Some Structural Hypotheses in a Multivariate Cointegration Analysis of the Purchasing Power Parity and the Uncovered Interest Parity for UK

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Abstract

This paper develops some new tests for structural hypotheses in the framework of a multivariate error correction model with Gausian errors. The tests are constructed by an analysis of the likelihood function and motivated by an empirical investigation of the PPP relation and the UIP relation for the United Kingdom. Three types of tests are discussed. First, the authors' consider the same linear restrictions on all cointegration relations, then they consider the hypothesis that certain relations are assumed to be cointegrating, and finally they formulate a general hypothesis that contains the previous ones. This hypothesis can be expressed by the conditions that some of the cointegrating relations are subject to given linear restrictions, while others are unconstrained.

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