

International Macroeconomics and Finance—Errata

Updated, 03 February 2003.

1. Back cover: Last line should read, “He was formerly editor of *Journal of Money, Credit, and Banking*.”
2. Table 7.4: Variance ratios and asymptotic standard errors of real dollar-sterling exchange rates. Lothian–Taylor data using PPIs. Should read:

k	1	2	3	4	5	10	15	20
VR_k	1.00	1.05	1.02	0.961	0.884	0.425	0.233	0.165
s.e.	—	0.149	0.167	0.176	0.177	0.115	0.076	0.062

My thanks to **Yoon Yeoin** who found this mistake.

3. Page 76. The values of λ used in the test are too small. I used the 0.02, 0.10, 0.16, and 0.25 respectively. These values are in the neighborhood of Stock and Watson’s (1993) estimates for US M1 demand from 1903-1987 as well as over various subperiods. The reason that they are too small is that Stock and Watson did their study with annual data with the interest rate stated in percent per annum.

The MacDonald and Taylor test of the monetary model is done with quarterly data, and the interest rate should be stated in pure numbers, not percent. A better set of interest semi-elasticities would be to multiply the original values by 400, which gives $\lambda = (8, 40, 64, 100)$.

Here are the results when we use the larger values. The wald statistics and associated p-values and λ are

λ	Wald statistic	p-value
8	37.76	0.00
40	18.318	0.019
64	17.660	0.024
100	17.361	0.027

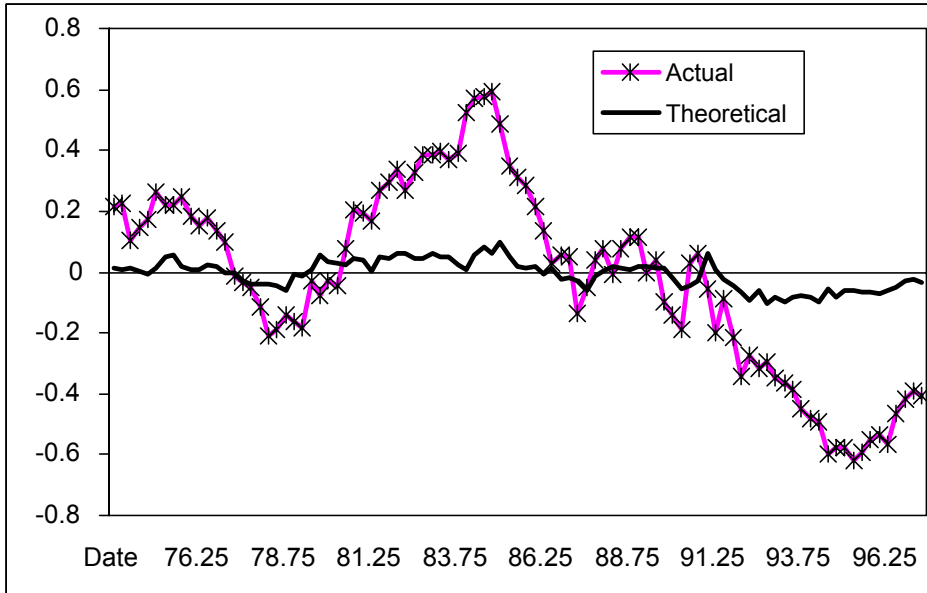


Figure 1: Actual and Theoretical spreads, $s_t - f_t$ with $\lambda = 100$

The model looks much more sensible although it is still rejected at conventional significance levels. Figure 1 shows the actual spread and the theoretical spread computed with $\lambda = 100$.

I thank **Charles Engel** for pointing out this error.

4. The second line of Table 4.2 says that the Lucas model calibrated to US-German data explains the forward premium anomaly. Unfortunately, it's not true. The result is due to errors in the code in the program LUCAS.PG1 discovered by OSU graduate students

Xiaodai Xiu and **Mauricio Bittencourt**.

The code has now been fixed, and the table should read,

Table 4.2 Measured and Implied Moments, US-Germany

		Volatility			Autocorrelation		
	Slope	$\frac{S_{t+1}}{S_t}$	$\frac{F_t}{S_t}$	$\frac{(F_t - S_{t+1})}{S_t}$	$\frac{S_{t+1}}{S_t}$	$\frac{F_t}{S_t}$	$\frac{(F_t - S_{t+1})}{S_t}$
Data	-0.293	0.060	0.008	0.061	0.007	0.888	0.026
Model	0.245	0.015	0.013	0.042	0.229	0.103	0.359

Note: Model values generated with $\gamma = 10$, $\theta = 0.5$.

References

Stock, James H. and Mark W. Watson (1993). 'A Simple Estimator of Cointegrating Vectors in Higher Order Integrated Systems,' *Econometrica* 61:783–820.