

6. CONCLUSION

Despite numerous structural breaks in the data a fairly stable macro model could be estimated. However, the data properties made an estimation difficult. This became particularly obvious in the case of wages and prices, which should actually have the same integration properties, but do not in the case of Spain, or in the case of investment, output and the capital stock. As a consequence it was not always possible to reconcile economic theory with the data. In cases of such a conflict between theory and data, restrictions were not imposed and the data were given priority.

Nevertheless, the results of the model are largely in line with what we would expect, as the simulations show. The results are largely plausible and the only drawback is that feed-back from other countries cannot be taken into consideration, as all foreign data are exogenous to the model. This is the usual limitation of a single country model.

The estimations confirm that interest rates have a very strong effect on the Spanish economy, as they do not only influence investment decisions, but also play a vital part in the case of private consumption. The fact that *nominal* rather than real interest rates are the relevant variable may be due to the way real interest rates are calculated. It is possible that the introduction of forward-looking elements would improve results. Nevertheless, the use of *nominal* interest rates in the case of consumption is not implausible. In Spain the housing stock accounts for 70% of households' assets (OECD 2003). Most Spaniards live in owner-occupied homes. At the same time it is typical for Spaniards to finance housing with variable rate mortgages (IMF 2003). Thus, any change in long term interest rates affects their budget for consumption purposes directly.

As mentioned the modelling of the wage and price dynamics is not completely satisfactory. The wage equation seems quite realistic. Nominal wages react directly to changes in the price level as would be expected in the context of indexation. The fact that unemployment plays no part in wage determination is also plausible. It reflects

the strong segmentation of the Spanish labour market, where a relatively small share of insiders determines the wage level, which is then extended to almost the whole economy. What is striking in the model is the weak effect of wages on prices and also the fact that unemployment seems to affect prices, whereas it seems irrelevant in the wage-bargaining process. There is certainly room for further research in this field, which will be undertaken outside the model context. This enables the author to take additional (monetary) variables into consideration. A separate analysis also allows to vary the estimation period.