



Assessing identifying restrictions in SVAR models

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Several papers use theoretical restrictions suggested by economic theory in order to identify VAR models. This paper proposes an approach to assess whether the data support or not such identifying restrictions. It does so by inspecting the set of observational equivalent representations implicit in the likelihood function of the VAR. This set then guides the Bayesian update of a prior that attaches equal mass in favour and against the identifying restrictions under investigation. The key intuition of the paper is developed using the standard identification problem of a demand and a supply function.