason assures that the **small sample bias** and the **lag-truncation bias** are the same for the model and the sVAR
- **Lag-truncation bias**: if state variables are not observed, model has infinite order VAR representation in the observables, but only a finite order VAR can be estimated