

Discussion of Gürkaynak, Kısacıköğlü and Wright “Identifying the Effects of Partially-Measured News Surprises”

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- Unemployment Rate

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Traditional Approach

Traditional high-frequency studies run:

$$y_t = \alpha s_t + \varepsilon_t$$

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- R^2 can be low (40%)

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Some authors have argued for a “measurement error” approach:

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- but market survey data show no sign of bias

Burçin and coauthors argue instead that:

$$y_t = \beta s_t + \gamma f_t + \varepsilon_t$$

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- R^2 substantially higher than traditional method (90%)
- straightforward to estimate using Kalman filter for f_t

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- Assuming your model is true, explain why coefficients in Table 2 are systematically larger than in Table 1

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The traditional approach often omits some of these if they are not statistically significant, but they could be important in the estimation of the latent factors $f_{i,t}$.

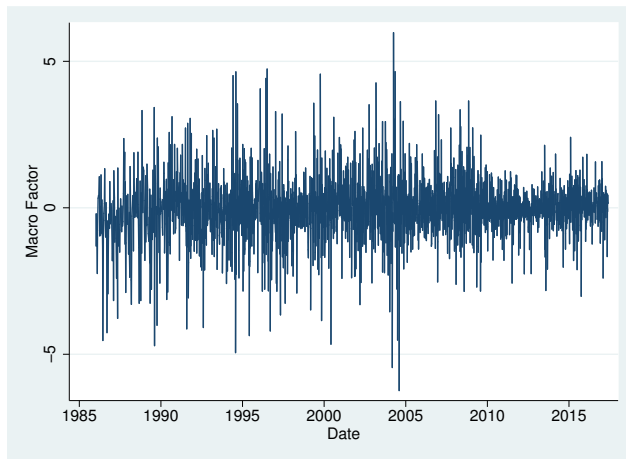
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Present more useful graphs and statistics for the latent factor(s) $f_{i,t}$.

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Currently, the authors just report:



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- Is $f_{i,t}$ positively correlated with the observable s_t ?
- What do the different latent factors $f_{i,t}$ look like?
- Is there a way to plot them that conveys useful information?

Comment #5

The paper presents newspaper quotes to argue that large market responses as measured by $f_{i,t}$ were in fact driven by non-headline components of the release, e.g.:

April 2, 2004 (Employment Report)	5.98	“...the Labor Department also revised its estimate of jobs created in January and February to a total of 205,000, almost double its previous estimate of 118,000. The revisions pushed average job growth in the first quarter to 171,000 a month, the most vigorous rate since the second quarter of 2000.” (The New York Times, April 3, 2004).
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But these quotes do not look unusual at all, despite the large estimates of $f_{i,t}$.

Summary of Comments

- 1 Basic idea of the paper is appealing, seems to work well
- 2 Try to refute the measurement error approach more conclusively
- 3 Include a full set of latent factors (one for each announcement), not One Latent Factor to Rule Them All
- 4 Include the full set of observable surprises for each announcement
- 5 Provide more information about the latent factor estimates
- 6 Newspaper quotations are not very convincing