FIGURE 1. DEADBANK SERIES

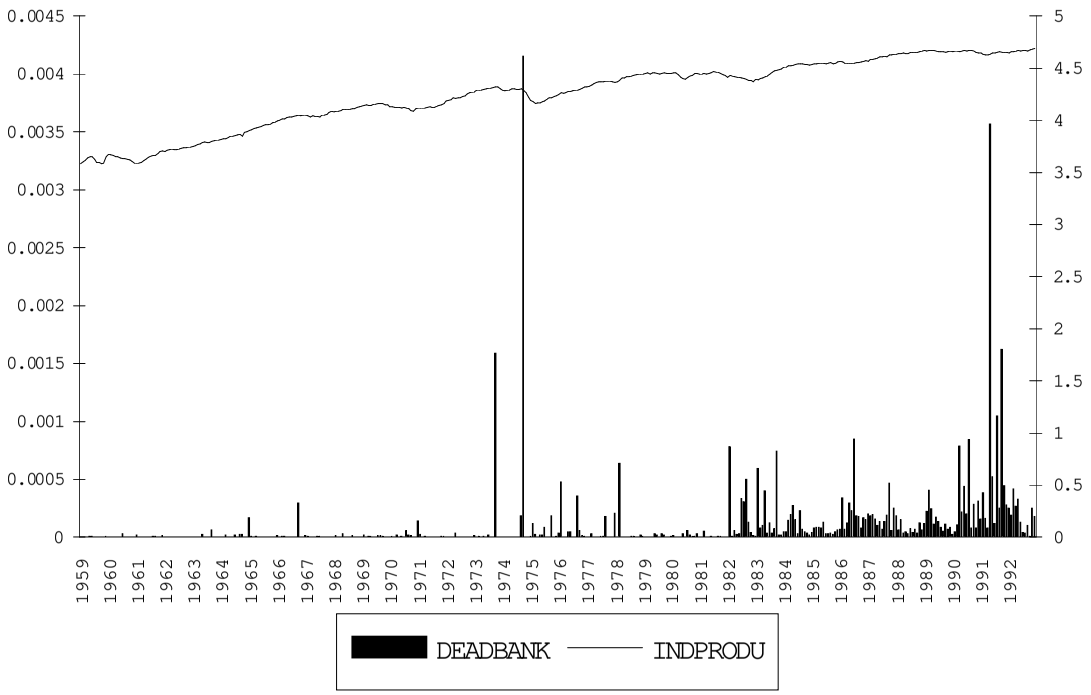
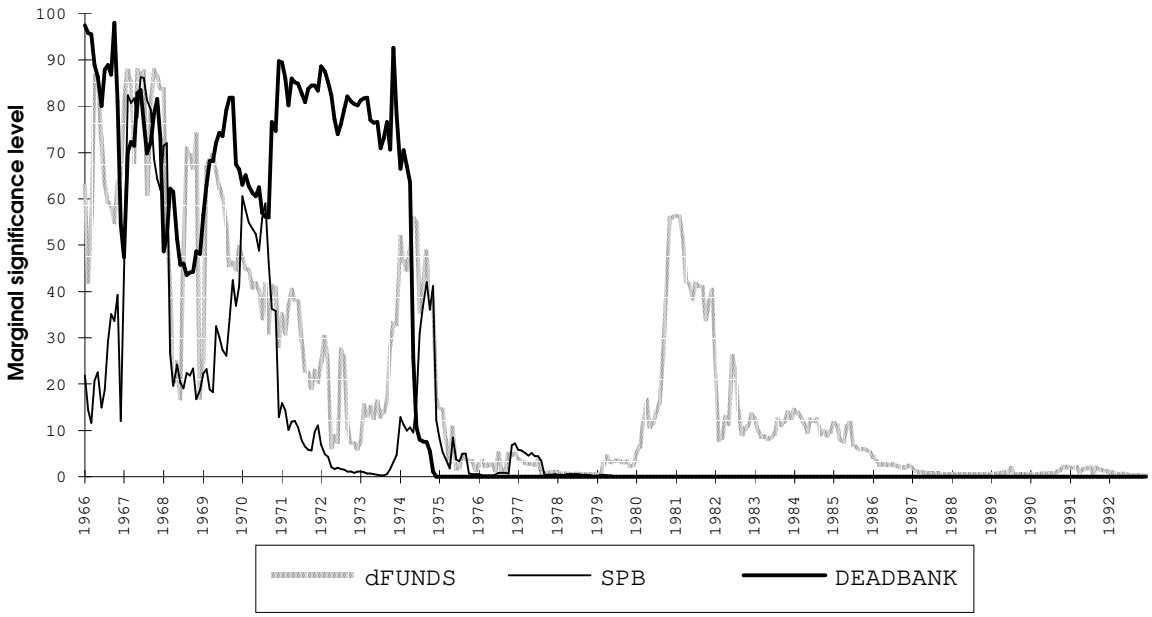


FIGURE 2. GRANGER CAUSALITY TEST



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

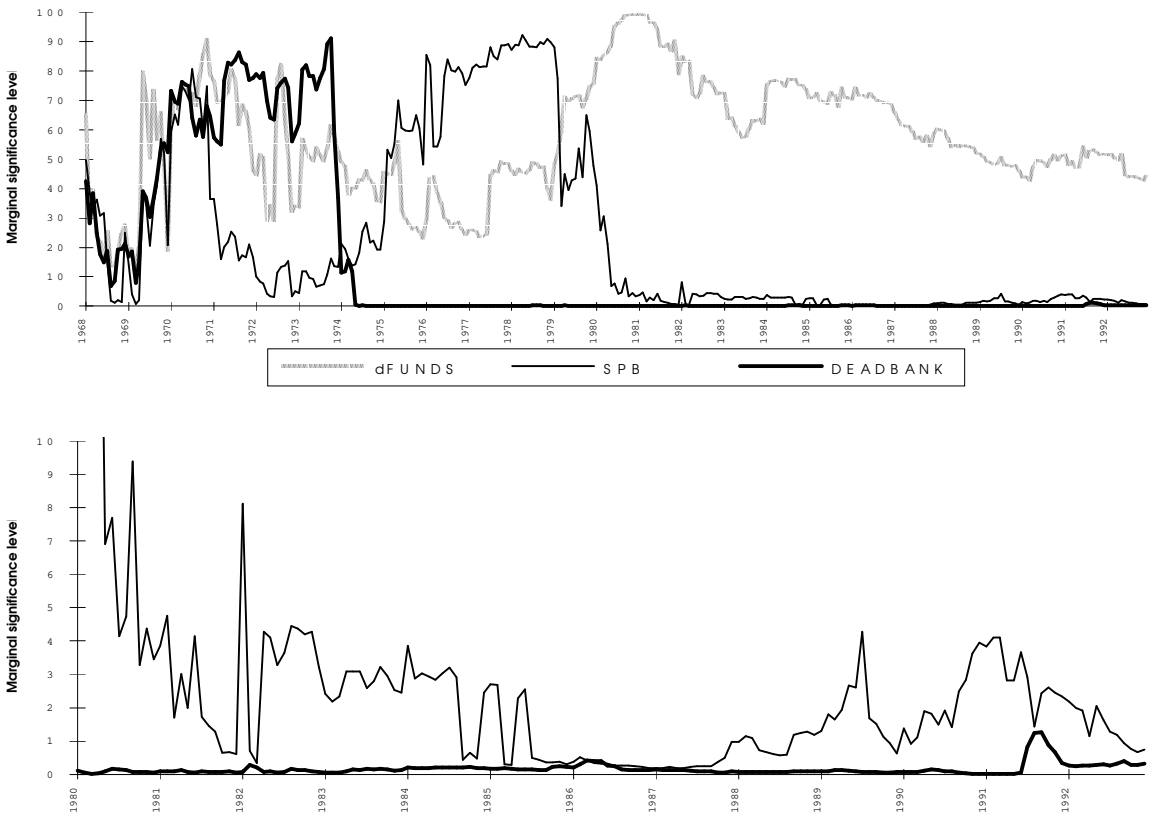
Estimated equation, t∈(1960:02,...,T):

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

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

where
dINDPRODU is the growth rate of industrial production,
dPPI is the growth rate of the PPI,
*dM*1 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).

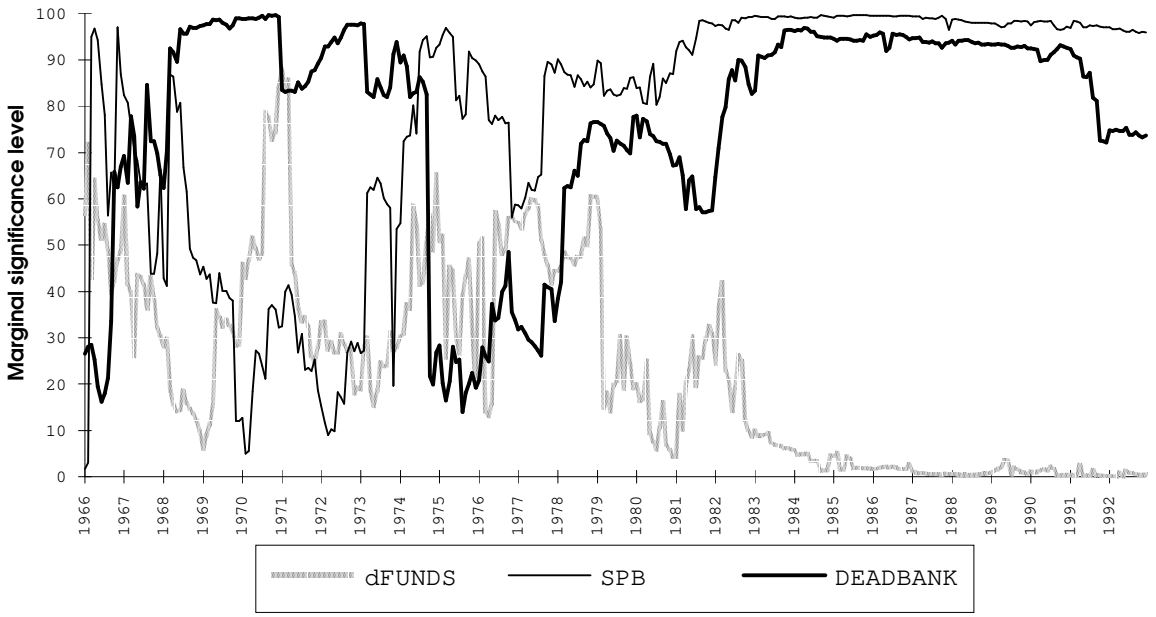
Estimated equation, t∈(1960:02,...,T):

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

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

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).

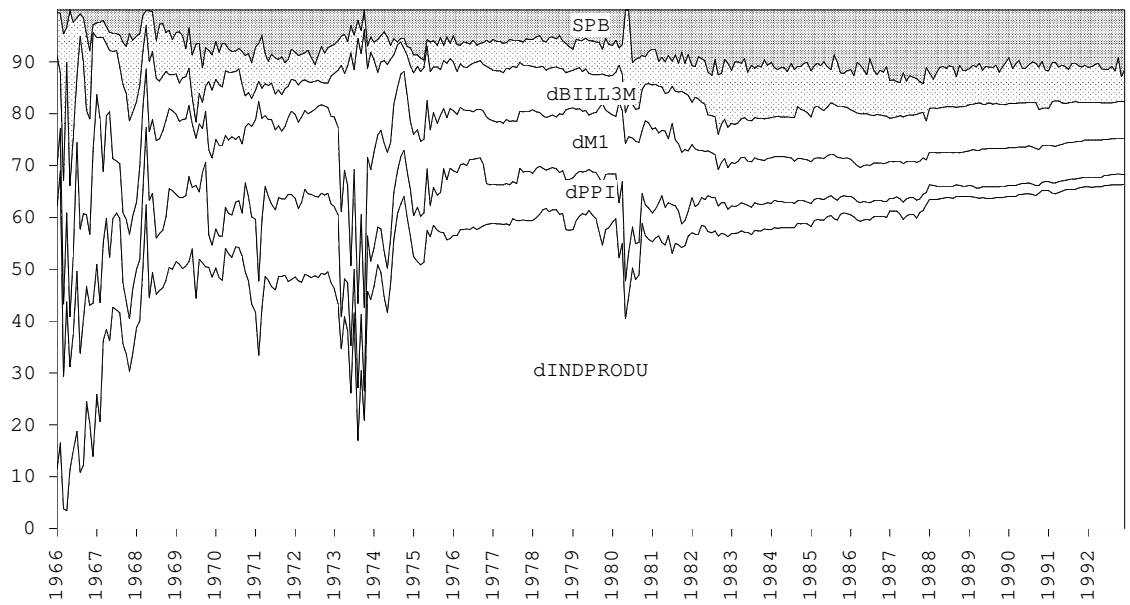
Estimated equation, $t \in (1960{:}02, \ldots, T)$:

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

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

where
dINDPRODU is the growth rate of industrial production,
dPPI is the growth rate of the PPI,
*dM*1 is the growth rate of M1,
*dBILL*3*M* 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

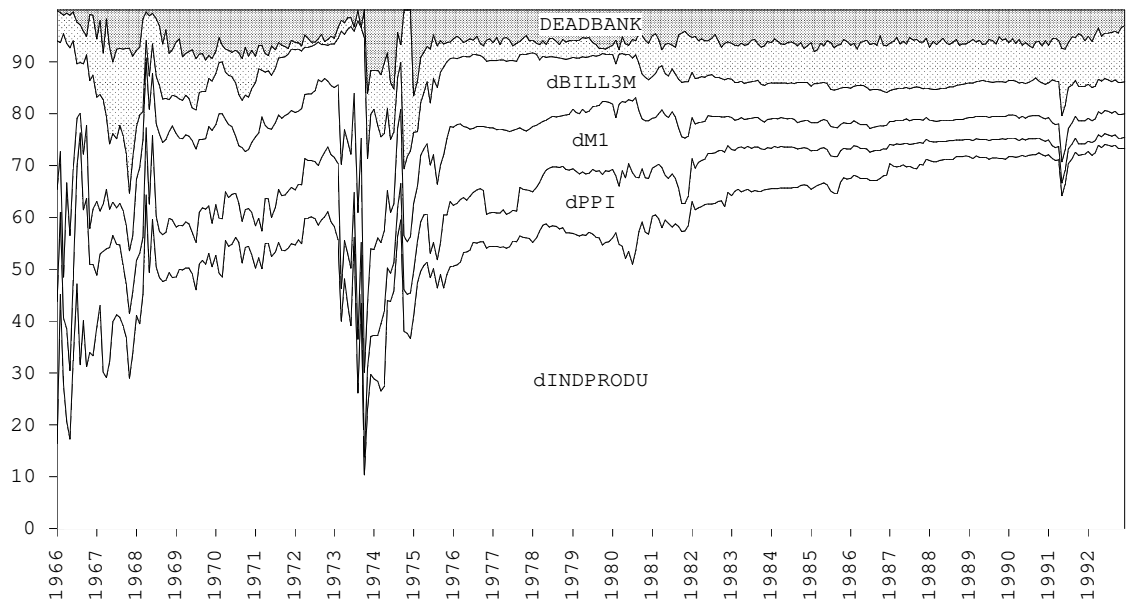


Vertical: the percentage of the variance of the growth rate of industrial production explained by the indicated variable, and the
gray area: the percentage of the variance of the growth rate of industrial production explained by the indicated financial variable, with the
dark gray area: the 5% confidence 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,
*dM*1 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∈(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,
*dM*1 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

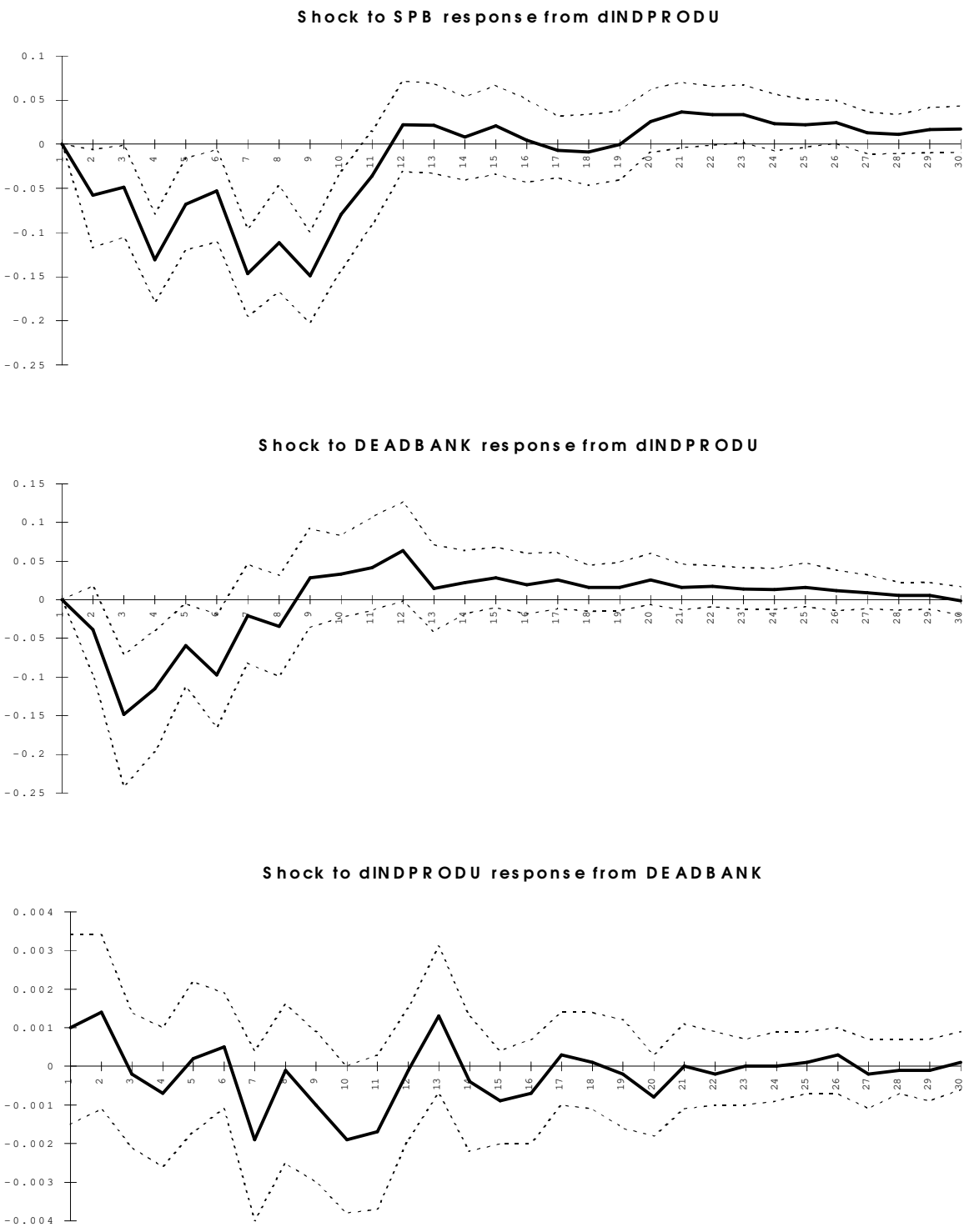
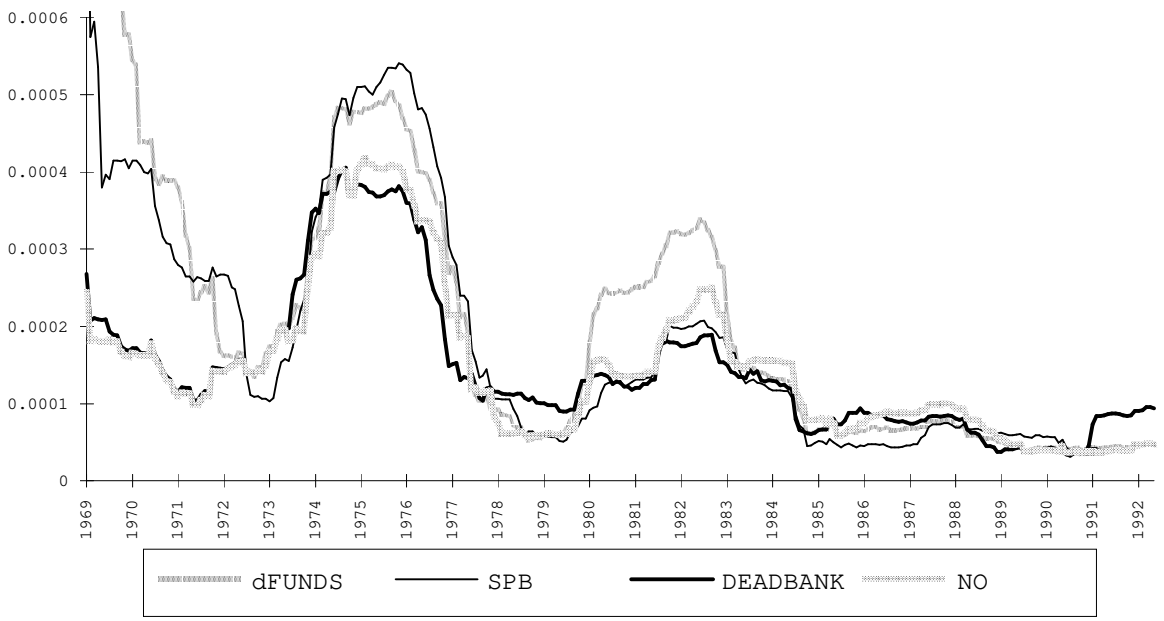


FIGURE 8. OUT OF SAMPLE FORECASTS



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

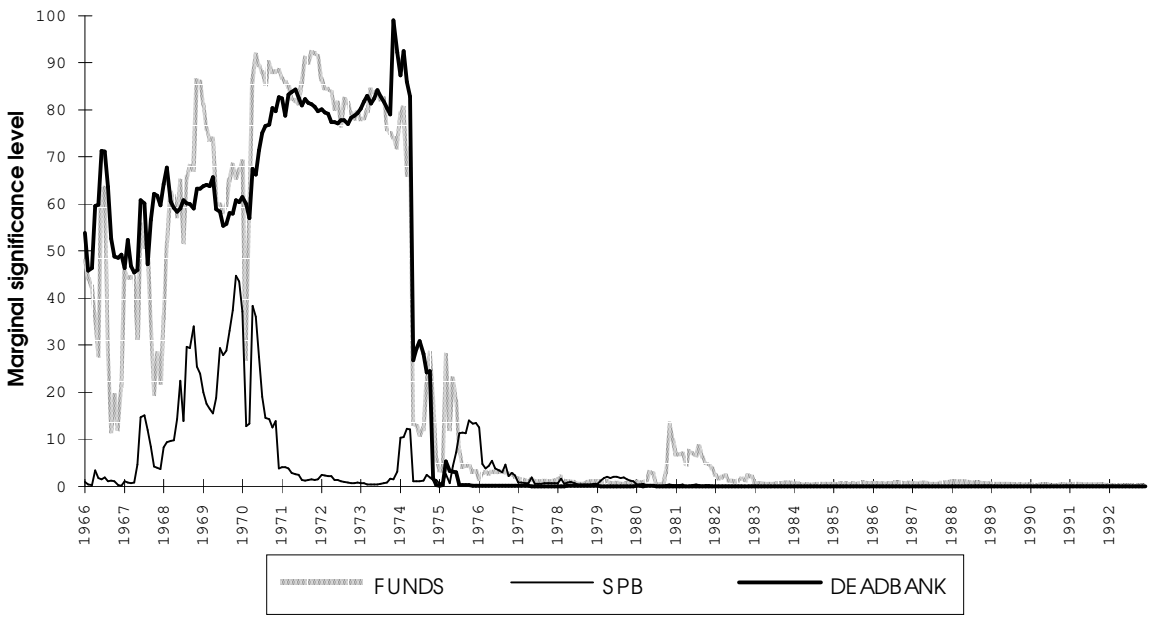
Estimated equation, $t \in (1960{:}02, \ldots, T)$:

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

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

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, $t \in (1959{:}01+\min(7,n+1),\ldots,T)$:

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

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

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.