

# Contents

<i>List of Figures and Tables</i>	page xi
<i>Foreword by Peter C. B. Phillips</i>	xiii
<i>Preface</i>	xix
<b>1 Introduction to Continuous Time Modelling</b>	<b>1</b>
1.1 Introduction	1
1.2 Why Model in Continuous Time	3
1.3 Introduction to General Continuous Time Models	9
1.4 Continuous Time Models in Finance	18
1.5 Continuous Time Macroeconomic Modelling	31
1.6 Policy Analysis in Continuous Time Macroeconomic Models	42
1.7 Stochastic Trends in Econometric Models	45
1.8 An Outline of Contents	47

## Contents

<b>2</b>	<b>Continuous Time Econometrics with Stochastic Trends</b>	<b>50</b>
2.1	Introduction	50
2.2	The Continuous Time Model	53
2.3	The Exact Discrete Model and Its VARMAX Representation	58
2.4	Estimation and Forecasting	67
2.5	Conclusion	79
	Appendix A: Formulae for the Coefficient Matrices of Exact Discrete Model	80
	Appendix B: Formulae for the Autocovariance Matrices	85
<b>3</b>	<b>Model Specification</b>	<b>114</b>
3.1	Introduction	114
3.2	Equations and General Properties of the Model	116
3.3	Private Consumption	125
3.4	Residential Fixed Capital	128
3.5	Employment	130
3.6	Private Non-Residential Fixed Capital	134
3.7	Output	136
3.8	Price Level	138
3.9	Wage Rate	141
3.10	Interest Rate	144
3.11	Imports	145
3.12	Non-Oil Exports	146
3.13	Transfers Abroad	147
3.14	Real Profits Interest and Dividends from Abroad	147
3.15	Cumulative Net Real Investment Abroad	149
3.16	Exchange Rate	150

## Contents

3.17	Stocks	151
3.18	Conclusion	152
	Appendix A: Derivation of General Adjustment Equations	152
	Appendix B: Distributed Lag Relations	164
<b>4</b>	<b>Steady State and Stability Analysis</b>	<b>173</b>
4.1	Introduction	173
4.2	The Steady State	175
4.3	Stability Analysis	180
4.4	Stability and Bifurcations	192
4.5	Conclusion	197
	Appendix A: Steady State Level Parameters	197
	Appendix B: Transformed Model	203
<b>5</b>	<b>Empirical Estimation of the Model and Derived Results</b>	<b>213</b>
5.1	Introduction	213
5.2	Estimation from UK Data	214
5.3	Time Lag Distributions	223
5.4	Steady State and Stability Properties	232
5.5	Post-Sample Forecasting Performance	240
5.6	Conclusion	248
	Appendix A: Linear Approximation about Sample Means	249
	Appendix B: Data	262
	<i>References</i>	269
	<i>Author Index</i>	285
	<i>Subject Index</i>	288