Contents

Lis	t of Fig	gures	xi		
List of Tables					
Preface					
Lis	List of Contributors and Their Affiliations				
1	Editors' Introduction				
	1.1	Economic Forecasting	1 2		
	1.2		4		
	1.3	Forecasting Methods	2 4 7		
	1.4	Evaluating Forecasts	9		
	1.5	Summary of the Chapters	10		
2	How Economists Forecast				
	David F. Hendry				
	2.1	Introduction	15		
	2.2	Forecast Terminology	17		
	2.3	Some Essential Background	20		
	2.4	Methods of Forecasting	24		
	2.5	On Winning at Forecasting	26		
	2.6	On Determining the Forecast Winner	27		
	2.7	Forecast Confidence Intervals	27		
	2.8	How Economists Analyze Their Methods	29		
	2.9	The Main Problems Affecting Economic Forecasts	33		
	2.10	Forecasting 300 Years of UK Industrial Output	34		
	2.11	Some Potential Solutions	40		
	2.12	Conclusions	41		
3	Economic Modeling for Fun and Profit				
	Paul Turner				
	3.1	Introduction	42		
	3.2	Alternative Forecasting Methods	44		

viii Contents

	3.3	A Basic Model of the UK Economy	47
	3.4	Concluding Remarks	52
4	Making Sense of Published Economic Forecasts		
	Diane Coyle		
	4.1	A Famous Forecasting Competition	54
	4.2	Spurious Precision	57
	4.3		59
	4.4	Confusing Public-service Forecasts with Targets	62
	4.5	Forecast Uncertainty and Policy Lags	63
		Forecasting Is Difficult	65
	4.7	Conclusions	66
5	Forecast Uncertainty in Economic Modeling		68
		R. Ericsson	
	5.1	Introduction	68
	5.2		70
	5.3	Sources of Forecast Uncertainty	76
	5.4	Conclusions	91
6	Evaluation of Forecasts		
	Clive	e W. J. Granger	
	6.1	Model Evaluation in Economics	93
	6.2	Forecasting Background	95
	6.3		97
	6.4	Different Situations for Evaluation	99
	6.5	Forecasts and Decisions	100
	6.6	Concluding Remarks	103
7	Forecasting and the UK Business Cycle		104
	Denise R. Osborn, Marianne Sensier, and Paul W. Simpson		
	7.1	Introduction	104
	7.2	The Nature of the UK Business Cycle	108
	7.3	Univariate Business-cycle Models	110
	7.4	Interest Rates and Output Forecasts	115
	7.5	Measures of Forecast Accuracy	120
	7.6	Concluding Remarks	12:
8	o Displanta		
	Neal Hatch		
	8.1	Introduction	12
	8.2	Models, Forecasts, and Policy	12.

	8.3	A Suite of Models	138		
	8.4	Properties of the Bank's Core Model	142		
	8.5	Other Modeling Techniques and Information Sources	145		
	8.6	Conclusions	148		
9	Forec	asting the World Economy	149		
	Ray Barrell				
	9.1	Introduction	149		
	9.2	Endemic Structural Change	153		
	9.3	European Labor Markets	154		
	9.4	Japanese Consumers' Expenditure	156		
	9.5	The East Asian Financial Crisis, 1997–1998	157		
	9.6	The Collapse of LTCM in 1998	159		
	9.7	Living in a Low-inflation World	160		
	9.8	Inflation Uncertainty in the United Kingdom	164		
	9.9	Conclusions	169		
10	The Costs of Forecast Errors				
	Terene	ce Burns			
	10.1	Introduction	170		
	10.2	The General Case for Economic Forecasting	171		
	10.3	Some Characteristics of Forecast Errors	173		
	10.4	Forecast Errors Under a Given Policy Framework	175		
	10.5	Choosing the Policy Framework	181		
	10.6	Conclusions	183		
11	Epilogue				
	David F. Hendry and Neil R. Ericsson				
	11.1	A Retrospective	186		
	11.2	A More Formal Approach	188		
	11.3	Concluding Remarks	190		
Re	References				
Au	Author Index				
Su	Subject Index				