

Accepted Manuscript

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Deniz Dilan Karaman Örsal, Antonia Arsova

PII: S2452-3062(16)30002-8
DOI: [10.1016/j.ecosta.2016.10.001](https://doi.org/10.1016/j.ecosta.2016.10.001)
Reference: ECOSTA 2

To appear in: *Econometrics and Statistics*

Received date: 5 April 2016
Revised date: 17 October 2016
Accepted date: 17 October 2016

Please cite this article as: Deniz Dilan Karaman Örsal, Antonia Arsova, Meta-analytic cointegrating rank tests for dependent panels, *Econometrics and Statistics* (2016), doi: [10.1016/j.ecosta.2016.10.001](https://doi.org/10.1016/j.ecosta.2016.10.001)



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Meta-analytic cointegrating rank tests for dependent panels

Deniz Dilan Karaman Örsal^{a,b,*}, Antonia Arsova^a

^a*Center for Methods, Leuphana Universität Lüneburg*

^b*Institute of Economics, Leuphana Universität Lüneburg*

Abstract

Two new panel cointegrating rank tests which are robust to cross-sectional dependence are proposed. The dependence in the data generating process is modelled using unobserved common factors. The new tests are based on a meta-analytic approach, in which the p -values of the individual likelihood-ratio (LR) type test statistics computed from defactored data are combined into the panel statistics. A simulation study shows that the tests have reasonable size and power properties in finite samples. The application of the tests is illustrated by investigating the monetary exchange rate model for a panel data of nineteen countries.

Keywords: Panel cointegration; p -value; common factors; rank test; cross-sectional dependence

JEL Classification: C12, C15, C33

*Corresponding Author: Deniz Karaman Örsal, Leuphana Universität Lüneburg, Methodenzentrum, Scharnhorststr. 1, 21335 Lüneburg, Germany, Tel.: +49 4131 677 1928; Fax: +49 4131 677 1713, deniz.oersal@leuphana.de.

Email addresses: deniz.oersal@leuphana.de (Deniz Dilan Karaman Örsal), arsova@leuphana.de (Antonia Arsova)

The data which is used for the empirical analysis is available online as supplementary material.

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