

Dynamic Econometric Models and Errors in Variables

Abstract:

An investigation is made into the impact and treatment of errors in variables in dynamic regression models, both in the unobserved component and autoregressive distributed lag (ADL) forms. The lag structures typically used in econometrics are critically examined and an attempt is made to determine whether, in the light of unobserved component models, they are correctly interpreting the dynamics as adjustment processes. The STAMP8 package is used to build a model with stochastic trend and seasonal components, together with explanatory variables and interventions, to account for the volume of rail travel in Great Britain. The methodology is contrasted with other approaches to dynamic regression.