

# Animal Spirits, Fundamental Factors and Business Cycle Fluctuations\*

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## Abstract

We explore empirically the role of noisy information in cyclical developments to separate fluctuations due to genuine changes in fundamentals from those driven by temporary animal spirits (or noise shocks). Exploiting the fact that the econometrician has a richer dataset in some dimensions than the consumers, we use a novel identification scheme in a structural VAR framework and show that noise shocks are important drivers of business cycle fluctuations. In particular, noise shocks play a large role in consumption expenditures showing how false perceptions about future fundamentals influence consumer behaviours. By contrast, interest rates are much less impacted by noise shocks.

*Keywords:* Technology shocks, Noise shocks, Animal spirits, Business Cycles, Identification, Structural Vector Autoregression, Kalman Filter, Signal-extraction problem

*JEL Classification:* C32, E32

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