

# Contents

<i>Preface</i>	ix
<i>Contributors</i>	x
<b>1 Economic forecasts: their relevance and use</b> <i>David Currie</i>	1
1.1 Introduction	1
1.2 Forecasting	1
1.3 The future research agenda	6
<b>2 Time series forecasting</b> <i>Stephen Hall</i>	9
2.1 Introduction	9
2.2 Some basic concepts	10
2.3 <i>Ad hoc</i> forecasting procedures	14
2.4 The Box–Jenkins approach	17
2.5 The ‘structural time series’ forecasting model	19
2.6 Multivariate time series forecasting	21
2.7 Non-linearities and forecasting	22
2.8 Conclusions	28
<b>3 VAR modelling</b> <i>Donald Robertson and Michael Wickens</i>	29
3.1 Introduction – why VAR modelling?	29
3.2 VAR modelling with stationary variables	30
3.3 VAR modelling with non-stationary variables	32
3.4 Bayesian VARs	38
3.5 An empirical example	40
Notes	46

<b>4</b>	<b>Measuring and forecasting underlying economic activity</b>	<b>48</b>
	<i>Anthony Garratt, Stephen Hall and Brian Henry</i>	
4.1	Introduction	48
4.2	The Stock and Watson approach	49
4.3	Stochastic trends and cointegration	50
4.4	Construction of a new coincident index	54
4.5	Constructing different measures of economic activity	56
4.6	Conclusions	66
	Notes	67
<b>5</b>	<b>The macromodelling industry: structure, conduct and performance</b>	<b>68</b>
	<i>Ron Smith</i>	
5.1	Introduction	68
5.2	Structure	71
5.3	Conduct	73
5.4	Performance	76
5.5	Tentative conclusions	86
	Notes	87
<b>6</b>	<b>Expectations, learning and empirical macro-economic models</b>	<b>89</b>
	<i>David Currie and Stephen Hall</i>	
6.1	Introduction	89
6.2	Background to expectations mechanisms	91
6.3	Expectations and linear models	95
6.4	Expectations and non-linear models	97
6.5	Conclusion	109
<b>7</b>	<b>Forecasting in practice</b>	<b>110</b>
	<i>Geoffrey Dicks and Andrew Burrell</i>	
7.1	Introduction	110
7.2	The forecasting process: an overview	110
7.3	The forecasting industry	112
7.4	The starting position	115
7.5	The current position	123
7.6	Conjunctural analysis	127
7.7	The short-run outlook	130
7.8	The role of survey data in economic forecasting	133
7.9	The medium-term outlook	138
7.10	Consensus forecasts	139
7.11	Why do forecasts differ?	141
	Notes	142

<b>8</b>	<b>Modelling bilateral trade</b>	<b>144</b>
	<i>Chris Allen and John Whitley</i>	
8.1	Introduction	144
8.2	A survey of existing approaches	145
8.3	An amended bilateral trade model	157
8.4	Summary and conclusions	170
	Appendix	171
<b>9</b>	<b>Learning about monetary union: an analysis of boundedly rational learning in European labour markets</b>	<b>173</b>
	<i>Ray Barrell, Guglielmo Maria Caporale, Stephen Hall and Anthony Garratt</i>	
9.1	Introduction	173
9.2	Implementation of boundedly rational learning	174
9.3	Learning about exchange rate realignments and oil price shocks	183
9.4	Conclusions	189
	Notes	190
	<i>References</i>	<b>191</b>
	<i>Index</i>	<b>207</b>