Economic Base Multipliers Revisited

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Abstract

This paper takes a fresh look at the estimation of economic base multipliers. It uses recent developments in both nonstationary and nonlinear inference to consider issues surrounding the derivation of such multipliers for Northern Ireland. It highlights the problem of distinguishing between nonstationarity and nonlinearity in empirical work. The results of standard unit root and cointegration analysis call into question the adequacy of that framework for estimating employment multipliers. There is strong evidence of nonlinearity; and modelling using random field regression supports the findings of Harrison and Bond (1992) that there is substantial parameter instability or nonlinearity in the data.

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