Long-run analysis code: how to run?

1. Folder structure: this code requires the following folder structure. We consider two assumptions: stationary and non-stationary, and in each case, there are 4 folders with different sample sizes. In each folder, we have:
   1. *rawdata*: to save the raw data that is used in the whole paper.
   2. *data*: to save the estimation results.
   3. *temp*: to save the temporary data generated and used in analysis.
   4. *dofiles*: to save the codes in stata.
   5. *matrix*: to save temporary data into txt form for running the Matlab codes, which are also saved in this folder.
   6. *tables*: to save the regression results in excel files.
2. Steps to run the code, we use stationary/wholesample as an example.
   1. We start from Stata code in *dofiles* folder. Run *VAR\_estimation\_stationary.do*. This step generates the original estimates without bias correction. These estimates are saved in *matrix* folder for the next step.
   2. Move to Matlab and use the m.file in *matrix* folder for each currency. This step corrects the small sample bias and saves the corrected estimates for decomposition.
   3. Go back to Stata and use do file in the *dofiles* folder. Run Correction\_stationary.do. This step gives us the transitory component of the log of the exchange rate, , and the UIP measure of the exchange rate, .
   4. Before running regressions, we need to check the validity of this decomposition. The last step also saves a log file named *correction\_stationary.log*. In this log file, if the result is valid, “Valid” is displayed, otherwise, “Invalid” is displayed.
   5. Given the results are valid, run calculate\_var.do in the dofiles folder to calculate the variance of and , and compare the two variances.
   6. Run *regressions.do* for equation (12) and *regression\_pi.do* for equation (13). Results will be saved in the *tables* folder.
   7. There are other do files for appendix, *regressions\_12.do* is to run regression equation (12) but with lags of 12 periods, and *regressions\_pi\_i.do* and *regressions\_pi\_pi.do* are for regression .