

# External Shocks and the Japanese Business Cycles : Evidences from Model Based Sign Restriction VAR

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## Abstract

This paper investigate the sources of Japanese business fluctuation after the 90s by taking into account for the external shocks. In order to identify those shocks, I use a sign restriction VAR in which the restrictions are based on the theoretical model. As results of my analysis, it is clear that 30% - 40% of the forecast error variances of the output is explained by the external shocks. Also, the result of the historical decomposition implies that supply shock is the main factor of business fluctuations in the whole period. However, the result that risk premium shock plays an important role is obtained about the recession after the Lehman shock.

**Keywords:** External shock, DSGE model, sign restriction VAR

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