The Effects of Monetary Policy in Japan:

An Empirical Study by FAVAR Approach

広島大学大学院　任（にん）　維彤（いとう）

This paper implements FAVAR study on Japanese data by using three procedures, structure factor approach, two-step approach and Bayesian likelihood approach. The first way is a combination of principal component analysis and a standard VAR model. The last two ways, which imitate Bernanke Boivin and Eliasz (2005), combine principal component analysis and state-space model. The empirical results offer the following evidences. First, FAVAR model can improve VAR model and makes it more effective in studying the effects of monetary policy. Secondly, as a measurement of inflation, Nikkei commodity price index (42 items) seems more appropriate to be used in VAR model for studying the effects of monetary policy than commodity price index. Thirdly, the changeless official discount rate sullies the effects of monetary policy on economy. The response of IP and CPI become dissatisfying and inconsistent with economic theory, because official interest rate is fixed for long time from 1995,