

## Response to the first referee report

### Response to "Summary"

The equilibrium concept is simply "demand equals supply at time  $t$ " for the static models (p. 3). That is, the contingent plans are compatible. For the simple dynamic models in section 4.3, equilibrium is defined when expected values are realized.

I am not sure I understand what the referee means by the "structural approach"? Is it the steady state concept in dynamic theory models, say, DSGE models?

### Response to "Main comments"

1/ I am not sure I understand what this has to do with the CVAR? Any suggestions as of how and where to make it clear?

2/ "The author suggests to distinguish between long run regression and dynamic adjustment, but in order to estimate the long run relationship, it focuses on the Johansen method.". What is meant by this sentence? What is meant by "but in order.....Johansen method"?

I think that the instrumental variables approach is not directly relevant in the settings of the paper. I think the focus should be on "Johansen's methods", as my paper is essentially meant to show how one can analyze simple economic theory models within his framework.

3/ I think this is a misunderstanding? The parameters in (4), (5) or (38) are not identified from these equations, of which none are estimated. But, the parameters *are* identified by  $\beta$  in (36).

4/ I think the General equilibrium extension is important as it illustrates the potential for generalizations and establishes a tentative link to DSGE model (although this has to be worked out in much more detail).

On the one hand I agree that an empirical application is a possibility, on the other hand, the restrictions for testing a simple market model are written out explicitly, in (36) say, and are thus readily estimated in CATS. I think that an empirical application may become too comprehensive and take the focus away. Probably, various breaks would have to be conditioned on, and other typical practical (specification) issues would require some space to analyze in sufficient detail.

5/ I am not sure that I understand.

### Response to "Minor remarks"

1/ I do not understand? From (37) and (38) one can see that  $L = \beta_{\perp}$ . The first rows do not differ.

2/ Figure 1 is the usual text book diagram of the static demand and supply model, in which there is no time axis. Figure 2 has time introduced, and is meant as an illustration of the CVAR in this case, that should, in fact, resemble Figure 1. So, in a sense, the "duplication" is intended.

3/ p. 25: I agree that this is confusing and I shall delete the "modified" part.

### **Comment on referee report**

In general, I think that writing "..... is not clear .....", "... should be made clear ..." are statements that fail to be clear themselves. More precise statements and references to specific sentences will be of greater help.