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National Institute Economic Review

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# National Institute of Economic and Social Research

## Discussion Papers

No. 164.

Testing for a unit root against nonlinear star models  
by *George Kapetanios*

A simple testing procedure is used here to detect the presence of nonstationarity against nonlinear stationarity based on the Smooth Transition Autoregressive modelling approach.

No. 165.

Model selection uncertainty and dynamic models  
by *George Kapetanios*

Inference is usually carried out conditional on a selected model disregarding any effects on the uncertainty of estimation arising out of the procedure used to select between alternative models. This paper discusses methods for accounting for model selection uncertainty and evaluates these methods in the context of dynamic models through Monte Carlo simulations.

No. 166.

Information criteria, model selection uncertainty and the determination of cointegration rank  
by *George Kapetanios*

The determination of the cointegration rank of a multivariate cointegrated system has attracted considerable attention in econometric literature. However, most work carried out to date assumes the lag order of the vector autoregressive process representing the multivariate system is known. This is unlikely to hold in reality and the question of how the lag order selection may affect the determination of the cointegration rank arises. This paper aims to address the question in a Monte Carlo framework.

No. 167.

Incorporating lag order selection uncertainty in parameter inference for AR models  
by *George Kapetanios*

Parameter inference on autoregressive models is usually carried out conditionally on a previously selected lag order. In the majority of cases the lag order selection is carried out using information criteria. Here the asymptotic distribution of the parameter estimates is discussed without conditioning on the lag order selected.

No. 168.

Choosing the regime: macroeconomic effects of UK entry into EMU  
by *Ray Barrell and Karen Dury*

The UK has to decide whether to join the other members of the EU in a monetary union, the choice depending in part on the outturns for the economy inside and outside EMU. The UK has chosen to target inflation and this can involve some 'price level drift', whilst the ECB emphasises 'price stability' and would plan to reverse the drift in the price level that might be caused by external shocks such as an increase in the oil price. This paper discusses the intellectual foundations of the ECB policy and compares these ideas with the approach embedded in inflation targets. Both regimes are compared over the future using a large macro model and the paper concludes with a discussion of the options available to the UK.

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