`README.m` – Example 1: Changing priors

What follows assumes you have successfully completed the exercise in the `MODEL` directory. In this example, we want to make potential output growth less volatile. One way to achieve this, is to reducing the size of the priors on the standard deviations of the shocks which drive the potential output processes, `RES_G` and `RES_LGDP_BAR`. The necessary changes are:

- `readDefinitions.m` – Change the version, eg `VER1`
- `estimateParams.m` – Change the lines E.std_RES_G = [1, 0.01, 3, 1/0.1^2]; E.std_RES_LGDP_BAR = [1/4, 0.01, 3, 1/(0.1/4)^2]; to E.std_RES_G = [0.05, 0.01, 3, 1/0.01^2]; E.std_RES_LGDP_BAR = [(0.05)/4, 0.01, 3, 1/(0.01/4)^2];. You may wish to add a detailed description of the exercise here. If you open `estimateParams.m`, you will see that I have already done that.
- `printReport.m` – Change the version of the report to the one specified in `readDefinitions.m`. I have already done that also.

Now you can run `readModel.m`, `readData.m`, `estimateParams.m` and `printReport.m`. You may compare how this changes some of the estimates of the unobservable variables by running `compareReports.m` with `oldversion` and `newversion` appropriately set.