

9 Appendix

Data Specification and Sources

GDP data collected from the Office for National Statistics (ONS) website. FD_t is General Government net borrowing(% of GDP), collected from OECD Stat(Economic Outlook no 110). $RBINT_t$ is the real interest rate, which is have calculated as the difference between end of quarter Bank of England- Bank Rate and quarter on quarter growth rate of the GDP deflator, collected from the Bank of England website and ONS website respectively. $RTEN_YR_t$ is the real bond rate calulated in a similar fashion as $RBINT_t$, the ten year bond rate is collected from collected from OECD Stat(Economic Outlook no 110). $REER_t$ CPI-based real effective exchange rate, $NEER_t$ is the nominal effective exchange rate, both collected from the International Financial Statistics database of the IMF. CA_t is Trade balance plus net primary income(% of GDP), CAD_t is defined as the negative of CA_t , collected from the ONS website.

9.1 VECM Stability

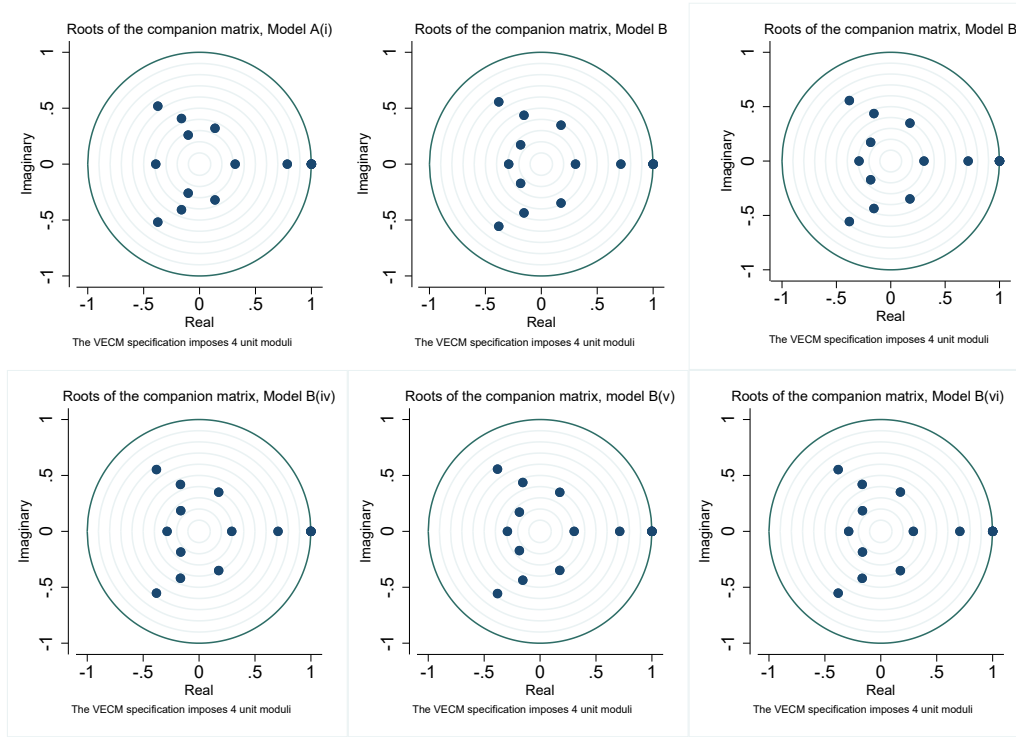


Figure 5: VECM Stability Main models
All VECMs satisfy the stability condition

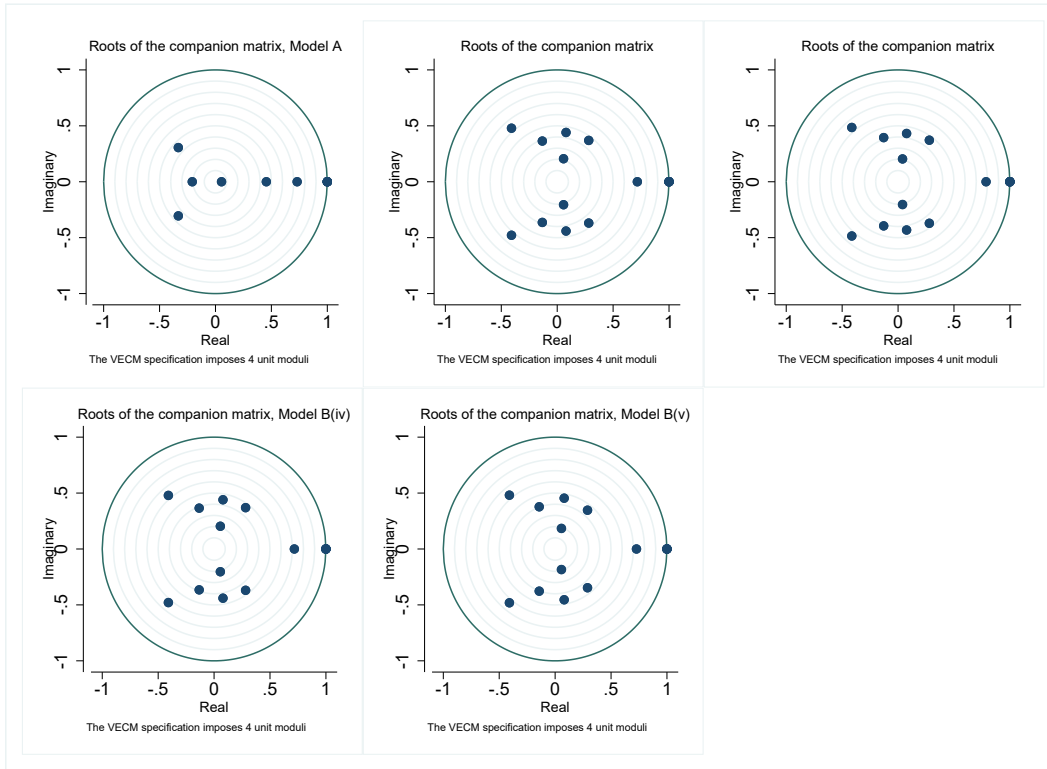


Figure 6: VECM Stability Robustness Section
All VECMs satisfy the stability condition

9.2 VECM autocorrelation tests

LM test for Auto Correlation Model A			
Model A(i)			
Lags	chi2	df	P-value
1	27.82	25	0.3163
2	24.40	25	0.4965
3	26.45	25	0.3840
4	20.63	25	0.7132
Model A(ii)			
1	28.93	25	0.2667
2	29.65	25	0.2376
3	28.57	25	0.2822
4	24.40	25	0.4962
LM test for Auto Correlation Model B			
Model B(i)			
1	18.25	25	0.8315
2	28.86	25	0.2699
3	34.13	25	0.1051
4	22.54	25	0.6043
Model B(ii)			
1	18.41	25	0.8243
2	28.81	25	0.2720
3	33.57	25	0.1174
4	22.76	25	0.5916
Model B(iii)			
1	14.26	25	0.9571
2	30.90	25	0.1923
3	31.50	25	0.1731
4	25.18	25	0.4523
Model B(iv)			
1	17.54	25	0.8614
2	28.84	25	0.2705
3	34.23	25	0.1032
4	21.69	25	0.6535
Model B(v)			
1	18.21	25	0.8333
2	28.91	25	0.2677
3	34.02	25	0.1074
4	22.58	25	0.6019
Model B(vi)			
1	17.34	25	0.8693
2	28.87	25	0.2694
3	34.21	25	0.1035
4	21.73	25	0.6514

Table 11: LM test for Auto Correlation: Main Models.

LM test for Auto Correlation Model A			
Model A			
P-value	Lags	chi2	df
1	30.38	25	0.2105
2	31.84	25	0.1627
3	13.70	25	0.9668
26.59	25	0.3765	
LM test for Auto Correlation Model B			
Model B(i)			
1	28.84	25	0.2706
2	28.65	25	0.2787
3	26.41	25	0.3859
4	33.17	25	0.1268
Model B(iii)			
1	26.71	25	0.3705
2	29.85	25	0.2299
3	30.01	25	0.2239
4	33.34	25	0.1228
Model B(iv)			
1	28.83	25	0.2711
2	28.18	25	0.2997
3	25.16	25	0.4534
4	32.95	25	0.1322
Model B(v)			
1	31.40	25	0.1762
2	29.46	25	0.2452
3	25.28	25	0.4467
4	33.87	25	0.1108

Table 12: LM test for Auto Correlation: Robustness section.

Model A (Zero Restriction)	
Adjustment Parameters	
D_LRGP	
L.ce1	0.002* (0.001)
D_FD	
L.ce1	-0.322*** (0.123)
D_RBINT	
L.ce1	0.065 (0.101)
D_REER	
L.ce1	-0.353 (0.233)
D_CAD	
L.ce1	-0.148** (0.063)
Long run estimates	
LRGP	-3.111** (1.246)
FD	0.369*** (0.109)
RBINT	0.000 (0.000)
REER	0.071** (0.030)
CA	1.000 (0.000)
Identification	CA=1 RBINT=0
LR Test	
$\chi^2_1 = 3.678^*$	

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 13: Model A Zero Restriction.