

Contents

List of figures	xi
PART I UNIT-ROOT TESTS IN UNIVARIATE ANALYSIS	1
1. Stochastic Trend and Overview of Part I	3
1.1 <i>Stochastic Trend</i>	3
1.2 <i>Stochastic Trend as a Logical Implication of an Economic Theory?</i>	9
1.3 <i>Influences upon the Testing of Economic Theories</i>	10
1.4 <i>Overview of Part I</i>	13
2. Trend Stationarity vs. Difference Stationarity	16
2.1 <i>Basic Discrimination</i>	16
2.2 <i>Long-Run Component</i>	17
2.3 <i>Dominating Root of Characteristic Polynomial</i>	22
2.4 <i>Non-Separate Hypotheses</i>	24
2.5 <i>Time Aggregation and Other Remarks on the Data</i>	25
3. Discrimination in Terms of the Long-Run Component: A Test for Trend Stationarity	28
3.1 <i>Non-parametric Variance Ratios and Mean-Reverting</i>	28
3.2 <i>Difficulty of Discrimination through the Non-parametric Variance Ratios</i>	30
3.3 <i>Time-Series Decomposition</i>	33
3.4 <i>Parametric MA Unit-Root Test: A Test for Trend Stationarity against Difference Stationarity</i>	34
4. Unit-Root Asymptotic Theories (I)	40
4.1 <i>Pure Random Walk without a Drift</i>	40
4.2 <i>Pure Random Walk possibly with a Drift</i>	44

5. Regression Approach to the Test for Difference Stationarity (I)	47
5.1 <i>A Method that Does not Work</i>	47
5.2 <i>Dickey–Fuller Test</i>	48
5.3 <i>The Case where the Deterministic Trend is Confined to a Constant</i>	50
6. Unit-Root Asymptotic Theories (II)	51
6.1 <i>Deterministic Trends</i>	51
6.2 <i>Series Correlations in Δx_t</i>	54
6.3 <i>MA Unit-Root Test</i>	59
7. Regression Approach to the Test for Difference Stationarity (II)	63
7.1 <i>The Case where Δx_t is an AR</i>	63
7.2 <i>ARMA in General and the Schwert ARMA</i>	64
7.3 <i>Miscellaneous Remarks</i>	67
Highlights of Chapters 4–7	70
8. Viewing the Discrimination as a Model Selection Problem Including Deterministic Trends	74
8.1 <i>Various Modes of Deterministic Trends</i>	74
8.2 <i>Encompassing and ‘General-to-Specific’ Principles on the Model Selection</i>	77
8.3 <i>Simulation Studies on the Comparison of P-values</i>	84
9. Results of the Model Selection Approach	90
9.1 <i>Deterministic Trends Amenable to the DS and the TS</i>	91
9.2 <i>Discrimination between TS and DS</i>	92
10. Bayesian Discrimination	102
10.1 <i>Differences between the Bayesian and the Classic Theories</i>	102
10.2 <i>Different Versions of the Hypotheses</i>	104
10.3 <i>Problems Associated with the First Version</i>	105
10.4 <i>Point Null Hypotheses</i>	109
10.5 <i>Results in the Second and the Third Versions</i>	112

PART II CO-INTEGRATION ANALYSIS IN ECONOMETRICS	115
Overview	117
11. Different Modelling Strategies on Multiple Relationships	120
11.1 <i>Economic Models and Statistical Models</i>	120
11.2 <i>Weak Exogeneity</i>	124
11.3 <i>Granger Non-Causality</i>	129
12. Conceptual Framework of the Co-Integration and its Relation to Economic Theories	135
12.1 <i>Co-integration in the MA Representation</i>	136
12.2 <i>Granger Representation Theorem</i>	140
12.3 <i>Economic Theory and Co-integration</i>	150
Highlights of Chapter 12	161
13. Asymptotic Inference Theories on Co-Integrated Regressions	164
13.1 <i>Pure Random Walk</i>	166
13.2 <i>Deterministic Polynomial Trends</i>	178
13.3 <i>Serially Correlated Case</i>	187
13.4 <i>Miscellaneous Remarks including Direction of Co-integration</i>	193
13.5 <i>A Priori Specified Co-integrating Vector</i>	198
13.6 <i>Shortcomings in Many Past Empirical Studies</i>	199
Highlights of Chapter 13	
14. Inference on Dynamic Econometric Models	204
14.1 <i>Hendry Model with the Two-Step Method</i>	207
14.2 <i>Dynamic Equation with the Two-Step Method</i>	209
14.3 <i>Hendry Model with the Single-Step Method</i>	211
14.4 <i>Dynamic Equation with the Single-Step Method</i>	215
15. Maximum-Likelihood Inference Theory of Co-Integrated VAR	219
15.1 <i>Determination of Co-integration Rank</i>	221
15.2 <i>Testing for Restrictions on the Co-integration Space</i>	230
15.3 <i>A Common Practice on $\hat{B}'$</i>	236
15.4 <i>Weak Exogeneity and Granger Non-causality</i>	236
15.5 <i>Applications</i>	241

x	Contents	
Appendix 1	Spectral Analysis	247
Appendix 2	Wiener (Brownian Motion) Process	249
Appendix 3	Asymptotic Theories involving a Linear Deterministic Trend	251
Appendix 4	OLS Estimator of Difference-Stationary Autoregressive Process	258
Appendix 5	Mathematics for the VAR, VMA, and VARMA	260
Appendix 6	Fully Modified Least-Squares Estimator	265
	References	269
	Subject Index	289
	Author Index	291