

Discussion of
***The impact of uncertainty and
certainty shocks***
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Opinions are my own and should not be attributed to DNB.

The paper has two parts:

(1) Bayesian quantile VAR

(2) Effects of uncertainty on economy

My comments are only about (2)

Linguistics of “certainty shocks”

Linguistics of “certainty shocks”

- certainty: “firm conviction that something is the case”
- shock: “a sudden upsetting or surprising event” (Oxford dictionary via Google)
- certainty shock: “a sudden, surprising, yet firm conviction that something is the case”

In the paper

uncertainty = high stock market volatility

certainty = low volatility of stock market

Paper investigates effect of high and low stock market volatility on economy

Paper investigates effect of high and low stock market volatility on economy through **Bayesian quantile VAR**

VAR with parameters that vary depending on quantile of dependent variable

Finding:

High stock market volatility = large impact

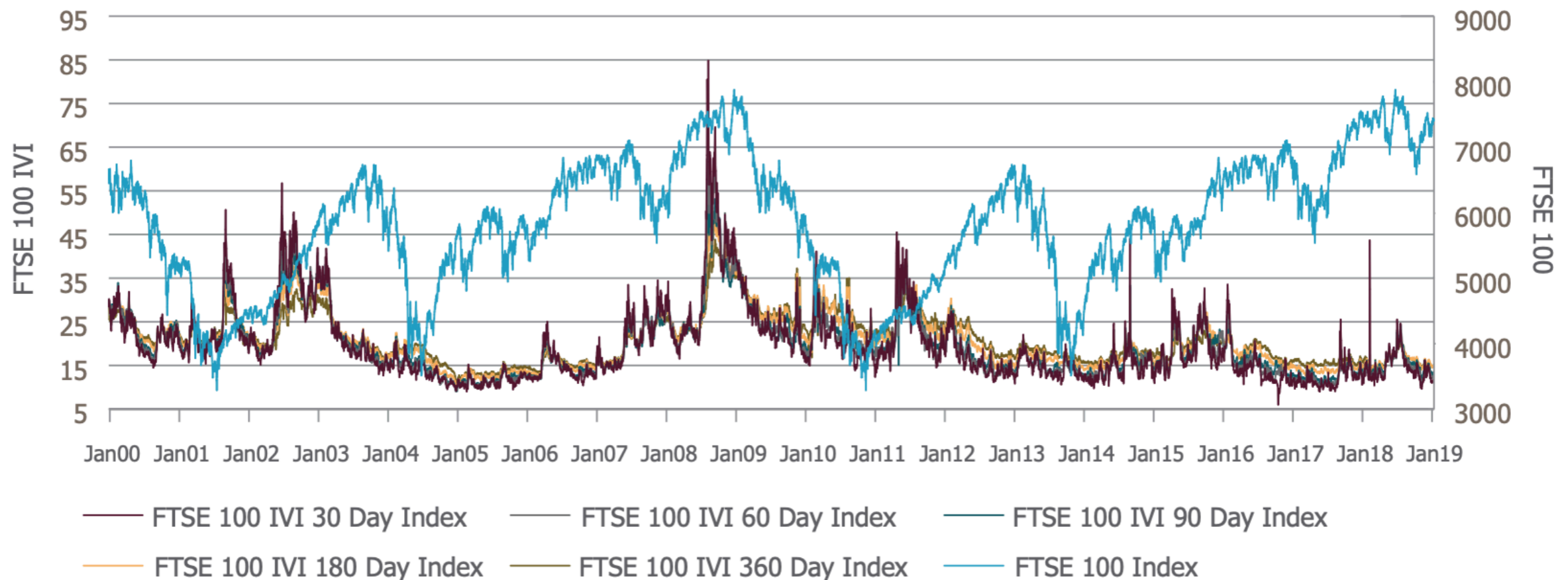
Low stock market volatility = no impact

Does stock market volatility equal uncertainty?

Stock market vol = uncertainty?

Exhibit 1: Brexit

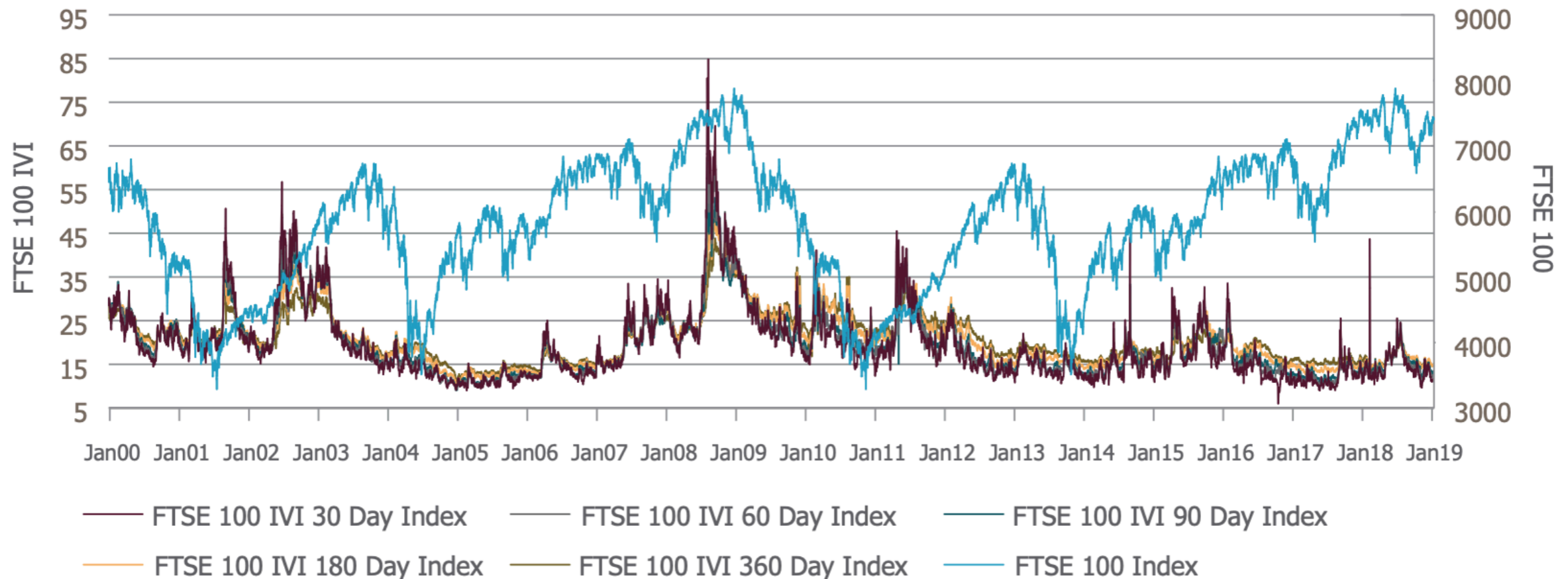
FTSE 100 IVI – Implied Volatility



Stock market vol = uncertainty?

Exhibit 2: Great financial crisis as an outlier

FTSE 100 IVI – Implied Volatility



The use of **Bayesian quantile VAR**

The paper uses a data set with $T=576$

The model is a VAR with 6 variables, 3 lags, 5 quantiles:
570 parameters to estimate

Are the priors doing most of the work?

The use of **Bayesian quantile VAR**

Ordering/causality of variables: Macro variables affect uncertainty but stock market returns do not.

Uncertainty measure is derived from stock market returns, yet it is exogenous to them?

External measures of uncertainty

Uncertainty: “uncertainty”, “fear”, “doubt”, “panic”, “low” in WSJ

Certainty: “certainty”, “trust”, “hope”, “high” in WSJ

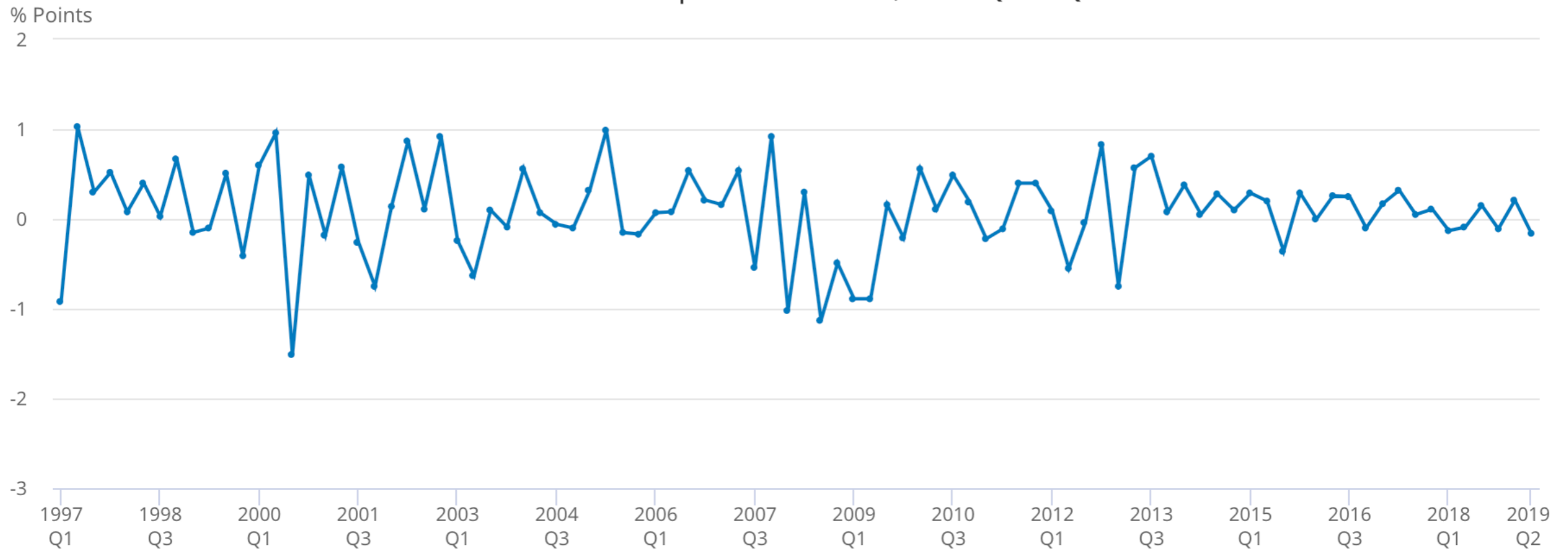
Does that mean: “There is no doubt in my mind that this is a golden era for investment!” would be *uncertainty*?

“Investors have lost all hope of understanding the stock market!” would be classified as *certainty*?

De Veirman & Levin

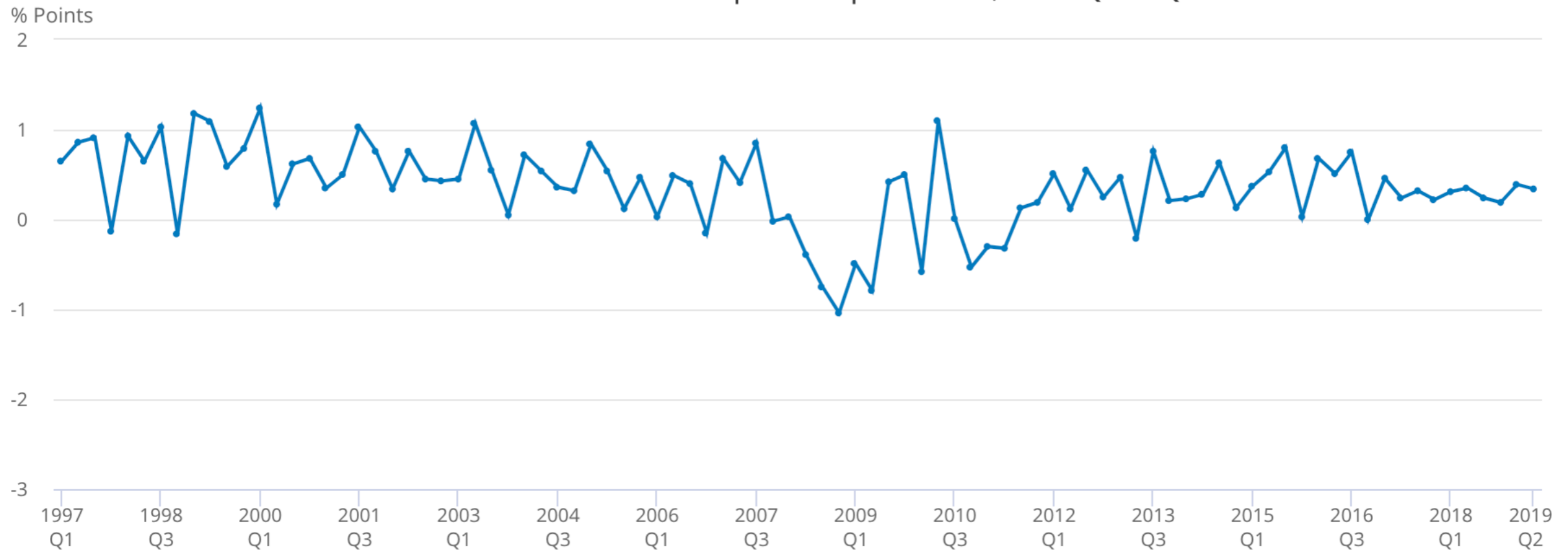
- Recent paper in JMCB (2018): Firm level sales and earnings data
- Account for differences in composition of firms in data set
- Correlation of firm specific sales volatility and business cycle not statistically significant

Gross fixed capital formation, cont Q on Q



— Gross fixed capital formation, cont Q on Q

Household final consumption expenditure, cont Q on Q



— Household final consumption expenditure, cont Q on Q