

Table 1: Small Open Economy Aggregate Consumption Dynamics

Expectations:Dep Var Independent Variables			OLS or IV	2nd Stage \bar{R}^2	IV F p -val IV OID
Frictionless: $\Delta \log \mathbf{C}_{t+1}$					
$\Delta \log \mathbf{C}_t$	$\Delta \log \mathbf{Y}_{t+1}$	A_t			
0.233 (0.198)			OLS	-0.064	
	0.084 (0.119)		IV		0.000 0.264
		-0.0033 (0.0021)	OLS	0.007	
0.109 (0.523)	0.079 (0.201)	-0.0020 (0.0057)	IV	0.001	
Sticky: $\Delta \log \tilde{\mathbf{C}}_{t+1}$					
$\Delta \log \tilde{\mathbf{C}}_t$	$\Delta \log \bar{\mathbf{Y}}_{t+1}$	\bar{A}_t			
0.319 (0.004)			OLS	0.101	
0.779 (0.103)			IV	0.190	0.000 0.579
	0.821 (0.089)		IV	0.112	0.000 0.000
		-0.0074 (0.0045)	OLS	0.004	
0.851 (0.221)	-0.049 (0.283)	0.0046 (0.0050)	IV	0.191	
Memo: For instruments \mathbf{Z}_t , $\Delta \log \mathbf{C}_{t+1} = \mathbf{Z}_t \zeta$, $\bar{R}^2 =$				0.191	

Notes: Model was simulated for 2000 periods (quarters); to generate results comparable to the roughly 40 year span of U.S. empirical data, the table reports mean outcomes across nonoverlapping 160 period subsamples. Bars indicate the sticky expectations model data, and \sim indicates the presence of introduced measurement error as discussed in the text. ‘IV’ indicates instruments that include lags of $\Delta \log \mathbf{C}_t, \Delta \log \mathbf{Y}_t, A_t$ and Θ_t (resp. $\Delta \log \tilde{\mathbf{C}}_t, \Delta \log \bar{\mathbf{Y}}_t, \bar{A}_t$ and $\bar{\Theta}_t$). The average robust standard across the simulations is presented in parentheses. The penultimate column reports the \bar{R}^2 from a regression of the dependent variable on the RHS variables (instrumented, when indicated); the final column reports two tests of instrument validity: The p -value from the ? test of first-stage instrument validity (top), and the p -value from the Sargan overidentification test (bottom).