

Hysteresis and Unit Roots: We Know and We Care.

This paper will deal with the discussion brought about in the aftermath of the publication in 1982 of the pioneering work of Nelson and Plosser: Trends and random walk in macroeconomic series, and its repercussions in macroeconomic theory. The author shall then delve concentrate on the existence or not of unit roots as a feature of main macroeconomic variables.

The first section will be a review of the major papers since the publication of Nelson and Plosser's work to recent years, which analyze the different arguments and counter-arguments between econometrists and economists, of which some are staunch advocates for the unit root hypothesis and some who pronounce themselves against it.

In the second section the author will study, from a sraffian point of view (incorporating the concept of effective demand and considering a distribution variable (wages) as exogenous), the consequence of the existence of unit roots in macroeconomic variables. Particularly in GDP, productivity (or GDP per capita) and unemployment and the non-existence of a unit root in the utilization of installed capacity. Moreover the author will reveal how it is possible (without losing coherence and empirical pertinence) to incorporate the hypothesis of existence of unit roots in the Sraffian Supermultiplier Model, as was proposed by Serrano (1995), taking into account a phenomenon called Hysteresis. The said phenomenon bear as an outcome that shocks in the short run have a considerable impact on the long run. In other words, within a Keynesian framework, an increment of autonomous demand not only stimulates growth in the GDP in the short run (or the utilization of installed capacity), but has significant bearings across longer periods due to its positive effect in investment.

To conclude the author will present the application of different tests of unit roots for Argentina and its main macroeconomic variables.