

How do oil price changes impact economic variables in the period 1990 to 2017: A Replication of the Cologni & Manera paper

Harriet Catherine Laing^a

^a*Stellenbosch University, Stellenbosch, South Africa*

1. Introduction

To replicate the study by Cologni & Manera to find the economic impact of a rise in oil prices.

2. Background

3. Replication methodology & results

4. Step 1: Find the data

As per the paper, the data was sourced where possible from the IMF. However, for the interest rate and exchange rate we sourced the data from Board of Governors of the Federal Reserve System and for inflation from the US Bureau of Labor Statistics. First, we want to use US data and see if we can replicate the results in the study. We need to convert all the data into quarterly. The time period available to reproduce the results of the paper was constrained by the availability of world oil price data: could only find from 1990, therefore had to limit to 1990 onwards. Similarly, restricted time period due to the data availability of money. In the paper they used predominantly seasonally-adjusted data but due to constraints on availability of data, for this replication I used a combination of seasonally-adjusted and not seasonally-adjusted.

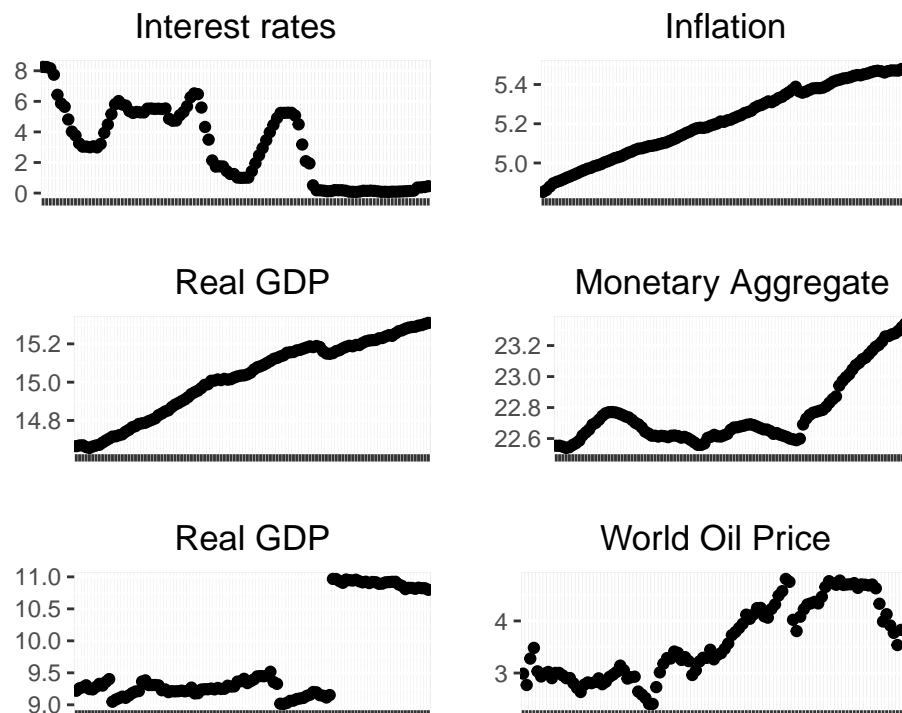
Interest Rate= Federal Funds Effective Rate, percent, not seasonally adjusted, monthly Source: Board of Governors of the Federal Reserve System Exchange Rate= Millions of Dollars, Not Seasonally Adjusted, quarterly, source: Board of Governors of the Federal Reserve System (2021) Inflation = Index 1982-1984=100, Seasonally Adjusted, monthly, source U.S. Bureau of Labor Statistics Real GDP

Email address: 21617023@sun.ac.za (Harriet Catherine Laing)

= Domestic Currency, Seasonally Adjusted, quarterly, source IMF Monetary Aggregate = Dollars, Seasonally Adjusted, monthly source: IMF World Oil Price = U.S. Dollars per Barrel, Not Seasonally Adjusted, monthly, IMF. Need to do until 2017 because of monetary aggregate data constraints

The methodology that I applied in order to replicate the study, was to first transform all of the quarterly series in logarithms except for the interest rate. As in the paper, we run Augmented Dickey Fuller tests on all the time series variables. Findings at the 1% confidence interval were that all variables were non-stationary and were integrated of order 1, except for the monetary aggregate which was found to be integrated of order 2. The lags were selected according to the AIC criteria, as done in the paper. The results in this replication differed only from the paper regarding the integration order of inflation, which was found to be integrated of order 1 by Cologni & Manera. This difference from the paper dictated that only the monetary aggregate be transformed by subtracting inflation to become the real monetary aggregate (by taking the difference between the logarithm of monetary aggregate and the logarithm of inflation), and the transformation for inflation was not followed. This is because for finding cointegrating relationships, the time series variables must be integrated of order 1.

Resultant time series variables were as follows:



We then construct our VAR model by creating a matrix which includes the time series variables

included in Figure 1. We set the lag max to 4. The VAR model was found to have 4 when we used the AIC lag selection criteria and accounted for a time trend, as is done in the paper. We order our VAR system in the same way as the short run restrictions matrix in the paper: monetary aggregate, interest rate, real GDP, inflation, exchange rate and world oil price. Lag should be 2 according to the paper, but we find AIC suggests 4. As can be seen in Figure 1, there is clearly a lot of persistence after the financial crisis. Exchange rates for the US had a stark level increase around this water-shed event and interest rates were set close to zero to try and stimulate the economy, where they have remained fairly constant since this monetary policy adjustment. Similarly, we can note real GDP has diminished since 2008. Therefore, it is likely the difference in the optimal lags between this replication and the Cologni & Manera paper arises from the different time periods used, as Cologni & Manera's time period ends before the financial crisis.

For a VAR model, we use the lag of 4, but for the VECM model we use the lag of 3. This is because a VECM model has a difference term.

Now we can see long-run trends in the time series variables, but wish to now see if there exists any cointegrating relationships. We test this using the Johansen test, namely the eigenvalue test and the trace test. For the eigenvalue test, we find that there is likely one cointegrating relationship at the 5% confidence interval where our critical value is smaller than the test statistic, however, only marginally (37.26 estimated value < 37.52 critical value). For the trace test, we find that there is at least two cointegrating relationships. Therefore, because the rejection of the null hypothesis in the eigenvalue test is incredibly marginal, we conclude from our estimates that there is likely two cointegrating relationships. This is a divergence from the result as is found for the US in Cologni & Manera.

Cointegration analysis of the restricted system

We obtain the cointegrating vectors from the Johansen test and construct a matrix in which each column is a cointegrating vector. Then we multiply the VAR system by the cointegrating vector matrix to obtain the error correction terms.

```
## #####
## ###Model VECM
## #####
## Full sample size: 108    End sample size: 104
## Number of variables: 6    Number of estimated slope parameters 126
## AIC -3210.216    BIC -2855.868    SSR 74.89496
## Cointegrating vector (estimated by ML):
##    realGDP worldoilprice interestrate    inflation exchangerate
```

```

## r1      1      0 -0.1704922 -0.01710960  0.6161332
## r2      0      1  1.6056301  0.06991751 -5.4962156
## monetaryaggregate
## r1      -0.3747751
## r2      6.5786487
##
##
##
## ECT1 ECT2
## Equation realGDP 0.0114(0.0262) 0.0012(0.0029)
## Equation worldoilprice -1.1213(0.6892) -0.1191(0.0757)
## Equation interestrate -0.8253(1.3364) -0.0909(0.1468)
## Equation inflation 1.9807(4.2269) 0.2323(0.4642)
## Equation exchangerate -1.5280(0.4970)** -0.1498(0.0546)**
## Equation monetaryaggregate -0.0999(0.0543). -0.0127(0.0060)*
## Intercept realGDP -1
## Equation realGDP -0.2387(0.5689) 0.3017(0.1198)*
## Equation worldoilprice 23.9522(14.9378) 6.0850(3.1445).
## Equation interestrate 18.0500(28.9642) 9.3757(6.0972)
## Equation inflation -43.1723(91.6115) 23.9182(19.2849)
## Equation exchangerate 31.3052(10.7722)** 0.0695(2.2676)
## Equation monetaryaggregate 2.3668(1.1764)* -0.2741(0.2476)
## worldoilprice -1 interestrate -1
## Equation realGDP -0.0015(0.0061) -0.0022(0.0021)
## Equation worldoilprice 0.4921(0.1589)** -0.0330(0.0553)
## Equation interestrate 0.5017(0.3081) 0.5658(0.1072)***
## Equation inflation 4.0209(0.9746)*** -0.8458(0.3391)*
## Equation exchangerate 0.3216(0.1146)** 0.0338(0.0399)
## Equation monetaryaggregate -0.0342(0.0125)** 0.0027(0.0044)
## inflation -1 exchangerate -1
## Equation realGDP -0.0007(0.0010) 0.0030(0.0035)
## Equation worldoilprice -0.0649(0.0261)* 0.0232(0.0930)
## Equation interestrate -0.1333(0.0505)** -0.0459(0.1802)
## Equation inflation -0.3031(0.1598). 0.2740(0.5701)
## Equation exchangerate -0.0376(0.0188)* -0.2884(0.0670)***
## Equation monetaryaggregate 0.0093(0.0021)*** -0.0107(0.0073)
## monetaryaggregate -1 realGDP -2
## Equation realGDP -0.0421(0.0628) 0.2444(0.1211)*
## Equation worldoilprice -0.5255(1.6486) 1.0297(3.1793)
## Equation interestrate -0.7766(3.1966) -0.0562(6.1646)

```

```

## Equation inflation          1.3461(10.1107)      -10.4541(19.4983)
## Equation exchangerate      -0.3822(1.1889)      -5.2154(2.2927)*
## Equation monetaryaggregate 0.3084(0.1298)*      -0.4686(0.2504).
##                               worldoilprice -2      interestrate -2
## Equation realGDP           0.0033(0.0061)      0.0020(0.0025)
## Equation worldoilprice     0.0529(0.1609)      0.0008(0.0653)
## Equation interestrate      -0.3103(0.3121)      0.0588(0.1266)
## Equation inflation         0.8367(0.9870)      0.1164(0.4004)
## Equation exchangerate      0.0028(0.1161)      0.0796(0.0471).
## Equation monetaryaggregate -0.0030(0.0127)      0.0014(0.0051)
##                               inflation -2          exchangerate -2
## Equation realGDP           -0.0010(0.0010)      -0.0023(0.0034)
## Equation worldoilprice     -0.0211(0.0266)      -0.0957(0.0890)
## Equation interestrate      0.0222(0.0516)      -0.1919(0.1725)
## Equation inflation         -0.1823(0.1633)      -0.6758(0.5456)
## Equation exchangerate      -0.0071(0.0192)      -0.1283(0.0642)*
## Equation monetaryaggregate 0.0023(0.0021)      -0.0097(0.0070)
##                               monetaryaggregate -2 realGDP -3
## Equation realGDP           0.0925(0.0628)      -0.0572(0.1260)
## Equation worldoilprice     2.1871(1.6496)      -1.6558(3.3091)
## Equation interestrate      4.6408(3.1985)      5.5340(6.4163)
## Equation inflation         4.7544(10.1165)      -8.8125(20.2941)
## Equation exchangerate      0.7138(1.1896)      -10.8377(2.3863)***
## Equation monetaryaggregate -0.0451(0.1299)      0.2839(0.2606)
##                               worldoilprice -3      interestrate -3
## Equation realGDP           0.0061(0.0059)      0.0007(0.0022)
## Equation worldoilprice     0.2848(0.1541).      0.0895(0.0570)
## Equation interestrate      1.2330(0.2988)***      0.0649(0.1105)
## Equation inflation         0.4219(0.9450)      0.9330(0.3494)**
## Equation exchangerate      0.3740(0.1111)**      -0.0451(0.0411)
## Equation monetaryaggregate -0.0218(0.0121).      -0.0080(0.0045).
##                               inflation -3          exchangerate -3
## Equation realGDP           -0.0016(0.0010)      0.0017(0.0034)
## Equation worldoilprice     -0.0329(0.0258)      -0.0271(0.0888)
## Equation interestrate      -0.1358(0.0500)**      -0.0992(0.1721)
## Equation inflation         -0.0726(0.1580)      -0.5133(0.5445)
## Equation exchangerate      -0.1181(0.0186)***      -0.0048(0.0640)
## Equation monetaryaggregate 0.0050(0.0020)*      -0.0079(0.0070)
##                               monetaryaggregate -3

```

```

## Equation realGDP          -0.0568(0.0583)
## Equation worldoilprice    -0.4480(1.5304)
## Equation interestrate     1.7129(2.9674)
## Equation inflation        -1.4109(9.3857)
## Equation exchangerate     3.0424(1.1036)**
## Equation monetaryaggregate 0.0729(0.1205)

##
## VAR Estimation Results:
## =====
## Endogenous variables: realGDP, worldoilprice, interestrate, inflation, exchangerate, monetary
## Deterministic variables: trend
## Sample size: 104
## Log Likelihood: 878.829
## Roots of the characteristic polynomial:
## 1.001 0.9989 0.9989 0.9246 0.9246 0.858 0.858 0.7865 0.7865 0.7262 0.7262 0.7201 0.7201 0.718
## Call:
## VAR(y = cointanalysisVAR, p = 2, type = "trend", lag.max = 4)
##
##
## Estimation results for equation realGDP:
## =====
## realGDP = realGDP.l1 + worldoilprice.l1 + interestrate.l1 + inflation.l1 + exchangerate.l1 +
##
##
##           Estimate Std. Error t value Pr(>|t|)
## realGDP.l1      1.1981273  0.1185642  10.105  6.9e-16 ***
## worldoilprice.l1 -0.0011531  0.0062722  -0.184    0.855
## interestrate.l1  -0.0019278  0.0022493  -0.857    0.394
## inflation.l1     -0.0005148  0.0010266  -0.501    0.617
## exchangerate.l1   0.0034635  0.0033489   1.034    0.304
## monetaryaggregate.l1 -0.0316001  0.0615406  -0.513    0.609
## realGDP.l2       -0.0211432  0.1785169  -0.118    0.906
## worldoilprice.l2   0.0019140  0.0083392   0.230    0.819
## interestrate.l2    0.0044297  0.0038545   1.149    0.254
## inflation.l2      -0.0001833  0.0014884  -0.123    0.902
## exchangerate.l2   -0.0050160  0.0042109  -1.191    0.237
## monetaryaggregate.l2 0.1324254  0.0986261   1.343    0.183
## realGDP.l3       -0.2765746  0.1818733  -1.521    0.132

```

```

## worldoilprice.l3      0.0038196  0.0081310  0.470  0.640
## interestrate.l3      -0.0011298  0.0038364 -0.295  0.769
## inflation.l3         -0.0007457  0.0014491 -0.515  0.608
## exchangerate.l3      0.0042996  0.0041262  1.042  0.301
## monetaryaggregate.l3 -0.1260627  0.0962401 -1.310  0.194
## realGDP.l4           0.1018928  0.1253140  0.813  0.419
## worldoilprice.l4     -0.0053669  0.0060009 -0.894  0.374
## interestrate.l4      -0.0015061  0.0021704 -0.694  0.490
## inflation.l4         0.0009775  0.0009894  0.988  0.326
## exchangerate.l4      -0.0017230  0.0032728 -0.526  0.600
## monetaryaggregate.l4  0.0264721  0.0586377  0.451  0.653
## trend                0.0004277  0.0005572  0.767  0.445
## ---
## Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
##
##
## Residual standard error: 0.005296 on 79 degrees of freedom
## Multiple R-Squared:  1, Adjusted R-squared:  1
## F-statistic: 3.353e+07 on 25 and 79 DF, p-value: < 2.2e-16
##
##
## Estimation results for equation worldoilprice:
## =====
## worldoilprice = realGDP.l1 + worldoilprice.l1 + interestrate.l1 + inflation.l1 + exchangerate.l1
##
##
## Estimate Std. Error t value Pr(>|t|)
## realGDP.l1      4.876088  3.250772  1.500  0.1376
## worldoilprice.l1 1.325333  0.171970  7.707 3.24e-11 ***
## interestrate.l1 -0.032918  0.061672 -0.534  0.5950
## inflation.l1    -0.053639  0.028147 -1.906  0.0603 .
## exchangerate.l1  0.039161  0.091819  0.427  0.6709
## monetaryaggregate.l1 -0.481001  1.687308 -0.285  0.7763
## realGDP.l2      -5.045207  4.894544 -1.031  0.3058
## worldoilprice.l2 -0.410354  0.228643 -1.795  0.0765 .
## interestrate.l2  0.033250  0.105683  0.315  0.7539
## inflation.l2     0.037275  0.040810  0.913  0.3638
## exchangerate.l2 -0.095921  0.115454 -0.831  0.4086
## monetaryaggregate.l2 2.474385  2.704113  0.915  0.3630
## realGDP.l3      -1.735122  4.986569 -0.348  0.7288

```

```

## worldoilprice.l3      0.233494    0.222933    1.047    0.2981
## interestrate.l3      0.078744    0.105185    0.749    0.4563
## inflation.l3         -0.014604    0.039732   -0.368    0.7142
## exchangerate.l3      0.064829    0.113131    0.573    0.5682
## monetaryaggregate.l3 -2.399381    2.638695   -0.909    0.3660
## realGDP.l4           2.279073    3.435838    0.663    0.5091
## worldoilprice.l4     -0.195813    0.164531   -1.190    0.2376
## interestrate.l4      -0.081833    0.059508   -1.375    0.1730
## inflation.l4          0.026701    0.027127    0.984    0.3280
## exchangerate.l4       0.002837    0.089733    0.032    0.9749
## monetaryaggregate.l4  0.191263    1.607718    0.119    0.9056
## trend                 0.003686    0.015279    0.241    0.8100
## ---
## Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
##
##
## Residual standard error: 0.1452 on 79 degrees of freedom
## Multiple R-Squared: 0.9988, Adjusted R-squared: 0.9985
## F-statistic: 2697 on 25 and 79 DF, p-value: < 2.2e-16
##
##
## Estimation results for equation interestrate:
## =====
## interestrate = realGDP.l1 + worldoilprice.l1 + interestrate.l1 + inflation.l1 + exchangerate
##
##
##              Estimate Std. Error t value Pr(>|t|)
## realGDP.l1      9.038779    5.981452    1.511 0.134744
## worldoilprice.l1  0.501830    0.316427    1.586 0.116751
## interestrate.l1  1.407438    0.113476   12.403 < 2e-16 ***
## inflation.l1     -0.116857    0.051791   -2.256 0.026815 *
## exchangerate.l1  -0.149257    0.168949   -0.883 0.379676
## monetaryaggregate.l1 -1.153496    3.104662   -0.372 0.711232
## realGDP.l2       -9.897220    9.006009   -1.099 0.275125
## worldoilprice.l2  -0.820725    0.420705   -1.951 0.054623 .
## interestrate.l2   -0.402998    0.194457   -2.072 0.041487 *
## inflation.l2       0.145579    0.075090    1.939 0.056107 .
## exchangerate.l2   -0.187820    0.212436   -0.884 0.379312
## monetaryaggregate.l2  4.727163    4.975593    0.950 0.344974
## realGDP.l3        3.895740    9.175334    0.425 0.672291

```



```

## worldoilprice.l3      1.392959    0.410200    3.396 0.001073 **
## interestrate.l3      0.049413    0.193542    0.255 0.799149
## inflation.l3         -0.141324    0.073106   -1.933 0.056803 .
## exchangerate.l3      0.091255    0.208163    0.438 0.662307
## monetaryaggregate.l3 -3.186590    4.855223   -0.656 0.513524
## realGDP.l4           -3.468111    6.321974   -0.549 0.584841
## worldoilprice.l4     -1.135631    0.302738   -3.751 0.000334 ***
## interestrate.l4      -0.139677    0.109495   -1.276 0.205816
## inflation.l4          0.118873    0.049914    2.382 0.019646 *
## exchangerate.l4       0.008622    0.165109    0.052 0.958487
## monetaryaggregate.l4 -0.014527    2.958216   -0.005 0.996094
## trend                -0.005153    0.028113   -0.183 0.855044
## ---
## Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
##
##
## Residual standard error: 0.2672 on 79 degrees of freedom
## Multiple R-Squared: 0.9959, Adjusted R-squared: 0.9946
## F-statistic: 770.9 on 25 and 79 DF, p-value: < 2.2e-16
##
##
## Estimation results for equation inflation:
## =====
## inflation = realGDP.l1 + worldoilprice.l1 + interestrate.l1 + inflation.l1 + exchangerate.l1
##
##
##              Estimate Std. Error t value Pr(>|t|)
## realGDP.l1      27.20222    19.42881    1.400  0.16540
## worldoilprice.l1  4.34944     1.02781    4.232 6.2e-05 ***
## interestrate.l1  -0.80917     0.36859   -2.195  0.03108 *
## inflation.l1      0.57409     0.16823    3.413  0.00102 **
## exchangerate.l1   0.36445     0.54877    0.664  0.50855
## monetaryaggregate.l1 2.90178    10.08449    0.288  0.77429
## realGDP.l2      -31.92497    29.25311   -1.091  0.27844
## worldoilprice.l2  -2.85033     1.36652   -2.086  0.04022 *
## interestrate.l2    0.87192     0.63163    1.380  0.17135
## inflation.l2       0.09247     0.24391    0.379  0.70560
## exchangerate.l2   -0.89874     0.69003   -1.302  0.19654
## monetaryaggregate.l2 1.71200    16.16161    0.106  0.91591
## realGDP.l3        5.58033    29.80311    0.187  0.85195

```

```

## worldoilprice.l3      -0.26004      1.33240    -0.195    0.84576
## interestrate.l3       0.90317      0.62866     1.437    0.15476
## inflation.l3          0.04060      0.23746     0.171    0.86469
## exchangerate.l3       -0.01953      0.67615    -0.029    0.97703
## monetaryaggregate.l3  -6.47740     15.77062    -0.411    0.68239
## realGDP.l4            0.25704     20.53489     0.013    0.99004
## worldoilprice.l4      0.35431      0.98335     0.360    0.71957
## interestrate.l4       -0.94805      0.35566    -2.666    0.00932 **
## inflation.l4          0.08033      0.16213     0.495    0.62164
## exchangerate.l4        0.36690      0.53630     0.684    0.49590
## monetaryaggregate.l4   2.28360      9.60881     0.238    0.81276
## trend                 0.19511      0.09131     2.137    0.03572 *
## ---
## Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
##
##
## Residual standard error: 0.8679 on 79 degrees of freedom
## Multiple R-Squared:  1,   Adjusted R-squared:  1
## F-statistic: 2.041e+05 on 25 and 79 DF,  p-value: < 2.2e-16
##
##
## Estimation results for equation exchangerate:
## =====
## exchangerate = realGDP.l1 + worldoilprice.l1 + interestrate.l1 + inflation.l1 + exchangerate
##
##
##              Estimate Std. Error t value Pr(>|t|)
## realGDP.l1      -0.658184   2.385524  -0.276 0.783340
## worldoilprice.l1  0.195446   0.126197   1.549 0.125443
## interestrate.l1  0.060855   0.045257   1.345 0.182583
## inflation.l1     -0.024943   0.020655  -1.208 0.230812
## exchangerate.l1  0.646112   0.067380   9.589 6.92e-15 ***
## monetaryaggregate.l1 -0.570079   1.238202  -0.460 0.646488
## realGDP.l2       -5.706738   3.591778  -1.589 0.116092
## worldoilprice.l2  -0.329301   0.167786  -1.963 0.053210 .
## interestrate.l2   0.036920   0.077553   0.476 0.635342
## inflation.l2      0.034495   0.029948   1.152 0.252854
## exchangerate.l2   0.192183   0.084724   2.268 0.026038 *
## monetaryaggregate.l2 0.985341   1.984367   0.497 0.620884
## realGDP.l3       -5.082251   3.659309  -1.389 0.168780

```

```

## worldoilprice.l3      0.361006    0.163596    2.207 0.030239 *
## interestrate.l3      -0.129099    0.077189   -1.673 0.098380 .
## inflation.l3         -0.117703    0.029156   -4.037 0.000124 ***
## exchangerate.l3      0.125185    0.083020    1.508 0.135570
## monetaryaggregate.l3  1.648772    1.936361    0.851 0.397077
## realGDP.l4           11.622925    2.521331    4.610 1.53e-05 ***
## worldoilprice.l4     -0.349306    0.120738   -2.893 0.004928 **
## interestrate.l4      0.047938    0.043669    1.098 0.275640
## inflation.l4         0.136240    0.019907    6.844 1.48e-09 ***
## exchangerate.l4      0.007636    0.065849    0.116 0.907976
## monetaryaggregate.l4 -2.298325    1.179796   -1.948 0.054958 .
## trend                -0.028048    0.011212   -2.502 0.014428 *
## ---
## Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
##
##
## Residual standard error: 0.1066 on 79 degrees of freedom
## Multiple R-Squared: 0.9999, Adjusted R-squared: 0.9999
## F-statistic: 3.48e+04 on 25 and 79 DF, p-value: < 2.2e-16
##
##
## Estimation results for equation monetaryaggregate:
## =====
## monetaryaggregate = realGDP.l1 + worldoilprice.l1 + interestrate.l1 + inflation.l1 + exchange
##
##              Estimate Std. Error t value Pr(>|t|)
## realGDP.l1      -0.2649573  0.2580633  -1.027  0.30769
## worldoilprice.l1 -0.0444649  0.0136519  -3.257  0.00166 **
## interestrate.l1   0.0003142  0.0048958   0.064  0.94899
## inflation.l1      0.0100001  0.0022345   4.475 2.53e-05 ***
## exchangerate.l1   0.0011688  0.0072891   0.160  0.87301
## monetaryaggregate.l1 1.2786220  0.1339473   9.546 8.40e-15 ***
## realGDP.l2       -0.2500271  0.3885546  -0.643  0.52178
## worldoilprice.l2   0.0308124  0.0181509   1.698  0.09353 .
## interestrate.l2   -0.0023003  0.0083896  -0.274  0.78466
## inflation.l2      -0.0067071  0.0032397  -2.070  0.04169 *
## exchangerate.l2    0.0025923  0.0091653   0.283  0.77804
## monetaryaggregate.l2 -0.3559672  0.2146667  -1.658  0.10124
## realGDP.l3        0.7750762  0.3958600   1.958  0.05377 .

```

```

## worldoilprice.l3      -0.0193233  0.0176976  -1.092  0.27821
## interestrate.l3      -0.0104398  0.0083502  -1.250  0.21490
## inflation.l3          0.0025259  0.0031541   0.801  0.42563
## exchangerate.l3       0.0024594  0.0089810   0.274  0.78492
## monetaryaggregate.l3  0.0633207  0.2094734   0.302  0.76323
## realGDP.l4           -0.2407699  0.2727548  -0.883  0.38006
## worldoilprice.l4      0.0189572  0.0130613   1.451  0.15063
## interestrate.l4       0.0093999  0.0047240   1.990  0.05007 .
## inflation.l4          -0.0034019  0.0021535  -1.580  0.11817
## exchangerate.l4       0.0084164  0.0071234   1.182  0.24095
## monetaryaggregate.l4 -0.0159042  0.1276291  -0.125  0.90115
## trend                 -0.0026487  0.0012129  -2.184  0.03194 *
## ---
## Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
##
##
## Residual standard error: 0.01153 on 79 degrees of freedom
## Multiple R-Squared:  1,    Adjusted R-squared:  1
## F-statistic: 1.624e+07 on 25 and 79 DF,  p-value: < 2.2e-16
##
##
##
## Covariance matrix of residuals:
##
##          realGDP worldoilprice interestrate  inflation exchangerate
## realGDP      2.805e-05   1.748e-04   0.0004381  0.0007286   2.986e-05
## worldoilprice 1.748e-04   2.109e-02   0.0104390  0.0981336   1.386e-05
## interestrate  4.381e-04   1.044e-02   0.0713873  0.0552588  -3.844e-03
## inflation     7.286e-04   9.813e-02   0.0552588  0.7531820   7.438e-03
## exchangerate  2.986e-05   1.386e-05  -0.0038437  0.0074378   1.135e-02
## monetaryaggregate -1.916e-05  -7.914e-04  -0.0009813 -0.0051188   4.565e-05
##
##          monetaryaggregate
## realGDP      -1.916e-05
## worldoilprice -7.914e-04
## interestrate  -9.813e-04
## inflation     -5.119e-03
## exchangerate   4.565e-05
## monetaryaggregate 1.329e-04
##
## Correlation matrix of residuals:

```

```

##          realGDP worldoilprice interestrate inflation exchangerate
## realGDP      1.00000      0.2273549      0.3096  0.15851  0.0529147
## worldoilprice 0.22735      1.0000000      0.2691  0.77871  0.0008959
## interestrate  0.30960      0.2690666      1.0000  0.23831 -0.1350069
## inflation     0.15851      0.7787135      0.2383  1.00000  0.0804278
## exchangerate  0.05291      0.0008959     -0.1350  0.08043  1.0000000
## monetaryaggregate -0.31385     -0.4727964     -0.3186 -0.51167  0.0371668
##          monetaryaggregate
## realGDP              -0.31385
## worldoilprice        -0.47280
## interestrate         -0.31860
## inflation            -0.51167
## exchangerate          0.03717
## monetaryaggregate     1.00000

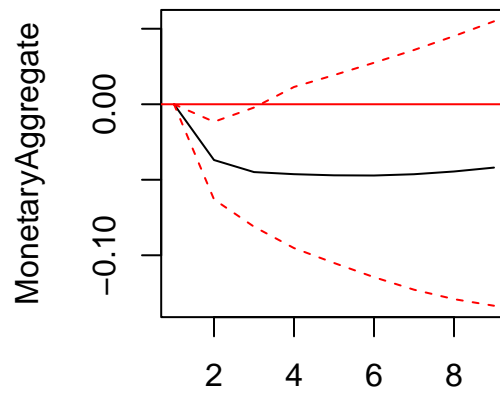
```

Comparison of cointegrating vectors

	Real GDP	World Oil Price	Interest Rate	Inflation	Exchange Rate	Monetary Aggregate
Cogni & Manera	1	0.16	0	-26.019	0.218	0
Cointegrating vector 1	1	0	-0.170	-0.017	0.616	-0.375
Cointegrating vector 2	0	1	1.606	0.0699	-5.496	6.579

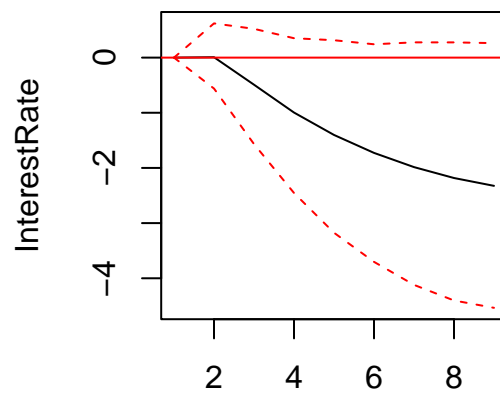
We need to find the SR error, which is equal to the LR error (ECT in the VECM) multiplied by the SR restrictions (B matrix)

Impulse Response from WorldOilPrice



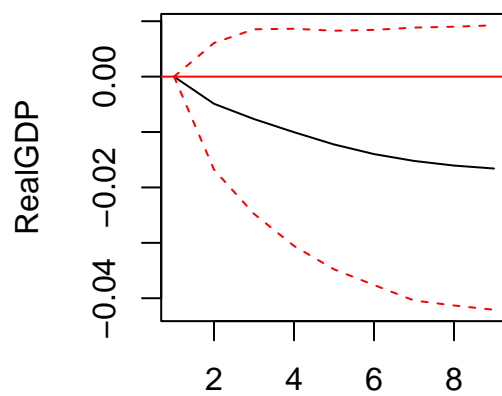
95 % Bootstrap CI, 1000 runs

Impulse Response from WorldOilPrice



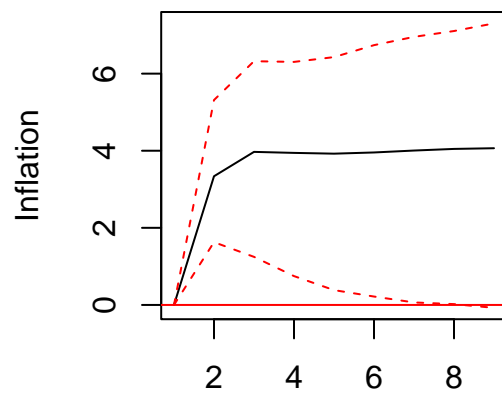
95 % Bootstrap CI, 1000 runs

Impulse Response from WorldOilPrice



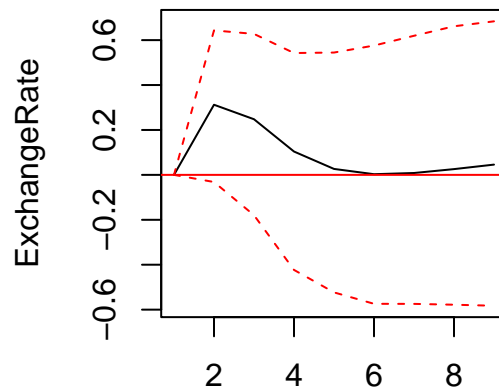
95 % Bootstrap CI, 1000 runs

Impulse Response from WorldOilPrice



95 % Bootstrap CI, 1000 runs

Impulse Response from WorldOilPrice



95 % Bootstrap CI, 1000 runs

Cointegrating vectors visually??

Let us set up the imposed restrictions in a matrix, known as B matrix in the paper.

```
##      [,1] [,2] [,3] [,4] [,5] [,6]
## Brow1    1    1    0    1    0    0
## Brow2    0    1    1    1    1    1
## Brow3    0    0    1    1    1    1
## Brow4    0    0    0    1    1    1
## Brow5    0    0    0    0    1    1
## Brow6    0    0    0    0    0    1
```

... Let us see if we can impose the restrictions contained in the B matrix onto the cointegrating vectors contained in the Et matrix.

```
## #####
## ###Model VECM
## #####
```



```

## Full sample size: 108      End sample size: 104
## Number of variables: 6    Number of estimated slope parameters 126
## AIC -3210.216      BIC -2855.868      SSR 74.89496
## Cointegrating vector (estimated by ML):
##      realGDP worldoilprice interestrate  inflation exchangerate
## r1      1              0  -0.1704922 -0.01710960   0.6161332
## r2      0              1   1.6056301  0.06991751  -5.4962156
##      monetaryaggregate
## r1      -0.3747751
## r2       6.5786487
##
##
##
##      ECT1              ECT2
## Equation realGDP      0.0114(0.0262)      0.0012(0.0029)
## Equation worldoilprice -1.1213(0.6892)      -0.1191(0.0757)
## Equation interestrate -0.8253(1.3364)      -0.0909(0.1468)
## Equation inflation     1.9807(4.2269)      0.2323(0.4642)
## Equation exchangerate -1.5280(0.4970)**      -0.1498(0.0546)**
## Equation monetaryaggregate -0.0999(0.0543).      -0.0127(0.0060)*
##      Intercept              realGDP -1
## Equation realGDP      -0.2387(0.5689)      0.3017(0.1198)*
## Equation worldoilprice 23.9522(14.9378)      6.0850(3.1445).
## Equation interestrate  18.0500(28.9642)      9.3757(6.0972)
## Equation inflation     -43.1723(91.6115)      23.9182(19.2849)
## Equation exchangerate  31.3052(10.7722)**      0.0695(2.2676)
## Equation monetaryaggregate 2.3668(1.1764)*      -0.2741(0.2476)
##      worldoilprice -1      interestrate -1
## Equation realGDP      -0.0015(0.0061)      -0.0022(0.0021)
## Equation worldoilprice 0.4921(0.1589)**      -0.0330(0.0553)
## Equation interestrate  0.5017(0.3081)      0.5658(0.1072)***
## Equation inflation     4.0209(0.9746)***      -0.8458(0.3391)*
## Equation exchangerate  0.3216(0.1146)**      0.0338(0.0399)
## Equation monetaryaggregate -0.0342(0.0125)**      0.0027(0.0044)
##      inflation -1      exchangerate -1
## Equation realGDP      -0.0007(0.0010)      0.0030(0.0035)
## Equation worldoilprice -0.0649(0.0261)*      0.0232(0.0930)
## Equation interestrate -0.1333(0.0505)**      -0.0459(0.1802)
## Equation inflation     -0.3031(0.1598).      0.2740(0.5701)
## Equation exchangerate -0.0376(0.0188)*      -0.2884(0.0670)***

```

```

## Equation monetaryaggregate 0.0093(0.0021)*** -0.0107(0.0073)
##
## monetaryaggregate -1 realGDP -2
## Equation realGDP -0.0421(0.0628) 0.2444(0.1211)*
## Equation worldoilprice -0.5255(1.6486) 1.0297(3.1793)
## Equation interestrate -0.7766(3.1966) -0.0562(6.1646)
## Equation inflation 1.3461(10.1107) -10.4541(19.4983)
## Equation exchangerate -0.3822(1.1889) -5.2154(2.2927)*
## Equation monetaryaggregate 0.3084(0.1298)* -0.4686(0.2504).
##
## worldoilprice -2 interestrate -2
## Equation realGDP 0.0033(0.0061) 0.0020(0.0025)
## Equation worldoilprice 0.0529(0.1609) 0.0008(0.0653)
## Equation interestrate -0.3103(0.3121) 0.0588(0.1266)
## Equation inflation 0.8367(0.9870) 0.1164(0.4004)
## Equation exchangerate 0.0028(0.1161) 0.0796(0.0471).
## Equation monetaryaggregate -0.0030(0.0127) 0.0014(0.0051)
##
## inflation -2 exchangerate -2
## Equation realGDP -0.0010(0.0010) -0.0023(0.0034)
## Equation worldoilprice -0.0211(0.0266) -0.0957(0.0890)
## Equation interestrate 0.0222(0.0516) -0.1919(0.1725)
## Equation inflation -0.1823(0.1633) -0.6758(0.5456)
## Equation exchangerate -0.0071(0.0192) -0.1283(0.0642)*
## Equation monetaryaggregate 0.0023(0.0021) -0.0097(0.0070)
##
## monetaryaggregate -2 realGDP -3
## Equation realGDP 0.0925(0.0628) -0.0572(0.1260)
## Equation worldoilprice 2.1871(1.6496) -1.6558(3.3091)
## Equation interestrate 4.6408(3.1985) 5.5340(6.4163)
## Equation inflation 4.7544(10.1165) -8.8125(20.2941)
## Equation exchangerate 0.7138(1.1896) -10.8377(2.3863)***
## Equation monetaryaggregate -0.0451(0.1299) 0.2839(0.2606)
##
## worldoilprice -3 interestrate -3
## Equation realGDP 0.0061(0.0059) 0.0007(0.0022)
## Equation worldoilprice 0.2848(0.1541). 0.0895(0.0570)
## Equation interestrate 1.2330(0.2988)*** 0.0649(0.1105)
## Equation inflation 0.4219(0.9450) 0.9330(0.3494)**
## Equation exchangerate 0.3740(0.1111)** -0.0451(0.0411)
## Equation monetaryaggregate -0.0218(0.0121). -0.0080(0.0045).
##
## inflation -3 exchangerate -3
## Equation realGDP -0.0016(0.0010) 0.0017(0.0034)
## Equation worldoilprice -0.0329(0.0258) -0.0271(0.0888)

```

```

## Equation interestrate      -0.1358(0.0500)**   -0.0992(0.1721)
## Equation inflation         -0.0726(0.1580)     -0.5133(0.5445)
## Equation exchangerate      -0.1181(0.0186)***  -0.0048(0.0640)
## Equation monetaryaggregate 0.0050(0.0020)*     -0.0079(0.0070)
##                               monetaryaggregate -3
## Equation realGDP           -0.0568(0.0583)
## Equation worldoilprice     -0.4480(1.5304)
## Equation interestrate      1.7129(2.9674)
## Equation inflation         -1.4109(9.3857)
## Equation exchangerate      3.0424(1.1036)**
## Equation monetaryaggregate 0.0729(0.1205)

```

#Find VECM residuals

```

##          [,1]    [,2]    [,3]    [,4]    [,5]    [,6]
## [1,] -0.0025 -0.0025  0.0000 -0.0025  0.0000  0.0000
## [2,]  0.0000 -1.4757 -1.4757 -1.4757 -1.4757 -1.4757
## [3,]  0.0000  0.0000 -1.2205 -1.2205 -1.2205 -1.2205
## [4,]  0.0000  0.0000  0.0000 -1.8461 -1.8461 -1.8461
## [5,]  0.0000  0.0000  0.0000  0.0000 -1.9858 -1.9858
## [6,]  0.0000  0.0000  0.0000  0.0000  0.0000 -0.0757

```

```

##          [,1]    [,2]    [,3]    [,4]    [,5]    [,6]
## [1,] -2e-04 -0.0002  0.0000 -0.0002  0.0000  0.0000
## [2,]  0e+00 -0.1583 -0.1583 -0.1583 -0.1583 -0.1583
## [3,]  0e+00  0.0000 -0.1277 -0.1277 -0.1277 -0.1277
## [4,]  0e+00  0.0000  0.0000 -0.0425 -0.0425 -0.0425
## [5,]  0e+00  0.0000  0.0000  0.0000 -0.1907 -0.1907
## [6,]  0e+00  0.0000  0.0000  0.0000  0.0000 -0.0145

```

We want to compare our estimates to the one in Table 3.

Maybe instead it is the VAR system ... missing constant and trend

Then test for white noise residuals.

5. Step 6: Is it stationary?
6. Step 7: Are the residuals white noise?
7. Step 8: Find VECM model by imposing SR contemporaneous effects
8. Step 9: Test model specification using congruency, parsimony, lag inclusion. . .

Appendix

Johansen Tests