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July 29, 2020

Abstract

This is the abstract.

Keywords— time series, IPE, IR

Work in progress. Please don't cite.

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We both thank Tsung-wu Ho.

I. Intro

I. Presenting the GVAR Methodology

Following Mauro and Pesaran (2013, 14), we define a country-specific GVAR model as follows,

$$\mathbf{x}_{it} = \boldsymbol{\alpha}_{i,0} + \boldsymbol{\Phi}_{i1}\mathbf{x}_{i,t-1} + \boldsymbol{\Phi}_{i2}\mathbf{x}_{i,t-2} + \boldsymbol{\Lambda}_{i0}\mathbf{x}^{\star}_{it} + \boldsymbol{\Lambda}_{i1}\mathbf{x}^{\star}_{i,t-1} + \boldsymbol{\Lambda}_{i2}\mathbf{x}^{\star}_{i,t-2} + \mathbf{u}_{it} \tag{1}$$

where $\mathbf{x}_{it}$ is a $k_i \times 1$ vector of domestic variables, $\mathbf{x}^{\star}_{it}$ is a $k^{\star}_i \times 1$ vector of foreign variables, and $\mathbf{u}_{it}$ is a serially uncorrelated and cross-sectionally weakly dependent process. The inclusion of the weighting foreign variables $\mathbf{x}^{\star}_{it}$ is one of the main characteristics of the GVAR approach. In our case, the vector of foreign variables is a single variable, namely, bilateral trade. Using this variable, a square weighting matrix was constructed. If there are 30 countries, the weight matrix has 30 rows and 30 columns—its diagonal element contains only zeros. Every country is weighted by the other 29 remaining countries. Finally, in our case, the vector $\mathbf{x}_{it}$ containing the domestic variables considers military personnel and iron production.

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II. Guns and Steel

Table 1: *Bivariate Gobal Granger Causality Tests of the World Political Economy, 1871-1913*

	Granger Relationship	**F-Test**	**P-Value**	**DF**	**Adjusted R-sq**	**Lags**
Austria-Hungary	steel → guns	2.834	0.017	8,31	0.273	1
	guns → steel	1.393	0.238	8,31	0.075	
Belgium	steel → guns	4.216	0.001	10,28	0.458	2
	guns → steel	2.759	0.017	10,28	0.316	
France	steel → guns	1.35	0.257	8,31	0.067	1
	guns → steel	1.907	0.095	8,31	0.157	
Germany	steel → guns	3.827	0.003	8,31	0.367	1
	guns → steel	2.694	0.022	8,31	0.258	
Italy	steel → guns	3.61	0.004	10,28	0.407	2
	guns → steel	5.039	0	10,28	0.515	
Russia	steel → guns	10.499	0	16,19	0.813	5
	guns → steel	2.423	0.034	16,19	0.394	
Spain	steel → guns	1.749	0.126	8,31	0.133	1
	guns → steel	1.454	0.214	8,31	0.085	
United Kingdom	steel → guns	2.674	0.023	8,31	0.256	1
	guns → steel	1.29	0.284	8,31	0.056	
United States	steel → guns	2.254	0.044	10,28	0.248	2
	guns → steel	5.528	0	10,28	0.544	

Table 2: *Bivariate Gobal Granger Causality Tests of the World Political Economy, 1955-2014*

	Granger Relationship	F-Test	P-Value	DF	Adjusted R-sq	Lags
Argentina	steel → guns	1.072	0.402	9,45	0.012	1
	guns → steel	6.222	0	9,45	0.465	
Australia	steel → guns	0.996	0.466	11,42	-0.001	2
	guns → steel	3.564	0.001	11,42	0.347	
Austria	steel → guns	0.694	0.736	11,42	-0.068	2
	guns → steel	2.526	0.015	11,42	0.24	
Belgium	steel → guns	4.525	0	13,39	0.468	3
	guns → steel	1.012	0.459	13,39	0.003	
Brazil	steel → guns	0.19	0.997	11,42	-0.202	2
	guns → steel	5.779	0	11,42	0.498	
Bulgaria	steel → guns	0.606	0.813	11,42	-0.089	2
	guns → steel	3.202	0.003	11,42	0.314	
Canada	steel → guns	1.531	0.157	11,42	0.099	2
	guns → steel	3.517	0.002	11,42	0.343	
Chile	steel → guns	0.294	0.973	9,45	-0.133	1
	guns → steel	5.678	0	9,45	0.438	
China	steel → guns	0.13	0.999	9,45	-0.17	1
	guns → steel	25.707	0	9,45	0.805	
Colombia	steel → guns	3.422	0.001	17,33	0.452	5
	guns → steel	1.719	0.089	17,33	0.196	
Egypt	steel → guns	0.19	0.994	9,45	-0.156	1
	guns → steel	2.639	0.015	9,45	0.215	
Finland	steel → guns	1.504	0.154	17,33	0.146	5
	guns → steel	2.994	0.003	17,33	0.404	
France	steel → guns	1.456	0.194	9,45	0.071	1
	guns → steel	2.438	0.024	9,45	0.193	
Greece	steel → guns	1.35	0.232	11,42	0.068	2
	guns → steel	1.917	0.064	11,42	0.16	
Hungary	steel → guns	3.568	0.001	11,42	0.348	2
	guns → steel	4.868	0	11,42	0.445	
India	steel → guns	0.45	0.9	9,45	-0.101	1
	guns → steel	7.349	0	9,45	0.514	
Israel	steel → guns	1.405	0.201	13,39	0.092	3
	guns → steel	1.291	0.259	13,39	0.068	
Italy	steel → guns	0.386	0.936	9,45	-0.114	1
	guns → steel	1.142	0.355	9,45	0.023	
Japan	steel → guns	2.783	0.006	17,33	0.377	5
	guns → steel	2.074	0.036	17,33	0.267	
Luxembourg	steel → guns	5.861	0	17,33	0.623	5
	guns → steel	1.483	0.162	17,33	0.141	
Mexico	steel → guns	2.421	0.014	17,33	0.326	5
	guns → steel	4.269	0	17,33	0.526	
Netherlands	steel → guns	4.03	0	13,39	0.431	3
	guns → steel	1.771	0.084	13,39	0.162	
North Korea	steel → guns	3.9	0.001	11,42	0.376	2
	guns → steel	5.135	0	11,42	0.462	
Norway	steel → guns	0.786	0.684	15,36	-0.067	4
	guns → steel	1.26	0.276	15,36	0.071	
Poland	steel → guns	0.597	0.792	9,45	-0.072	1
	guns → steel	1.487	0.182	9,45	0.075	
Portugal	steel → guns	0.678	0.724	9,45	-0.057	1
	guns → steel	1.59	0.147	9,45	0.089	
Romania	steel → guns	0.753	0.659	9,45	-0.043	1
	guns → steel	2.089	0.051	9,45	0.154	
Russia	steel → guns	2.955	0.008	9,45	0.246	1
	guns → steel	1.032	0.43	9,45	0.005	
South.Africa	steel → guns	0.323	0.963	9,45	-0.127	1
	guns → steel	1.282	0.273	9,45	0.045	
South Korea	steel → guns	0.306	0.969	9,45	-0.131	1
	guns → steel	7.079	0	9,45	0.503	
Spain	steel → guns	3.799	0.001	13,39	0.412	3
	guns → steel	1.347	0.229	13,39	0.08	
Taiwan	steel → guns	2.099	0.05	9,45	0.155	1
	guns → steel	2.644	0.015	9,45	0.215	
Turkey	steel → guns	1.617	0.139	9,45	0.093	1
	guns → steel	10.103	0	9,45	0.603	
United Kingdom	steel → guns	10.371	0	9,45	0.61	1
	guns → steel	0.994	0.459	9,45	-0.001	
United States	steel → guns	1.527	0.168	9,45	0.081	1
	guns → steel	2.986	0.007	9,45	0.249	

References

Mauro, Filippo di, and Hashem Pesaran. 2013. *The GVAR Handbook: Structure and Applications of a Macro Model of the Global Economy for Policy Analysis.* 1st, edited by Filippo di Mauro and Hashem Pesaran. Oxford University Press.

Word count: 190

III. Appendix

I. Info that goes into the Appendix