FIGURE 1. DEADBANK SERIES

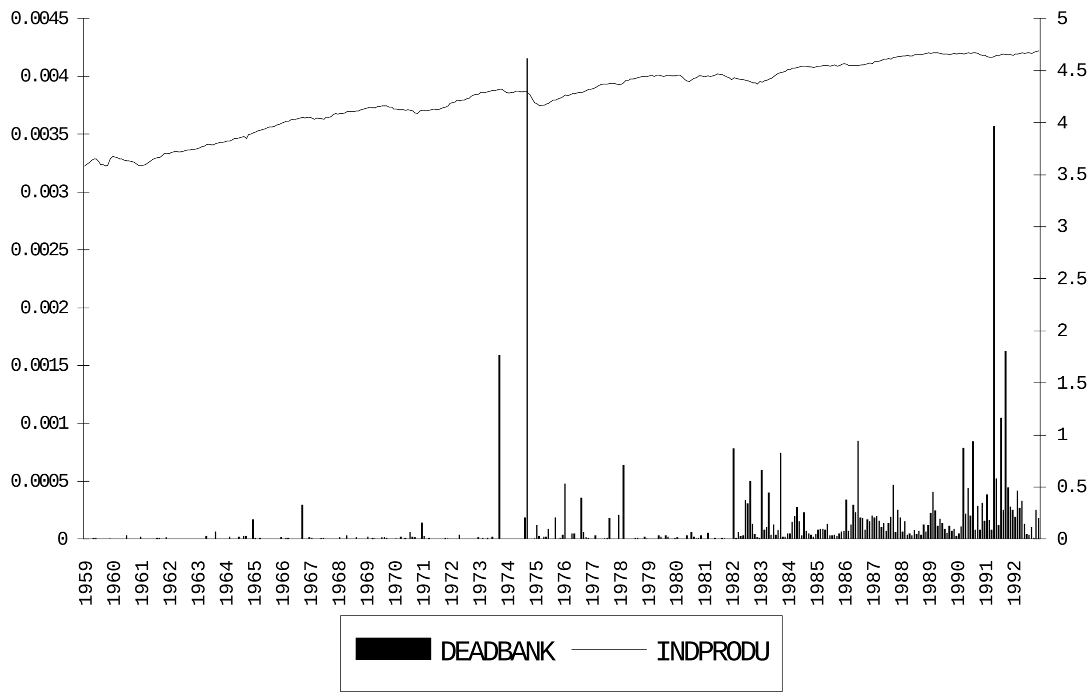
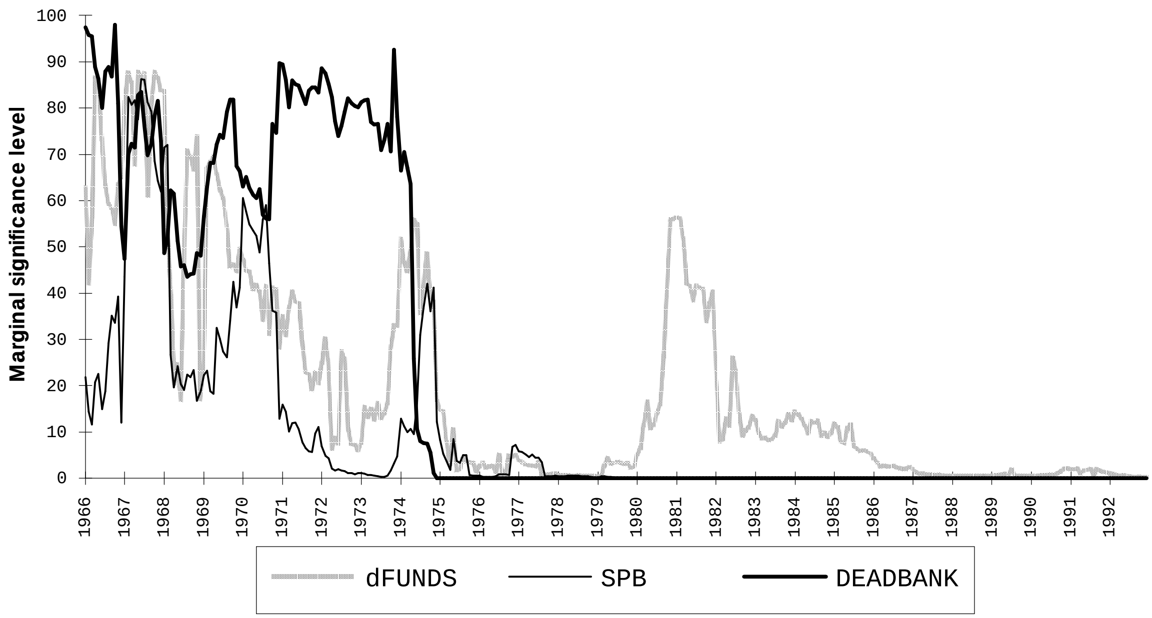


FIGURE 2. GRANGER CAUSALITY TEST



Vertical: marginal significance level of F-statistic.
Horizontal: end-date of the sample (T).

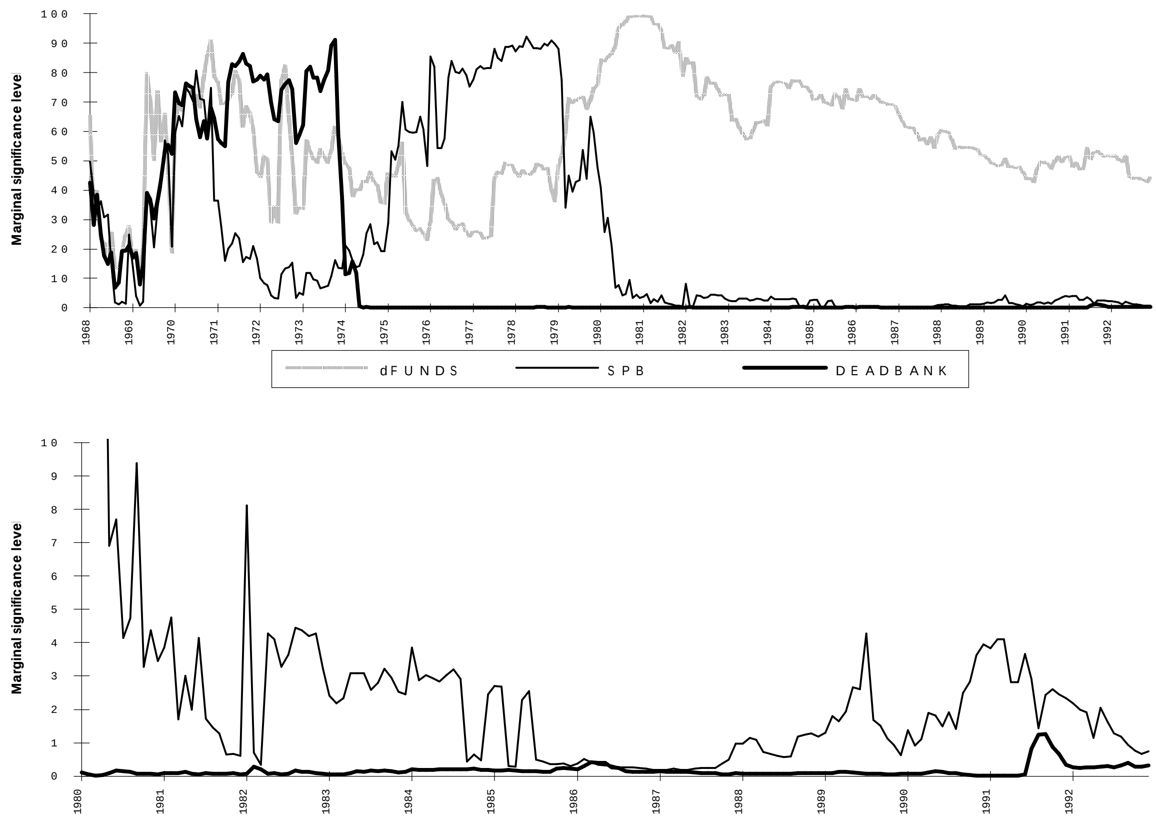
Estimated equation, $t \in (1960{:}02,...,T)$:

$$dINDPRODU_t = \beta_0 + \beta_1 trend + \sum_{i=1}^{12} \beta_{2i} dINDPRODU_{t-i} + \sum_{i=1}^{12} \beta_{3i} dPPI_{t-i} + \sum_{i=1}^{6} \beta_{4i} dM1_{t-i}$$

$$+ \sum_{i=1}^{12} \beta_{5i} dBILL3M_{t-i} + \sum_{i=1}^{n} \beta_{fi} FINANCE_{t-i} + \sum_{i=1}^{r} \beta_{zi} Z_{it-1} + \varepsilon$$

where
$dINDPRODU$ is the growth rate of industrial production,
$dPPI$ is the growth rate of the PPI,
$dM1$ is the growth rate of M1,
$dBILL3M$ is the growth rate of the 3-month T-bill rate,
$FINANCE$ is $dFUNDS$ (n=12), SPB (n=12), or $DEADBANK$ (n=3),
Z is the error correction term, and
r is the number of cointegrating vectors.

FIGURE 3. GRANGER CAUSALITY TEST: ALL



Vertical: marginal significance level of F-statistic.
Horizontal: end-date of the sample (T).

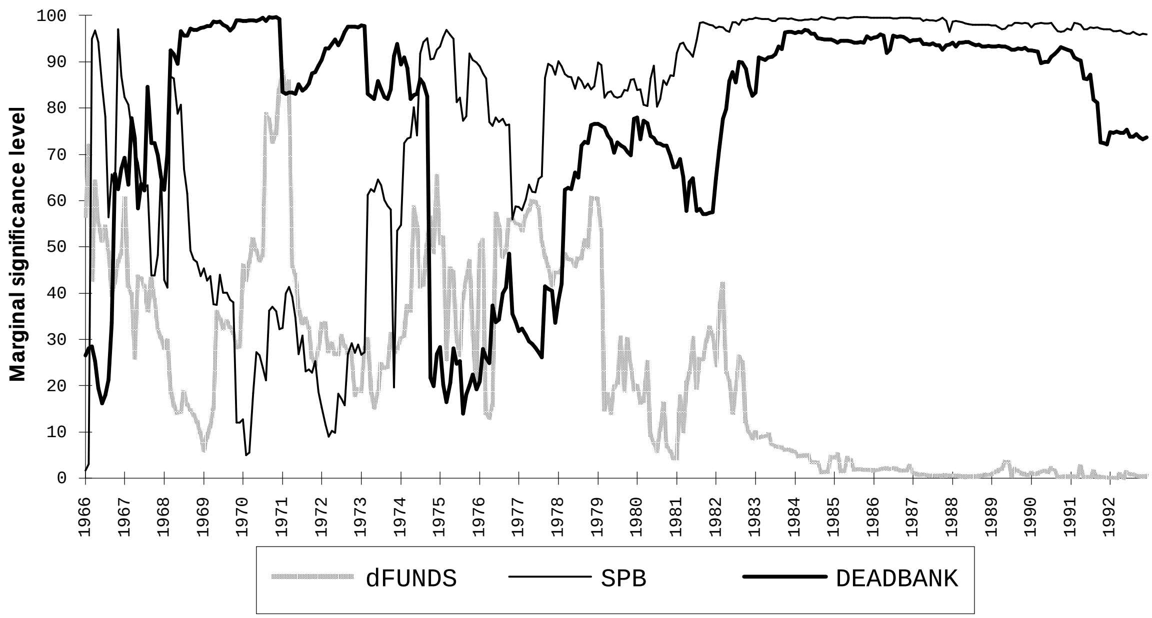
Estimated equation, $t \in (1960{:}02,\ldots,T)$:

$$dINDPRODU_t = \beta_0 + \beta_1 trend + \sum_{i=1}^{12} \beta_{2i} dINDPRODU_{t-i} + \sum_{i=1}^{12} \beta_{3i} dPPI_{t-i} + \sum_{i=1}^{6} \beta_{4i} dM1_{t-i}$$

$$+ \sum_{i=1}^{12} \beta_{5i} dBILL3M_{t-i} + \sum_{i=1}^{12} \beta_{6i} dFUNDS_{t-i} + \sum_{i=1}^{12} \beta_{7i} SPB_{t-i} + \sum_{i=1}^{3} \beta_{8i} DEADBANK_{t-i} + \sum_{i=1}^{r} \beta_{zi} Z_{it-1} + \varepsilon$$

where
$dINDPRODU$ is the growth rate of industrial production,
$dPPI$ is the growth rate of the PPI,
$dM1$ is the growth rate of M1,
$dBILL3M$ is the growth rate of the 3-month T-bill rate,
Z is the error correction term, and
r is the number of cointegrating vectors.

FIGURE 4. REVERSE GRANGER CAUSALITY TEST



Vertical: marginal significance level of F-statistic
(on *dINDPRODU*).
Horizontal: end-date of the sample (T).

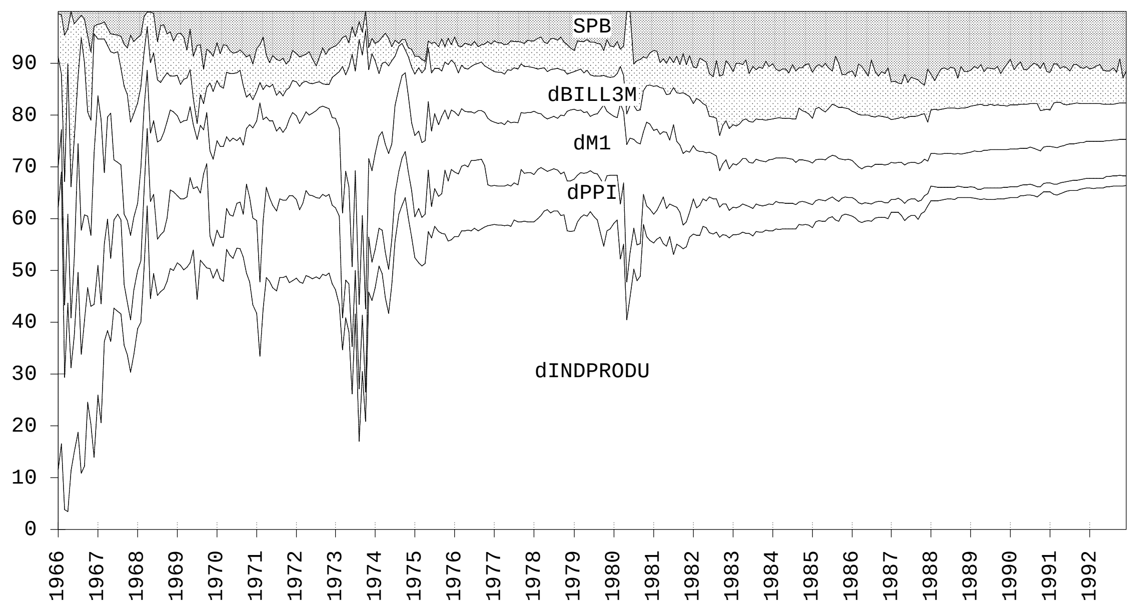
Estimated equation, t∈(1960:02,...,T):

$$FINANCE_t = \beta_0 + \beta_1 trend + \sum_{i=1}^{12} \beta_{2i} dINDPRODU_{t-i} + \sum_{i=1}^{12} \beta_{3i} dPPI_{t-i} + \sum_{i=1}^{6} \beta_{4i} dM1_{t-i}$$

$$+ \sum_{i=1}^{12} \beta_{5i} dBILL3M_{t-i} + \sum_{i=1}^{n} \beta_{fi} FINANCE_{t-i} + \sum_{i=1}^{r} \beta_{zi} Z_{it-1} + \varepsilon$$

where
dINDPRODU is the growth rate of industrial production,
dPPI is the growth rate of the PPI,
dM1 is the growth rate of M1,
dBILL3M is the growth rate of the 3-month T-bill rate,
FINANCE is *dFUNDS* (n=12), *SPB* (n=12), or *DEADBANK* (n=3),
Z is the error correction term, and
r is the number of cointegrating vectors.

FIGURE 5. VARIANCE DECOMPOSITION

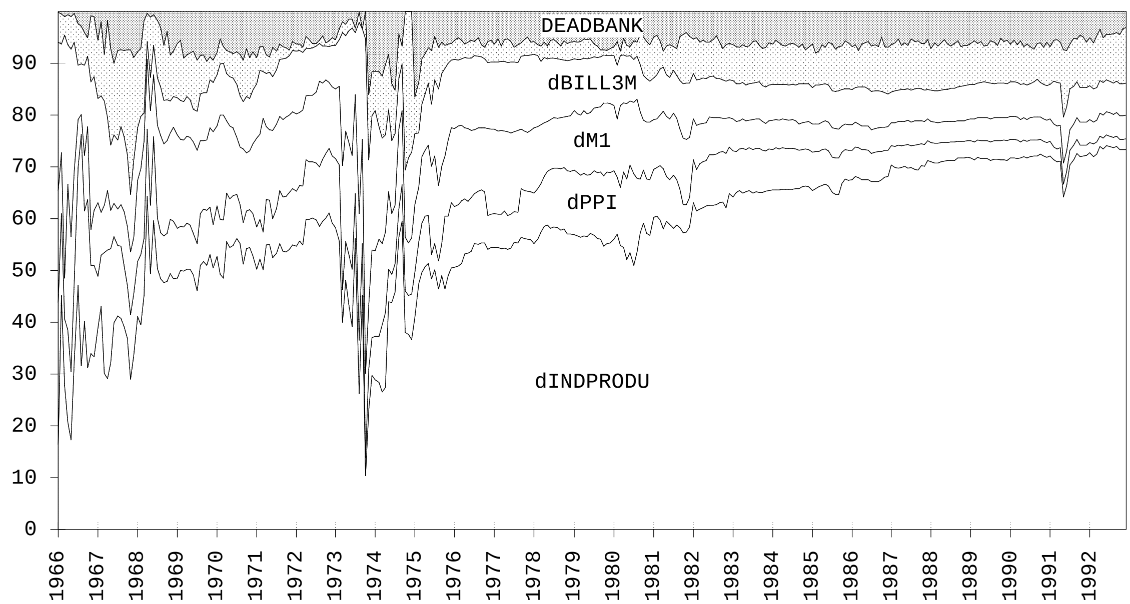


Vertical: the percentage of the variance of the growth rate of industrial production explained by the indicated variable, and the
gray area: the percentage of the variance of the growth rate of industrial production explained by the indicated financial variable, with the
dark gray area: the 5% confidence band (100 draws).
Horizontal: end-date of the sample (T).

VAR, t$\in$(1960:02,...,T): 12 lags, 24 horizon, Choleski decomposition, ordering from bottom to top,

where
dINDPRODU is the growth rate of industrial production,
dPPI is the growth rate of the PPI,
dM1 is the growth rate of M1,
dBILL3M is the growth rate of the 3-month T-bill rate.
Deterministic variables: *CONSTANT*, Z_{1t-1},...,Z_{rt-1}, with
Z the error correction term, and
r the number of cointegrating vectors.

FIGURE 6. VARIANCE DECOMPOSITION



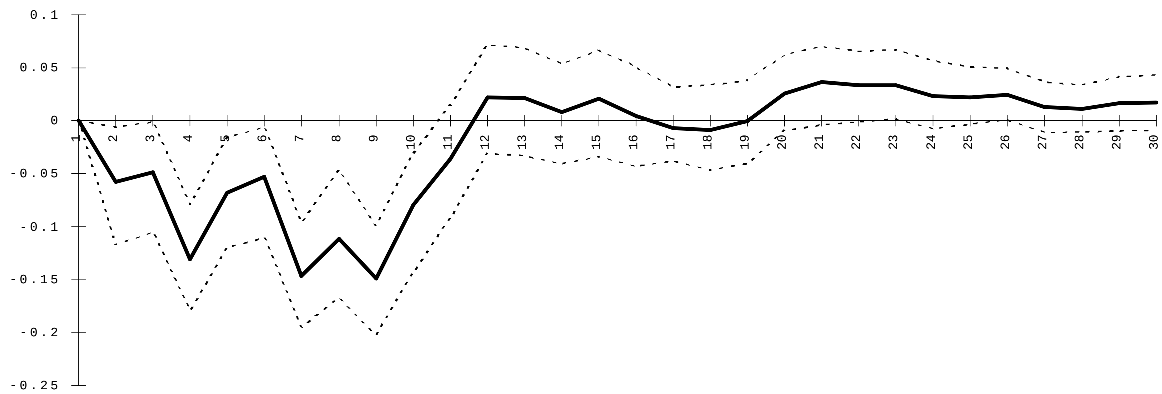
Vertical: the percentage of the variance of the growth rate of industrial production explained by the indicated variable, and the
gray area: the percentage of the variance of the growth rate of industrial production explained by the indicated financial variable, with the
dark gray area: the 5% confidence band (100 draws).
Horizontal: end-date of the sample (T).

VAR, $t \in (1960{:}02,...,T)$: 12 lags, 24 horizon, Choleski decomposition, ordering from bottom to top,

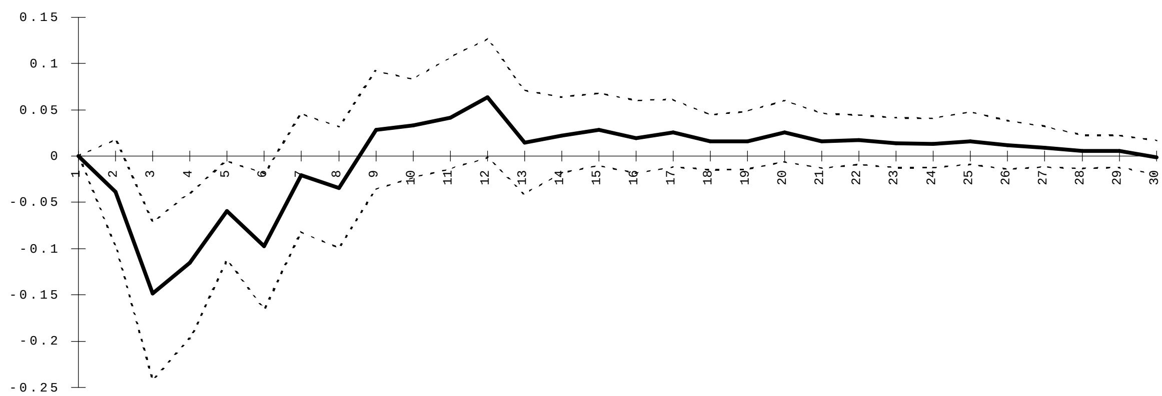
where
$dINDPRODU$ is the growth rate of industrial production,
$dPPI$ is the growth rate of the PPI,
$dM1$ is the growth rate of M1,
$dBILL3M$ is the growth rate of the 3-month T-bill rate.
Deterministic variables: $CONSTANT$, $Z_{1t-1},...,Z_{rt-1}$, with
Z the error correction term, and
r the number of cointegrating vectors.

FIGURE 7. IMPULSE RESPONSES

Shock to SPB response from dINDPRODU



Shock to DEADBANK response from dINDPRODU



Shock to dINDPRODU response from DEADBANK

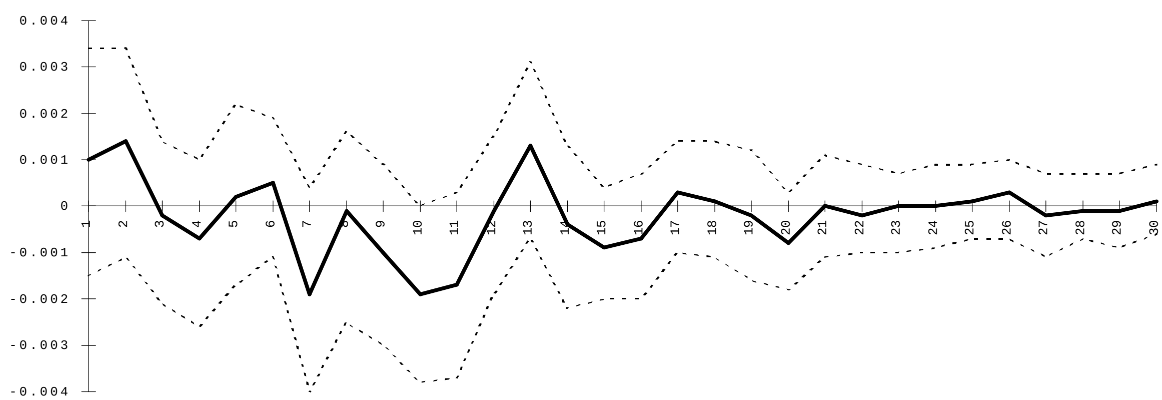
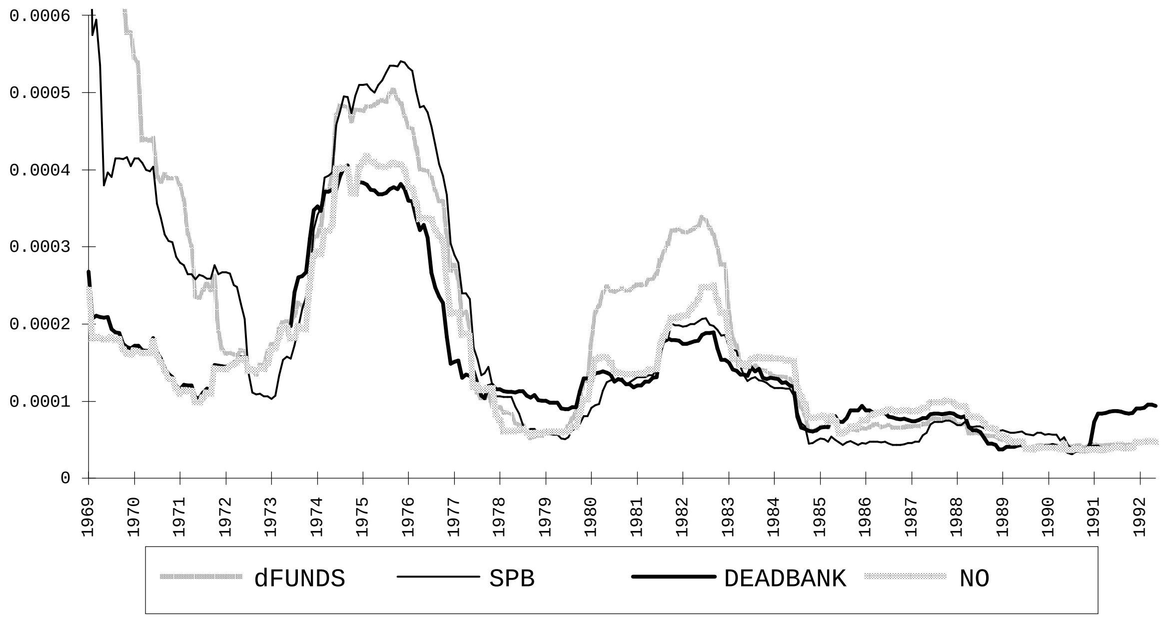


FIGURE 8. OUT OF SAMPLE FORECASTS



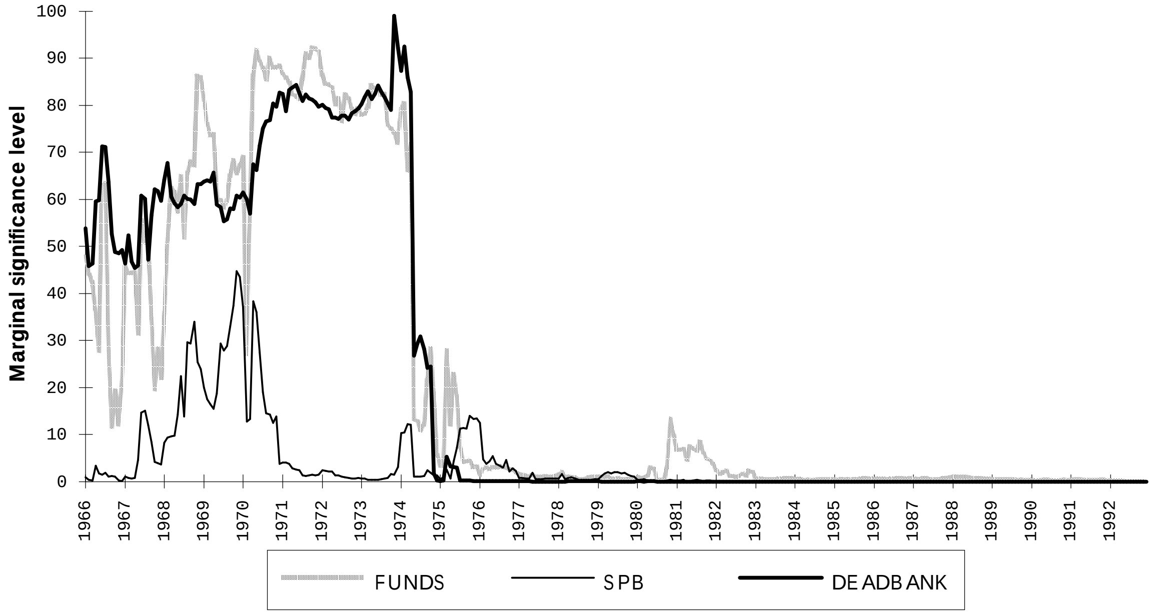
Vertical: mean square error of 36 consecutive 6-month-ahead forecasts.
Horizontal: end-date of the sample (T).

Estimated equation, t∈(1960:02,...,T):

$$dINDPRODU_t = \beta_0 + \beta_1 trend + \sum_{i=1}^{12} \beta_{2i} dINDPRODU_{t-i} + \sum_{i=1}^{12} \beta_{3i} dPPI_{t-i} + \sum_{i=1}^{6} \beta_{4i} dM1_{t-i}$$
$$+ \sum_{i=1}^{12} \beta_{5i} dBILL3M_{t-i} + \sum_{i=1}^{n} \beta_{fi} FINANCE_{t-i} + \sum_{i=1}^{r} \beta_{zi} Z_{it-1} + \varepsilon$$

where
$dINDPRODU$ is the growth rate of industrial production,
$dPPI$ is the growth rate of the PPI,
$dM1$ is the growth rate of M1,
$dBILL3M$ is the growth rate of the 3-month T-bill rate,
$FINANCE$ is $dFUNDS$ (n=12), SPB (n=12), $DEADBANK$ (n=3), or is not included (NO),
Z is the error correction term, and
r is the number of cointegrating vectors.

FIGURE 9. GRANGER CAUSALITY: BERNANKE AND BLINDER



Vertical: marginal significance level of F-statistic.
Horizontal: end-date of the sample (T).

Estimated equation, t$\in$(1959:01+min(7,n+1),...,T):

$$dINDPRODU_t = \beta_0 + \sum_{i=1}^{6}\beta_{1i}dINDPRODU_{t-1} + \sum_{i=1}^{6}\beta_{2i}dCPI_{t-i} + \sum_{i=1}^{6}\beta_{3i}dM1_{t-i} + \sum_{i=1}^{6}\beta_{4i}dM2_{t-i}$$

$$+\sum_{i=1}^{6}\beta_{5i}BILL3M_{t-i} + \sum_{i=1}^{6}\beta_{6i}BOND10Y_{t-i} + \sum_{i=1}^{n}\beta_{fi}FINANCE_{t-i} + \sum_{i=1}^{r}\beta_{zi}Z_{it-1} + \varepsilon$$

where
$dINDPRODU$ is the growth rate of industrial production,
$dCPI$ is the growth rate of the CPI,
$dM1$, $dM2$ is the growth rate of M1, M2,
$dBILL3M$ is the 3-month T-bill rate,
$BOND10Y$ is the 10-year government bond rate,
$FINANCE$ is $FUNDS$ (n=12), SPB (n=12), or $DEADBANK$ (n=3),
Z is the error correction term, and
r is the number of cointegrating vectors.