

Long Run Macroeconomic Relations in the Global Economy

Referees Comment

I was asked to comment on two features of this paper

(i) *Is the contribution of the paper potentially significant?*

The paper builds on existing work published as

Pesaran, M.H., T. Schuermann and S.M. Weiner (2004) "Modeling Regional Interdependencies using a Global Error-Correcting Macroeconometric Model", *Journal of Business and Economic Statistics* 22, 129-162.

Dees, S., F. di Mauro, M.H. Pesaran and L.V. Smith (2007) "Exploring the International Linkages of the Euro Area: A Global VAR Analysis". *Journal of applied Econometrics*, 22, 1-38

It is my opinion that the significance of the paper is determined not by the development of the Global VAR approach, which is extensively covered in the above references and the various comments accompanying the JBES paper and the associated rejoinder. Rather, it is the case that the significance of the paper lies in the outcomes of the various simulation experiments and the discussions of these results.

In this context it is somewhat surprising that the authors choose to spend 14 of the first 22 pages of the manuscript setting out the GVAR. Clearly the section on PPP is very important in this context, but much of the other material is available elsewhere. The current manuscript devotes only seven pages to the results presented in Tables 1-11 and Figures 1-10. There is little or no attempt to discuss the significance of the results, and it appears to me that this is where the major contribution of this work lies. Clearly if the bulk of this output merits no discussion then it should be omitted to allow the authors to focus on the results that are of interest.

(ii) *Is the analysis correct?*

I have no doubt that the analysis is correct as is reported.

I am disappointed that the Long Run Macroeconomic Relations are tested individually rather than jointly. I think that this might be econometrically rather difficult, but it merits discussion. For the relations to hold for each individual country appears to me to be a necessary but not sufficient conditional for these conditions to hold for the Global Economy i.e jointly.

Are Wholesale Price Indices available? The weakness of the PPP result may be an issue with non-tradables in the Consumer Price Index data employed by the authors.