

National Institute Economic Review

3/99

COMMENTARY

- The UK economic situation

THE UK ECONOMY

- Inflationary risk next year
- Fiscal report

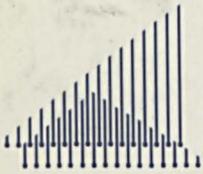
THE WORLD OUTLOOK

- Upturn in global growth
- Monetary policy in Europe

RESEARCH ARTICLES include

- John Flemming, Michael Posner and Dick Sargent on global stability
- Michael Biggs and Jayasri Dutta on distributional effects of education expenditure
- Alex Bryson on employee involvement in small firms
- Keith Church on FEERs in the Treasury model

No 169 July 1999



... from the National Institute

NIESR Discussion Papers

No. 147 *Generational accounting in the UK* by Roberto Cardarelli, James Sefton and Laurence J. Kotlikoff

Generational accounting measures the burden that current fiscal policies may impose on future generations and identifies the policy reforms needed to achieve generational balance, a situation in which future generations face the same lifetime net tax rates as current generations. The UK generational imbalance is compared with that of the US, Japan, Germany, France, Italy, and 12 other countries in Europe, Asia and South America.

No. 148 *Employment security and European labour demand: a panel study across 16 industries* by Ray Barrell and Julian Morgan

This paper analyses the impact of employment security on labour demand at the industry level by estimating a dynamic labour demand function that allows for a measure of employment security to affect the long-run structure and dynamic adjustment of labour demand. Results indicate that in nearly all the industries studied employment security can have significant effects in slowing down the dynamic adjustment of labour demand, particularly in response to changes in GDP.

No. 149 *An automatic leading indicator of economic activity: forecasting GDP growth for European Countries* by Gonzalo Camba-Mendez, George Kapetanios, Richard J. Smith and Martin R. Weale

In the construction of a leading indicator model of economic activity, economists must select among a pool of variables which lead output growth. Usually this pool is large and selection of a subset must be carried out. Here an automatic leading indicator model is proposed. Rather

than preselection, a dynamic factor model is used to summarise the information content of a pool of variables. Results show the forecasting performance of the model to be significantly better than that of traditional model selection criteria with VAR models.

No. 150 *Tests of rank in reduced rank regression models* by G. Camba-Mendez, G. Kapetanios, R.J. Smith and M.R. Weale

The performance of some asymptotic tests of rank determination in reduced rank regression models is evaluated through simulation experiments together with their bootstrapped versions. The bootstrapped procedures significantly improve upon the performance of the corresponding asymptotic tests. The tests of rank considered are applied to construct reduced rank VAR models of leading indicators of UK economic activity and these more parsimonious multivariate representations improve the forecasting performance of VAR models.

No. 151 *A bootstrap test of cointegration rank* by G. Kapetanios and G. Camba-Mendez

A suggested bootstrap testing procedure for determining the rank of cointegrated systems using Monte Carlo techniques. The performance of the test compares favourably with that of the widely used procedures for determining cointegration rank proposed by Johansen (1988).

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The *Review* welcomes the offer of high quality articles. Content should relate in some way to the explanation of economic performance (broadly defined) in the UK or internationally. There is some emphasis on quantitative research. Articles should normally be research based, and comprise 4–10,000 words, excluding tables. All articles are externally refereed, but the *Review* is able to organise quick publication in appropriate cases. Full notes for contributors are available from *Fran Robinson*.

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ISSN: 0027-9501

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