Associate Editor's Report on Stephane Dees, Sean Holly, M. Hashem Pesaran, L. Vanessa Smith, Long Run Macroeconomic Relations in the Global Economy. Economics Discussion Papers, No 2007-7

This paper applies the vector autoregression model of Dees, di Mauro, Pesaran and Smith (Exploring the International Linkages of the Euro Area: A Global VAR Analysis, 2007, Journal of applied Econometrics, 22, 1-38) to testing 6 theoretically generated relationships between prices, output, exchange rates and interest rates. The paper also studies the rate at which adjustments take place via persistence profiles.

The relationships analyzed by the authors are of considerable interest to researchers in open economy macroeconomics, and the methodology employed is both careful and innovative. As such the paper makes a contribution to its field and certainly justifies publication in Economics.

The referees have however raised a number of weaknesses with the paper that the authors should address. In particular, the lengthy exposition of the GVAR approach reduces the readability of the paper and the accessibility of the main results; in particular, the hypothesis tests and simulation experiments. The authors could address this problem by placing more of the supporting discussion on the GVAR in the appendix. For example, moving the proof of point 2 on page 6 to an appendix would improve the flow of that section.

Further, the theoretical relationships tested in the paper are not always well cited or effectively motivated. For example, the Solow-Swan convergence relationship in (2.4) is not particularly standard in the literature on economic growth. Which study did the authors have in mind when they decided to test this relationship?

The remaining comments are of an editorial nature. While the material contained in the study is interesting, the paper itself is at times tedious to read on account of poor editing. The following changes are recommended.

1. Perhaps the single worst way to fit additional content in a given paper is to reduce the size of the font. The font should be a standard 12 point size. (The best way to fit additional content is careful editing and removal of redundant material---as much as possible, the development of the GVAR model should be referred to existing sources.)

2. The equations on pages 8 and 9 do not fit into the page bounds. This should be rectified using a multiple line equation environment.

3. Tables 7, 8, 9, 10 and 11 are too large and their size should be reduced. One possibility would be to show data only for every second quarter.

4. On page 22, line 1, "Figures" and "Tables" should not be capitalized.

5. There is an unnecessary "the" on page 17, line 4.