A Comparison of Alternative Estimators of Macro-Economic Model of Ethiopia

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Abstract

During the past 5 decades a number of econometric techniques were developed and applied to a variety of econometric relationships to deal with the problem of single equation estimation as well as simultaneous equations bias. These days, such methods have very wide applications especially in more developed countries. However, there has been very little attempt to apply these techniques to empirical relationships describing the macro-economic sector of developing countries in general and Ethiopia in particular. In this study, a small macroeconometric model of Ethiopia is used to identify the best estimation techniques that will produce accurate forecast of the economy of Ethiopia. Six econometric methods were considered. The prediction accuracy of these estimators was examined using time series data covering the period 1970 to 2004. The results indicated that considerable gain in forecasting accuracy can be achieved by using 2SLSAUT01 and 2SLSAUT02 than simple ordinary least squares or two stage least squares to estimate macro-economic models.