

Answers to the referee's report on: *Are Current Account Deficits Sustainable? New Evidence from Iran Using Bounds Test Approach to Level Relationship*

<http://www.economics-ejournal.org/economics/discussionpapers/2012-24>

Referee one:

We have tried to apply all of your comments in the paper, thanks.

In the following, we have provided a description of each of them.

1. To explain your first comment, it is necessary to note that as mentioned in the paper with details, the purpose of structural break tests, indeed, was to demonstrate that the standard unit root tests (without considering structural break) do not have the ability to show the integration order of the series, and therefore in this paper to illustrate that the series under consideration have experienced several breaks, some break tests have been used. In addition, with regard to these breaks, using some tests which have been mentioned in the paper, we proved that the series are integrated of different orders which satisfy applying Bounds test approach.
2. We are grateful for the third comment. The main aim of this paper, actually, is to prove stability of these two variables in the long term, and we have, of course, reached to this purpose in the end of paper. For this reason, it has not been considered the exact relationship between these two variables in the long run. However, following the referees suggestion, this has been added to the article.
3. The plot of the level series, as you noted, was added to the econometric methodology section and tables have also been described further.

Referee two:

We are extremely grateful for your effective comments; most of them have applied to improve the paper. However, we are describing some of the comments in the following paragraphs:

1. Regarding the theoretical section of the paper, we have to say that almost all of the published paper in this field, unanimously, have been using Hakkio and Rush (1991a) and Husted (1992) theoretical model to explain sustainability of current account. Moreover, since the purpose of the present paper is to re-examine the behavior of Iranian current account using the most recent data and econometric techniques to enhance the level of confidence on stability or instability of current account, therefore, it obeys theoretical model in previous papers. Since theoretical model has been explained in detail

in almost all of referenced papers, and also in order to avoid paper prolonged, we have refrained to rewrite some content. However, we tried to provide additional detail descriptions about the assumptions and interpretations of the formula in addition to correct pointed errors in formulas.

About structural breaks:

2. It is possible for a country's economy to have different break points in her aggregated macro data with various dates that is not necessary for breaks to occur in the same time! Since in the history of a country, a variety of events occurs, this can have different effects on the series. For example, the oil income in 1963 was \$555 million; it approaches to \$956 million in 1969 and also to 5 billion dollars in 1974 and surprisingly quadrupled to 20 billion dollars in 1976. Explosive income from oil revenues at that time, leads to explosive increase in imports between the years 1974 to 1979 which causes current account to be surplus continuously. The effect of fluctuations in world oil prices in these years was followed by increasing tendency for consumption and inflation in Iran. Until exports declined sharply in 1979 due to the strike of oil industry's workers. Perron (1990) test has been omitted as the respected referee's suggestion.

About econometric technique:

3. With full respect to referee, we have to say that in Pesaran, et al. (2001) in the second section