

**Tables and Figures**  
**For**  
**Feast and Famine: Explaining Big Swings in the Hong Kong Economy between 1981 and 2007**  
**By Chak Hung Cheng and Michael K Salemi**

Table 1  
Comparison of Correlations from the Data and the Model

	y	n	m	Q	U	c	P	W	RUS	W/P	P*
Output (y)	1.13	0.29	0.62	-0.04	-0.71	-0.09	0.68	0.55	-0.15	0.31	0.53
Labor (n)	0.22	1.03	-0.45	0.83	-0.82	-0.51	0.07	-0.02	0.69	-0.15	0.78
Imports (m)	0.57	-0.50	1.16	-0.77	-0.01	0.40	0.65	0.60	-0.64	0.46	-0.14
Real Exchange Rate (Q)	0.04	0.82	-0.76	1.08	-0.53	-0.61	-0.31	-0.35	0.73	-0.37	0.61
Unemployment (U)	-0.61	-0.81	0.03	-0.52	1.11	0.28	-0.46	-0.34	-0.48	-0.14	-0.84
Consumption/Output (c)	-0.04	-0.50	0.47	-0.68	0.23	0.96	0.52	0.66	-0.31	0.77	-0.10
Price Level (P)	0.69	0.04	0.62	-0.26	-0.40	0.55	1.01	0.96	-0.13	0.80	0.56
Wage Rate (W)	0.58	-0.06	0.59	-0.32	-0.29	0.67	0.97	1.04	-0.16	0.93	0.50
US Interest Rate (RUS)	-0.01	0.82	-0.58	0.69	-0.73	-0.29	-0.06	-0.10	1.13	-0.18	0.53
Real Wage (W/P)	0.35	-0.20	0.48	-0.38	-0.08	0.79	0.82	0.93	-0.15	1.11	0.35
Foreign Price Level (P*)	0.61	0.71	-0.11	0.59	-0.76	-0.09	0.62	0.55	0.51	0.38	1.01

Entries above the diagonal are correlations computed from the raw data series. Entries below the diagonal are correlations computed from the predictions of the model. Entries on the diagonal are ratios of the standard deviations from the data and from the model.

Table 2  
Decomposition of Forecast Error Variance Implied by Our BVAR Analysis

Variance of	Horizon	Accounted for by Shocks to								
		RUS	FP	EX	TECH	Q	WP	N	M	U
Real Exchange Rate	1	8.1	41.7	22.9	0.0	27.1	0.0	0.0	0.0	0.0
	8	4.5	28.7	32.3	0.2	22.8	0.8	0.3	4.4	6.0
	80	19.2	6.9	16.5	4.6	11.1	0.4	0.3	24.3	16.6
Real Wage	1	0.2	2.6	5.9	6.0	0.0	85.2	0.0	0.0	0.0
	8	3.1	6.5	5.3	3.3	0.9	80.1	0.2	0.1	0.5
	80	2.1	27.2	51.8	4.8	1.4	8.7	0.1	2.4	1.4
Employment Per capita	1	6.1	0.3	4.4	0.5	0.1	0.1	88.5	0.0	0.0
	8	11.7	4.3	2.7	3.7	1.0	0.4	74.1	0.2	1.8
	80	15.4	6.2	10.3	4.5	3.3	1.2	43.1	9.0	6.7
Imports Per capita	1	0.1	0.0	22.4	35.5	0.2	0.3	0.0	41.5	0.0
	8	5.5	0.1	11.7	19.2	0.2	3.2	0.3	53.4	6.4
	80	24.1	0.8	7.4	13.5	1.3	1.8	0.3	40.3	10.5
Unemployment	1	5.6	1.0	0.8	5.4	0.3	2.7	19.3	12.4	52.5
	8	4.7	8.6	0.6	17.2	0.7	1.4	7.5	16.5	42.6
	80	8.9	12.1	12.4	15.8	2.4	2.1	4.7	14.4	27.1

Each cell provides the percent of forecast error variance of a variable (row) accounted for by innovations in other variables in the system (columns). The units are percentage points. All variables are departures from long run values as described in the text. The variables are: the 3 month US Treasury Bill rate (RUS), foreign prices (FP), shocks to Hong Kong export demand (EX), technology shock as measured by the Solow residual (TECH), real exchange rate (Q), real wage rate (WP), employment per capita (N), imported inputs per capita (M), the unemployment rate (U).

Table 6  
Decomposition of Forecast Error Variance Implied by Our Model

Variance of	Horizon	Accounted for by Shocks to								
		RUS	FP	EX	RP	W	M	N	Technology	L
Real Exchange Rate	1	56.01	2.25	22.69	13.39	0.20	0.00	0.38	4.91	0.17
	8	30.38	7.88	23.53	33.80	0.13	0.50	0.10	3.09	0.59
	80	22.03	4.39	9.09	61.78	0.15	1.74	0.02	0.66	0.14
Real Wage	1	2.82	3.61	3.42	9.01	67.76	2.53	3.66	7.03	0.16
	8	5.26	9.03	2.48	23.79	43.18	6.33	3.44	6.05	0.44
	80	23.17	5.77	1.08	56.43	7.41	4.11	0.53	1.40	0.11
Employment Per capita	1	7.28	1.22	4.45	2.77	13.34	1.09	64.51	0.77	4.58
	8	37.17	2.15	5.22	1.68	6.90	9.42	22.32	1.40	13.75
	80	25.49	1.92	3.67	37.32	3.47	5.20	11.99	0.86	10.08
Imports Per Capita	1	19.13	2.02	33.69	9.91	1.97	30.73	0.18	2.30	0.08
	8	11.82	1.47	36.29	13.02	1.77	33.25	0.06	1.94	0.37
	80	12.95	2.20	27.51	27.07	1.48	26.07	0.06	2.21	0.46
Unemployment	1	1.62	1.91	2.20	13.32	16.70	0.75	44.74	9.46	9.32
	8	45.13	3.45	4.29	5.11	11.40	18.38	8.67	1.75	1.82
	80	41.74	3.28	4.90	5.71	11.39	22.29	7.46	1.62	1.61
Output Per Capita	1	9.83	0.59	15.81	50.10	0.84	0.02	1.61	20.50	0.70
	8	5.92	0.59	16.80	53.15	0.67	2.68	0.55	16.49	3.16
	80	8.32	2.52	9.54	36.96	2.42	27.45	0.26	10.37	2.15

Each cell provides the percent of forecast error variance of a variable (row) accounted for by innovations in one of the structural shocks our our model (columns). The units are percentage points. The structural shocks are to: RUS, the US Treasury Bill Rate; FP, the foreign price index; EX, export demand; RP, the risk premium associated with Hong Kong borrowing from abroad; W, the wage rate; M, demand for imported inputs; N, demand for labor; Technology, the productivity of production; and L, supply of labor.

Table 7  
Estimated Pair-wise Correlations Among Structural Shocks

	RUS	FP	EX	RP	W	M	N	Technology	L
RUS	1.000	0.251	-0.624	-0.572	-0.571	-0.319	0.400	0.226	0.318
FP		1.000	-0.221	-0.283	-0.099	0.092	-0.063	-0.079	0.096
EX			1.000	0.254	0.508	0.584	-0.677	-0.468	-0.062
RP				1.000	0.004	0.084	-0.039	-0.230	-0.112
W					1.000	0.185	-0.204	-0.015	-0.290
M						1.000	-0.972	-0.936	0.087
N							1.000	0.865	-0.019
Technology								1.000	-0.235
L									1.000

The typical element of this array is the correlation between the structural shock listed in the row and the structural shock listed in the column. The shocks are structural innovations to: RUS, the US interest rate; FP, the foreign price index; EX, export demand; RP, the risk premium; W, the nominal wage rate; M, imported input demand; N, labor demand; Technology, productivity of production; L, supply of labor.

# Figure 1

## Data Series Describing Hong Kong Economic Performance Between 1981:IV and 2007:IV

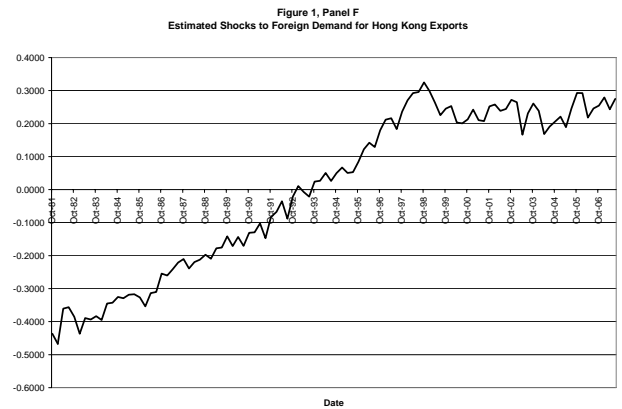
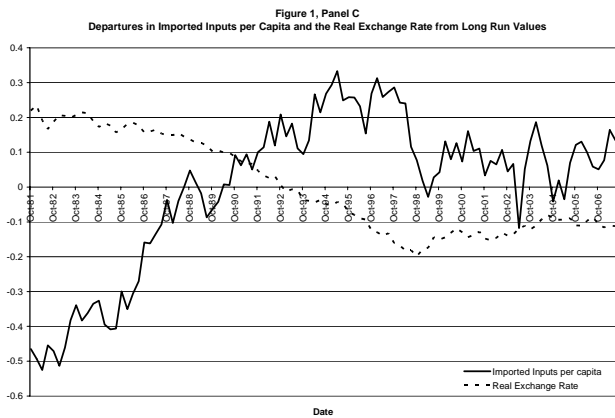
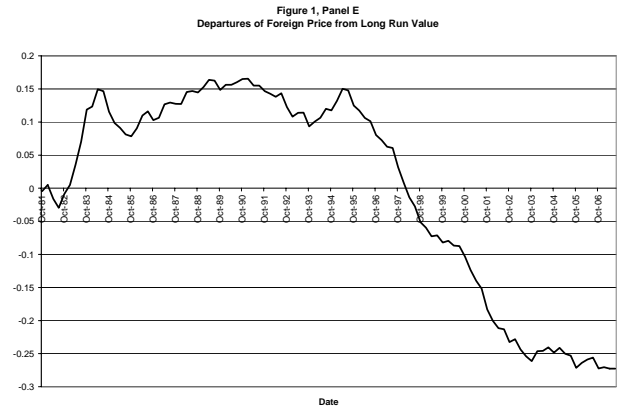
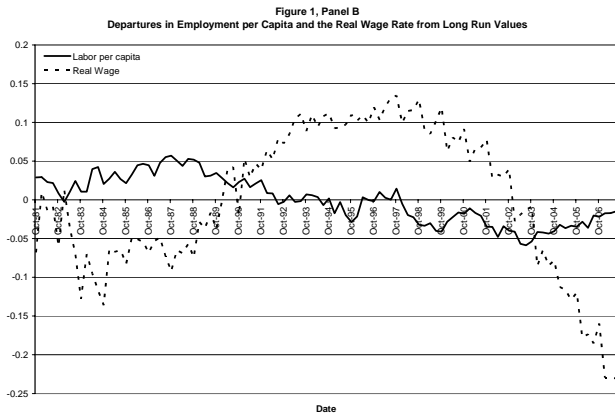
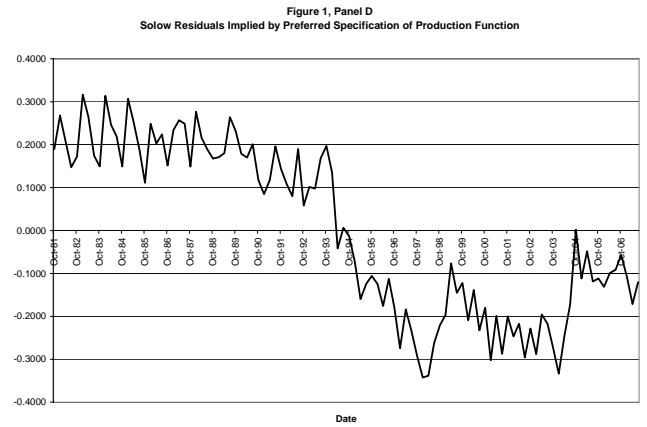
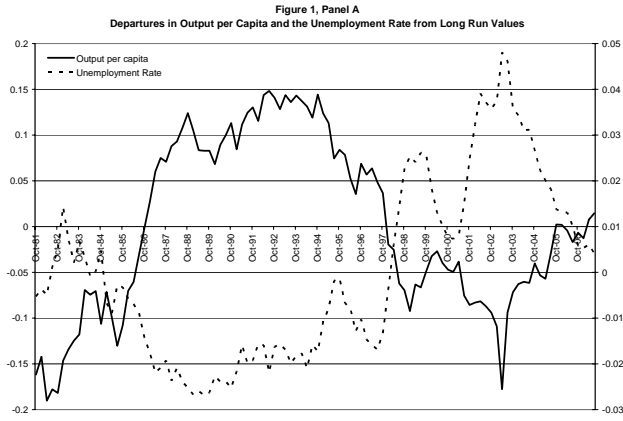


Figure 2, Panel A  
Responses of Unemployment to Shocks in Exogenous Block Variables

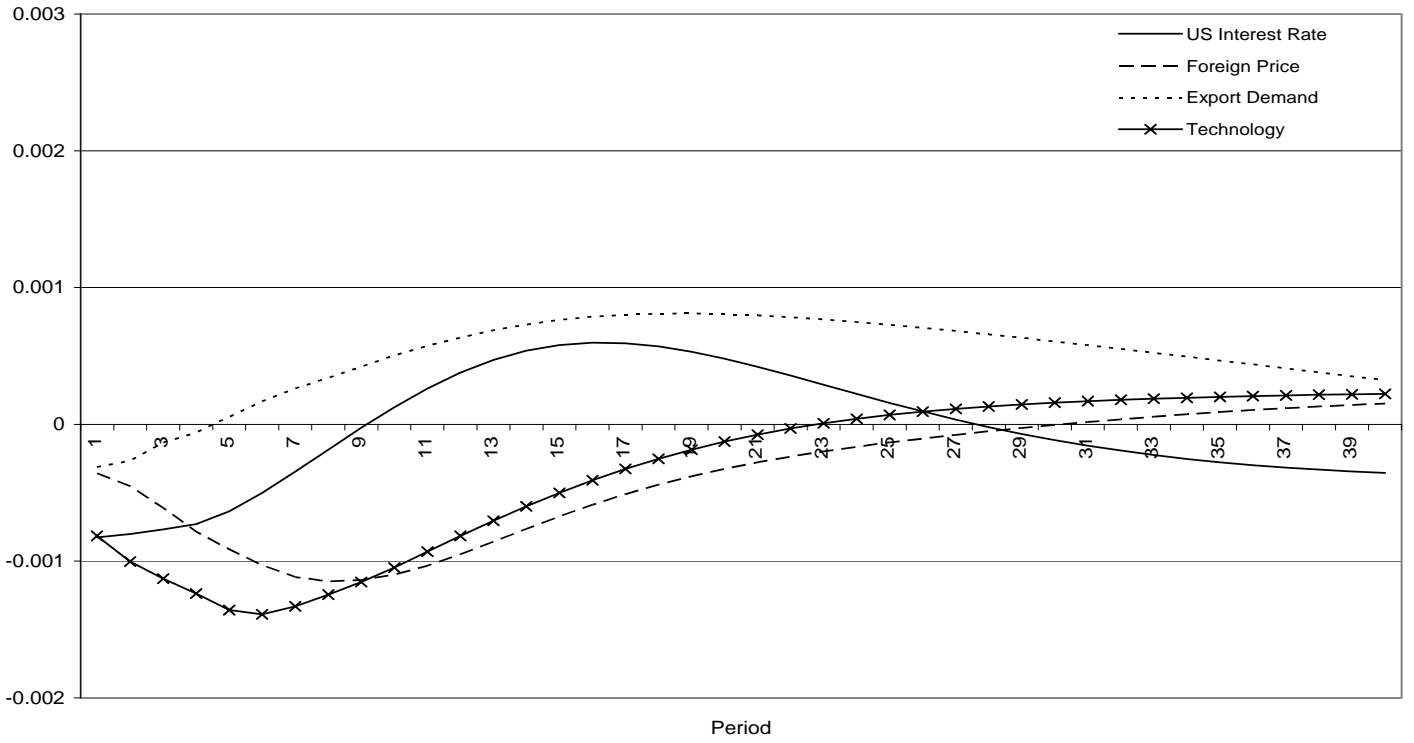


Figure 2, Panel B  
Responses of Unemployment to Shocks in Hong Kong Variables

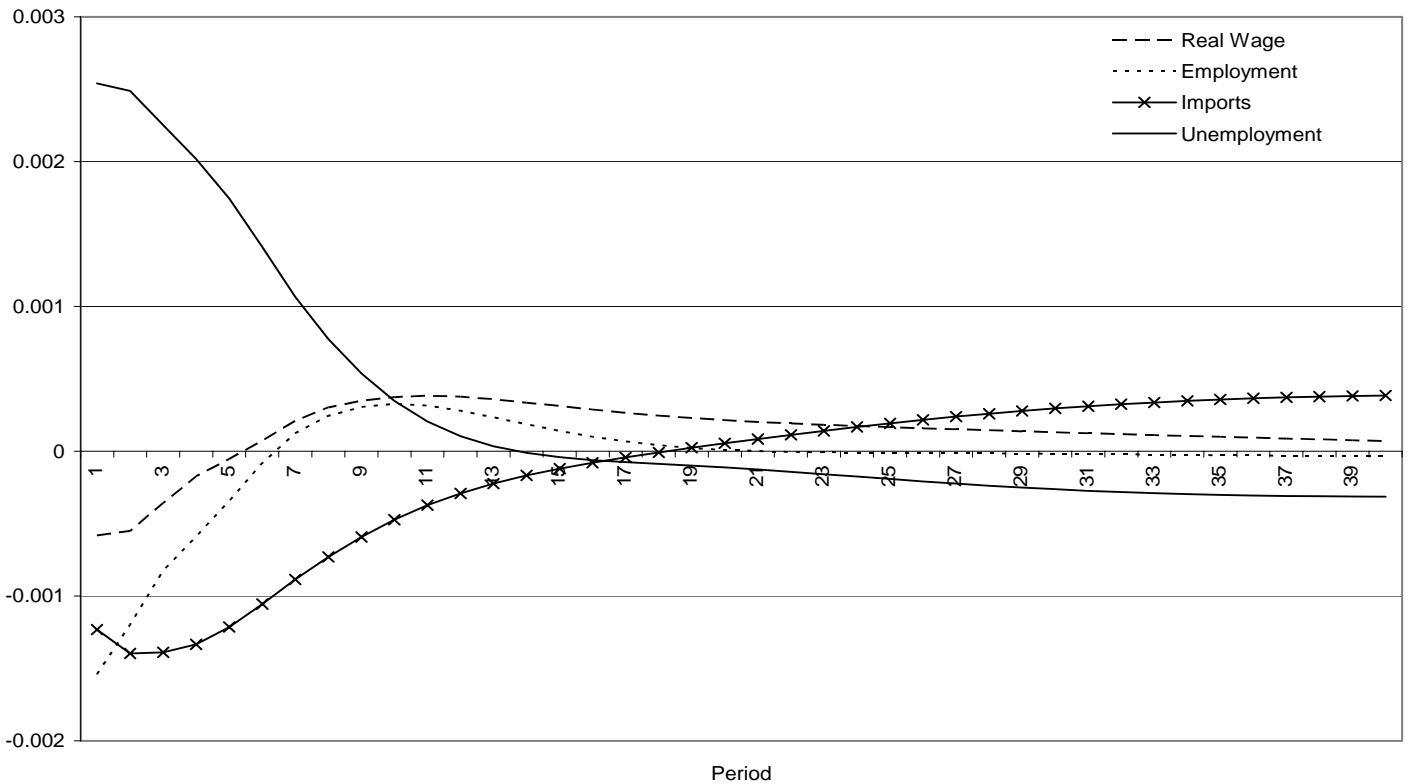


Figure 3, Panel A  
 Responses of Employment per Capita to Shocks in Exogenous Block Variables

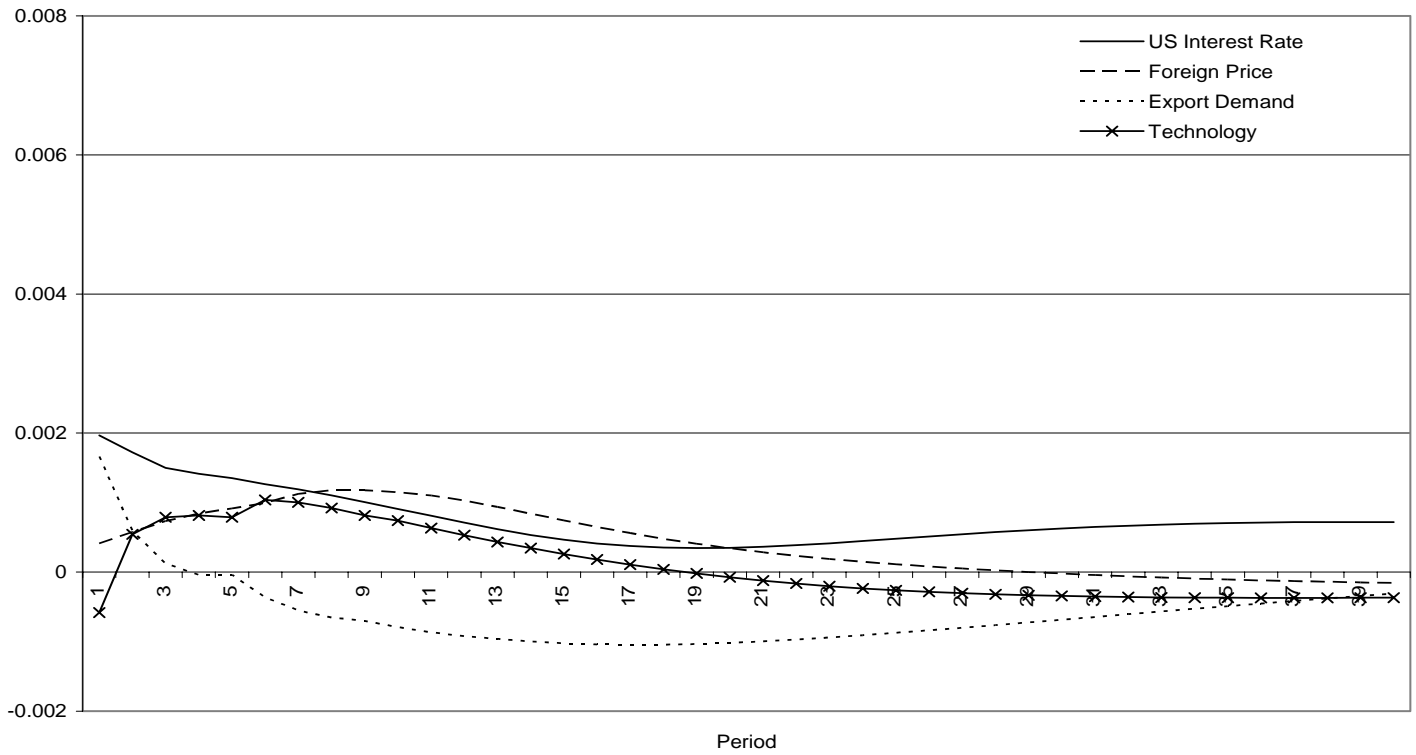


Figure 3, Panel B  
 Responses of Employment per Capita to Shocks in Hong Kong Variables

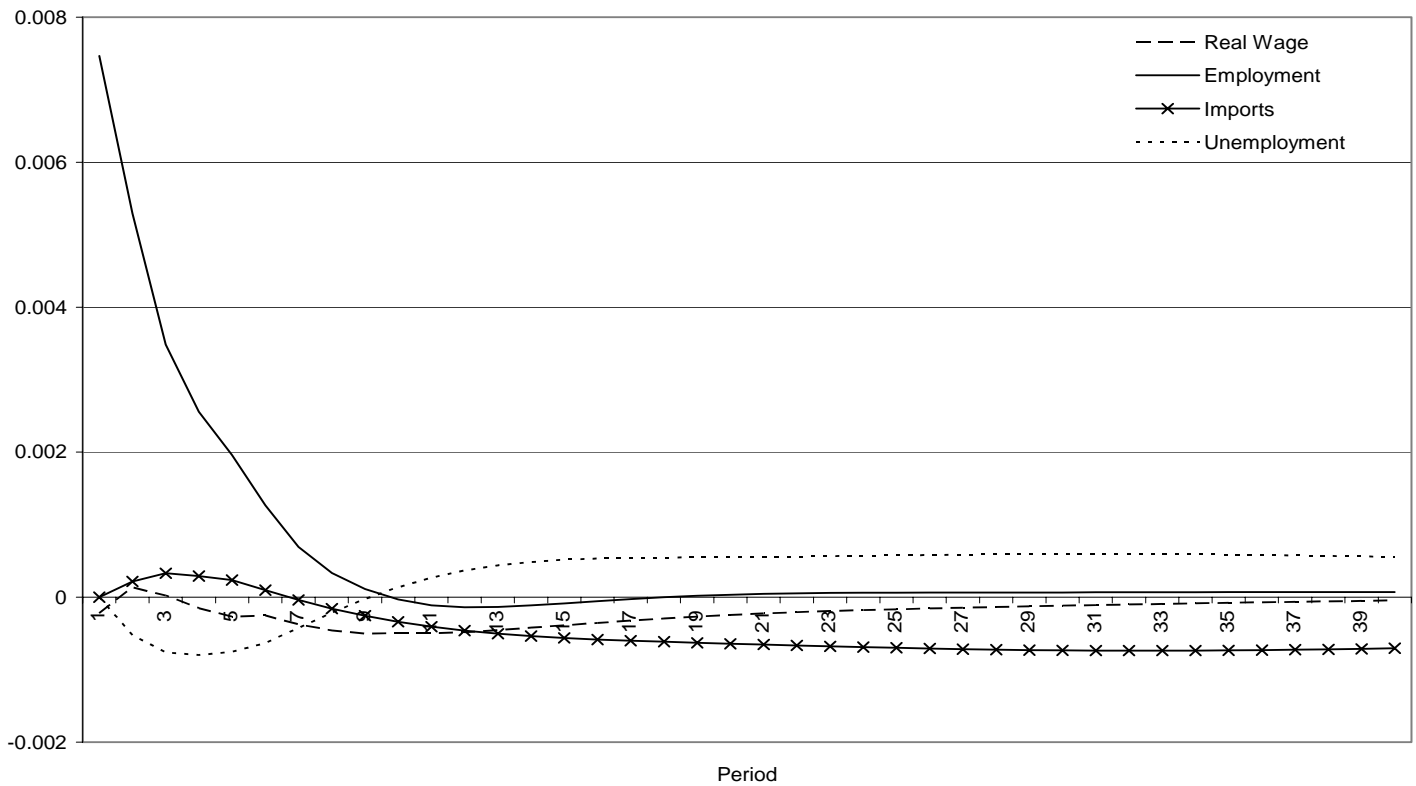


Figure 4, Panel A  
 Responses of Imported Inputs per Capita to Shocks in Exogenous Block Variables

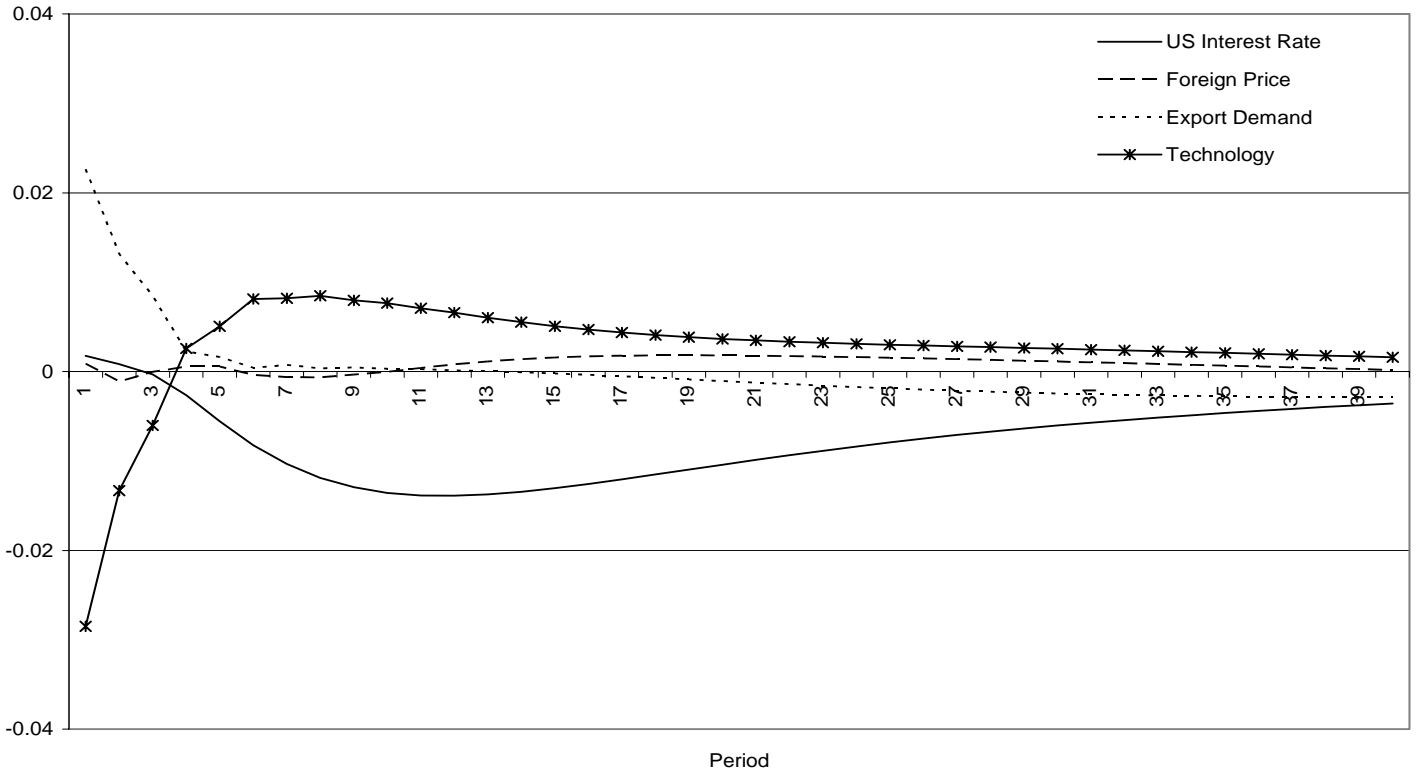


Figure 4, Panel B  
 Responses of Imported Inputs per Capita to Shocks in Hong Kong Variables

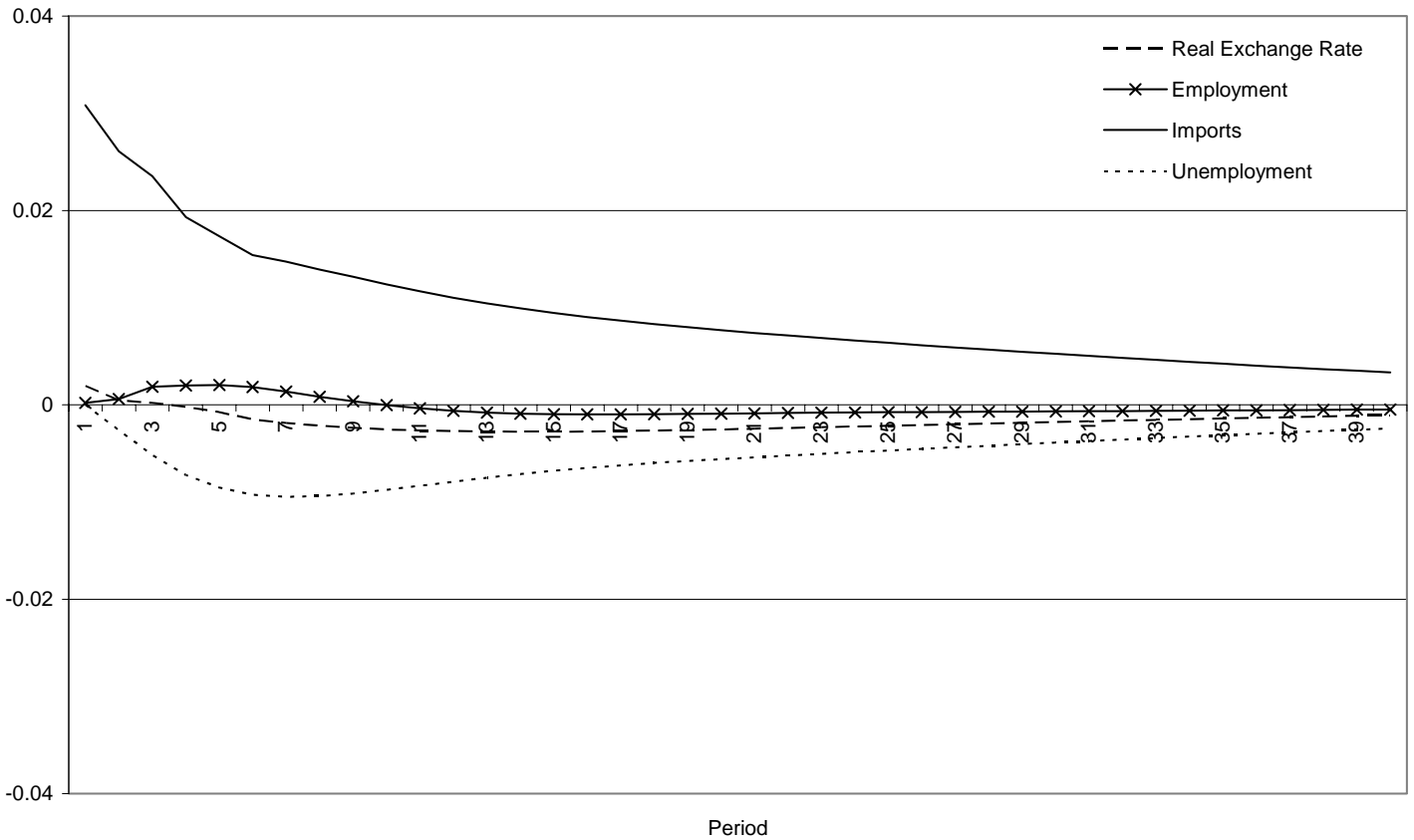


Figure 5, Panel A  
 Responses of the Real Exchange Rate to Shocks in Exogenous Block Variables

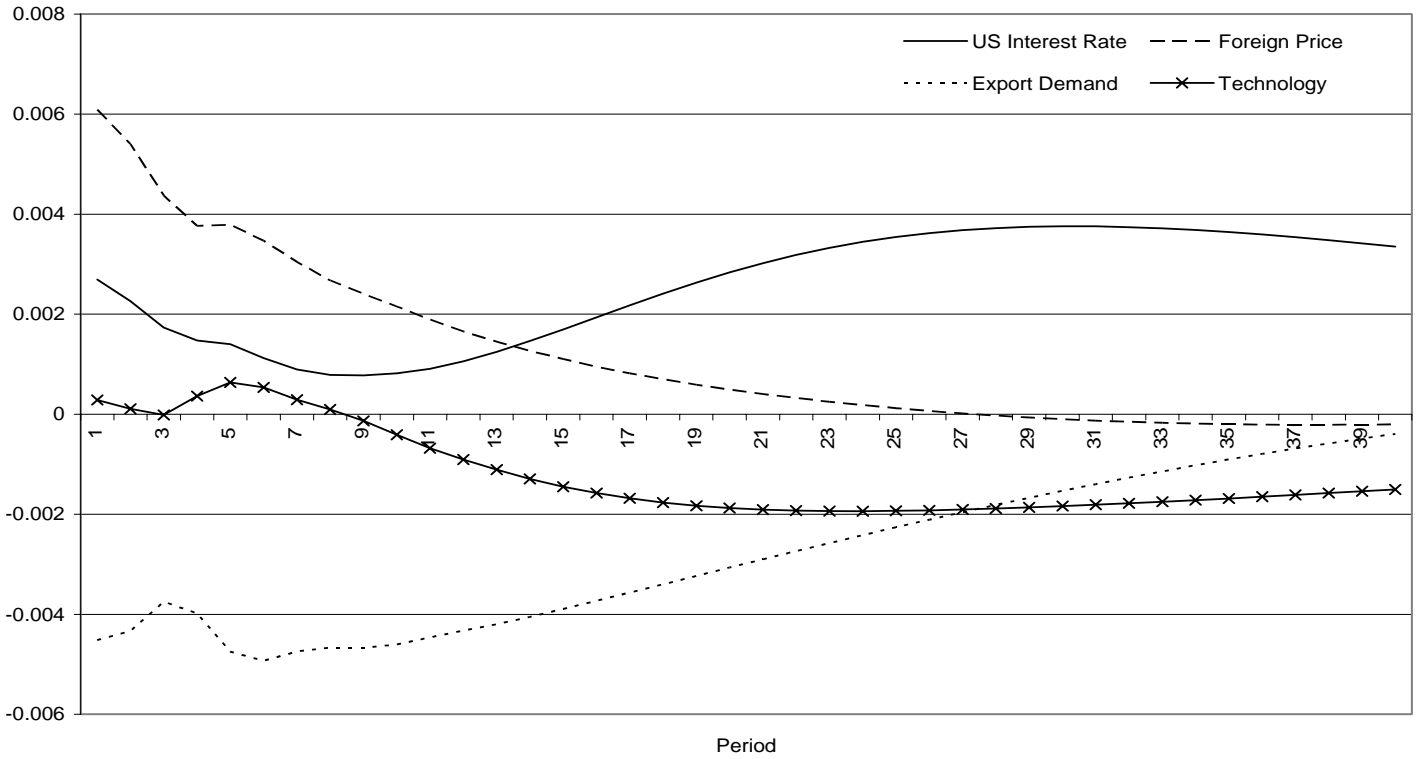


Figure 5, Panel B  
 Responses of Real Exchange Rate to Shocks in Hong Kong Variables

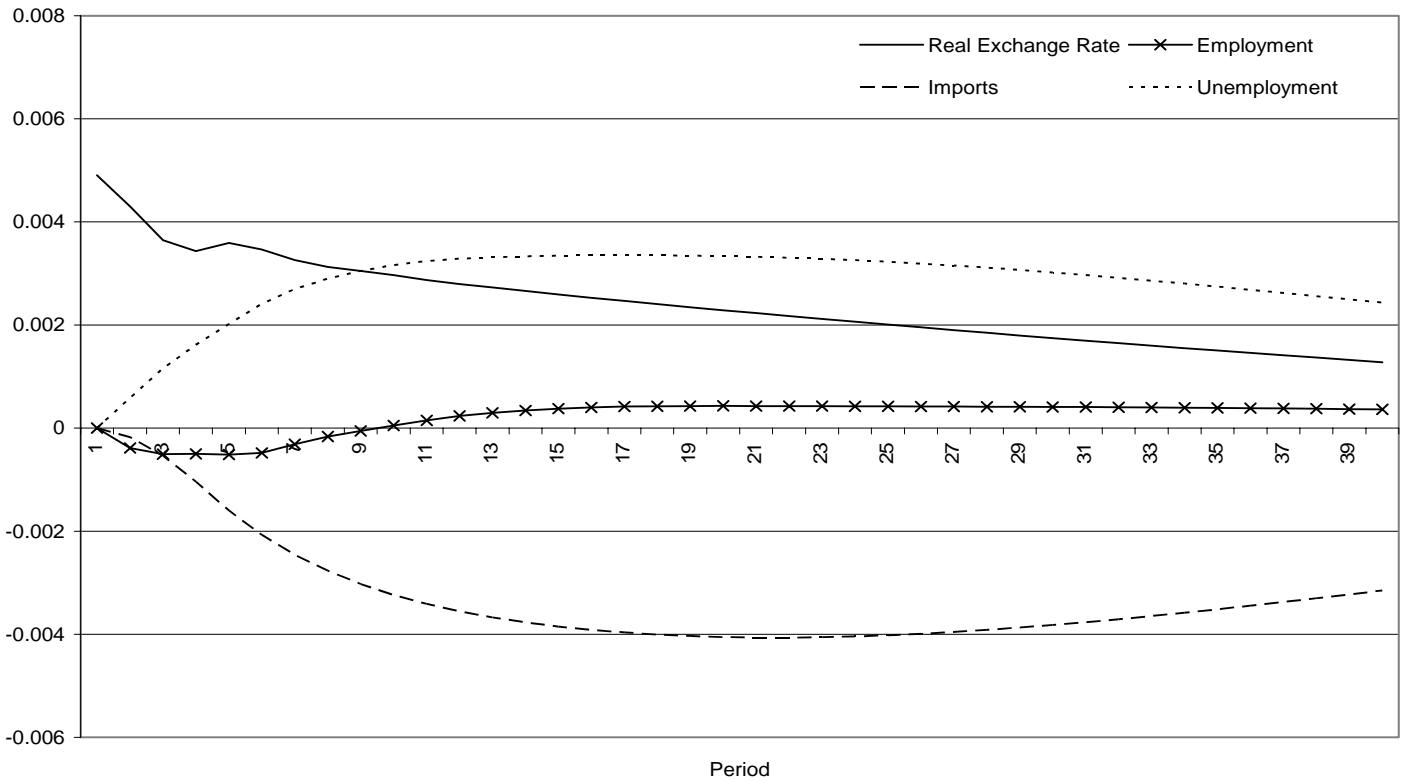


Figure 6, Panel A  
 Responses of the Real Wage to Shocks in Exogenous Block Variables

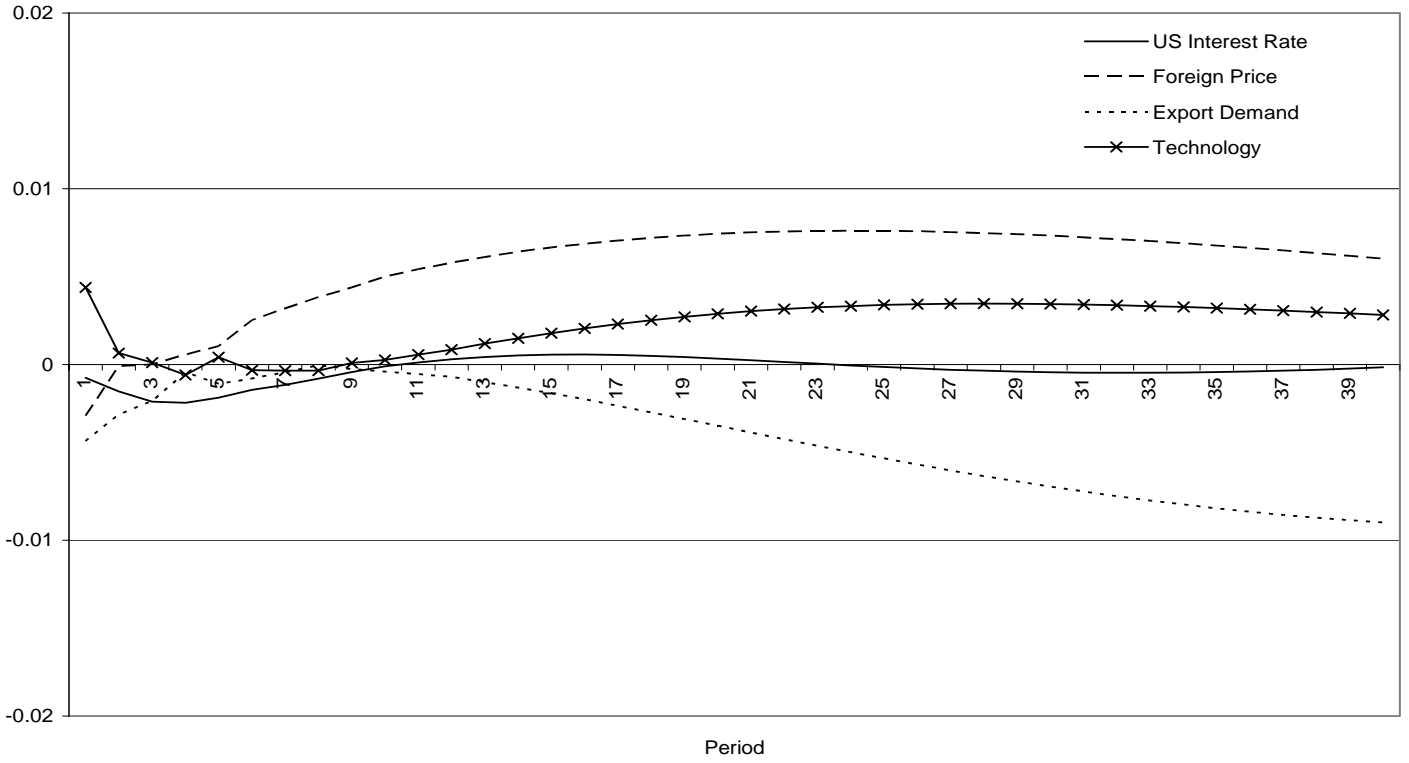


Figure 6, Panel B  
 Responses of the Real Wage to Shocks in Hong Kong Variables

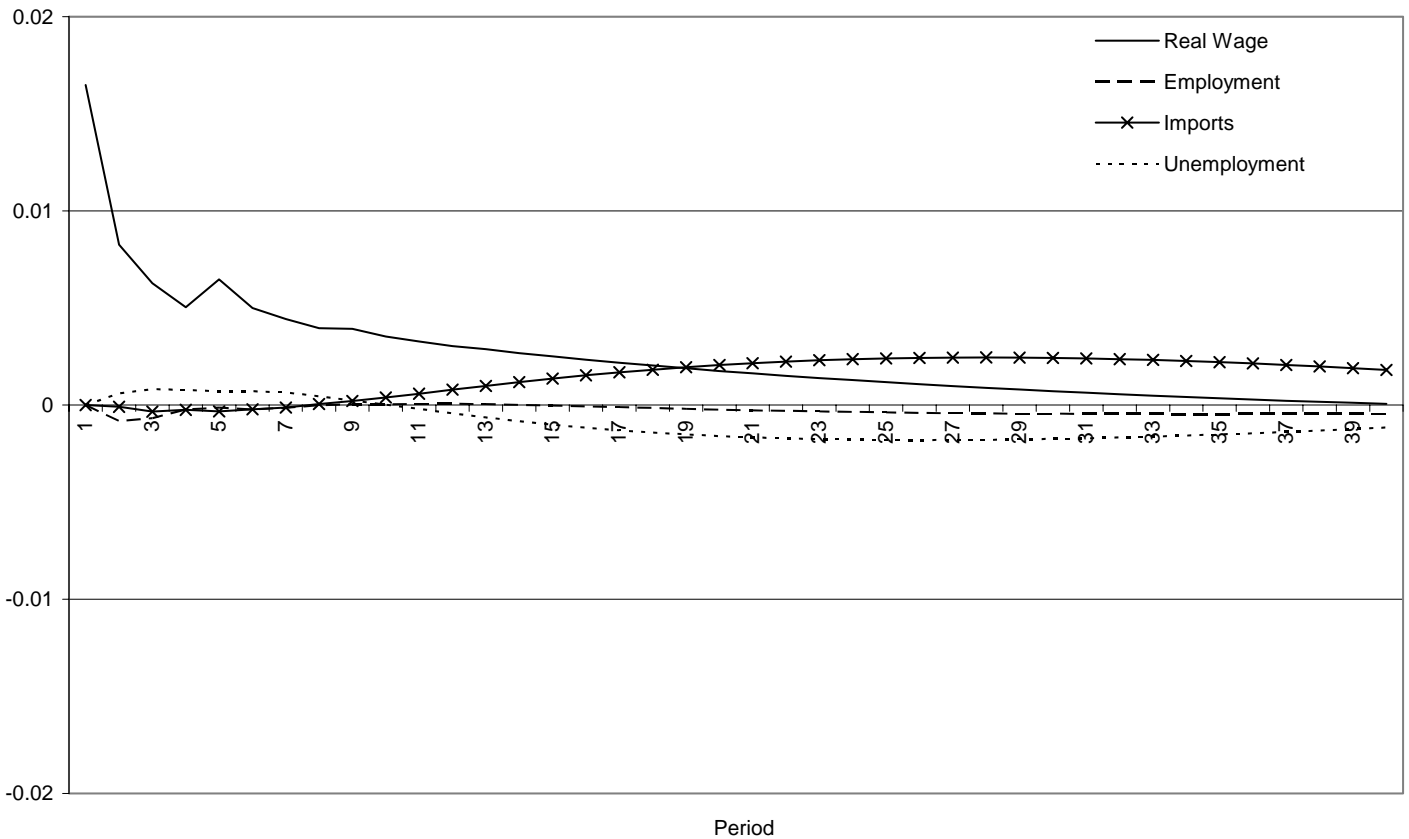


Figure 7  
Responses of the Unemployment Rate to Selected Shocks

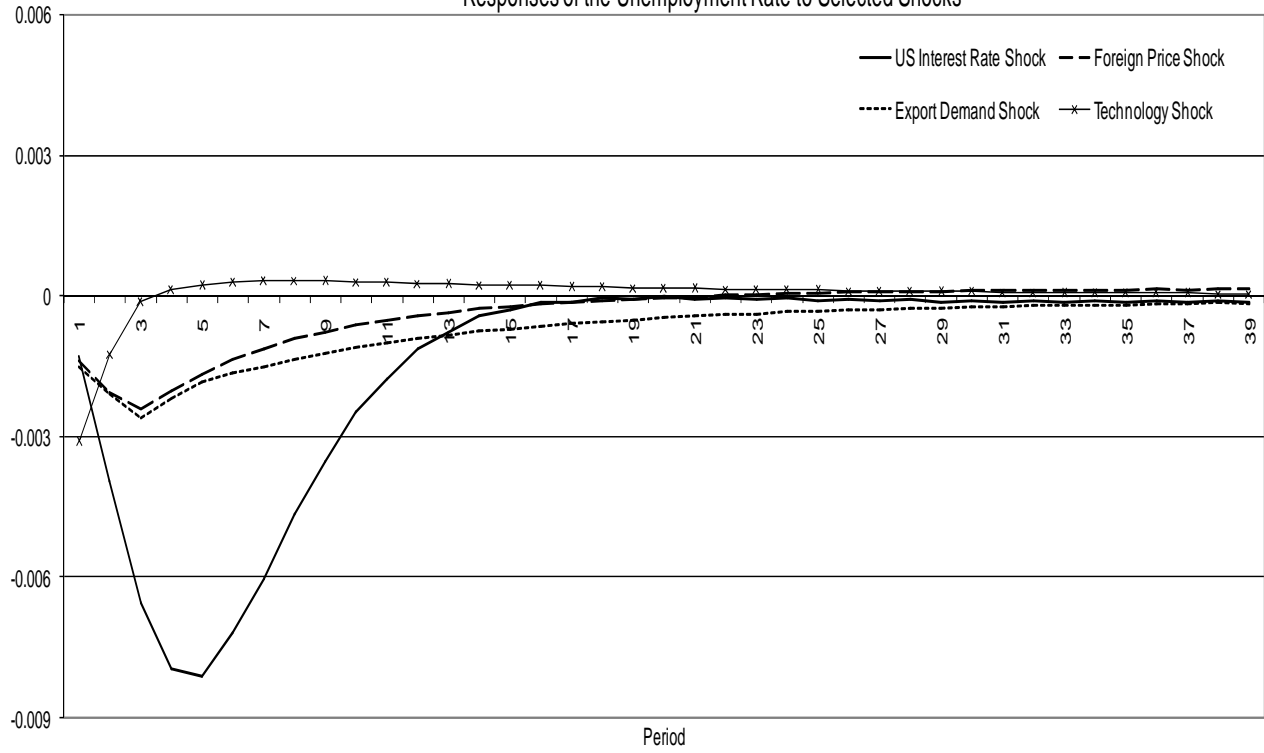


Figure 8  
Responses of Employment per Capita to Selected Shocks

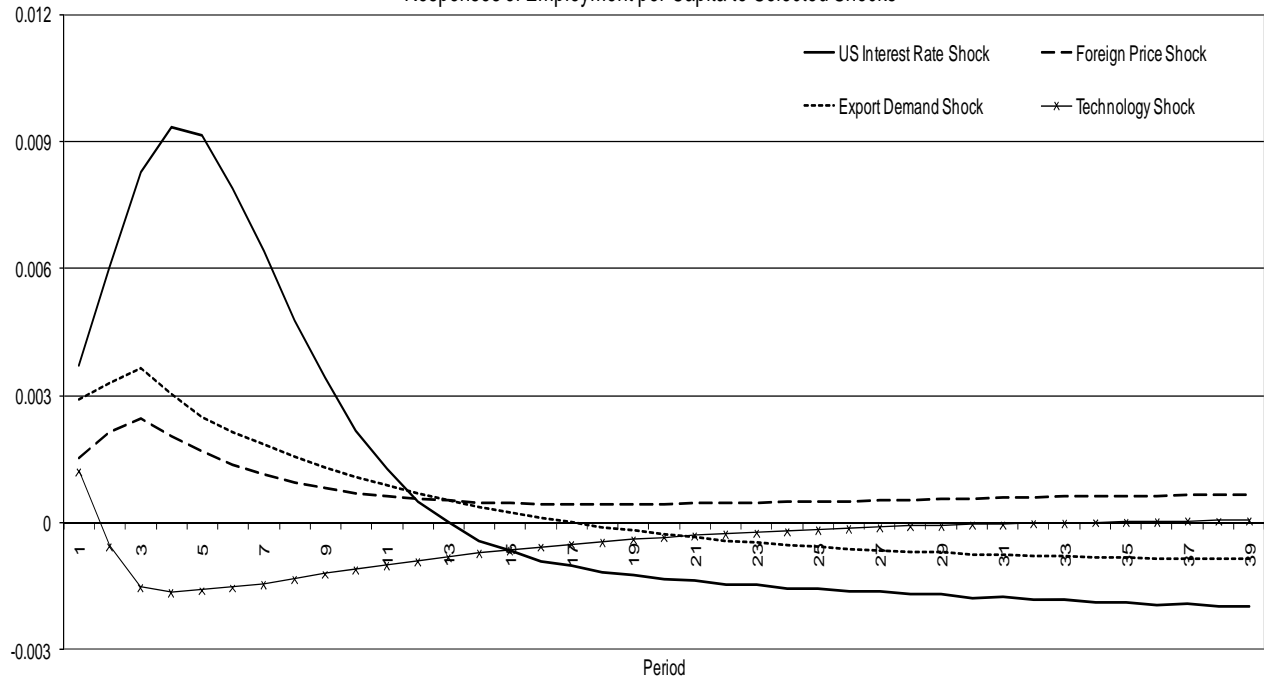


Figure 9  
Responses of Imported Inputs per Capita to Selected Shocks

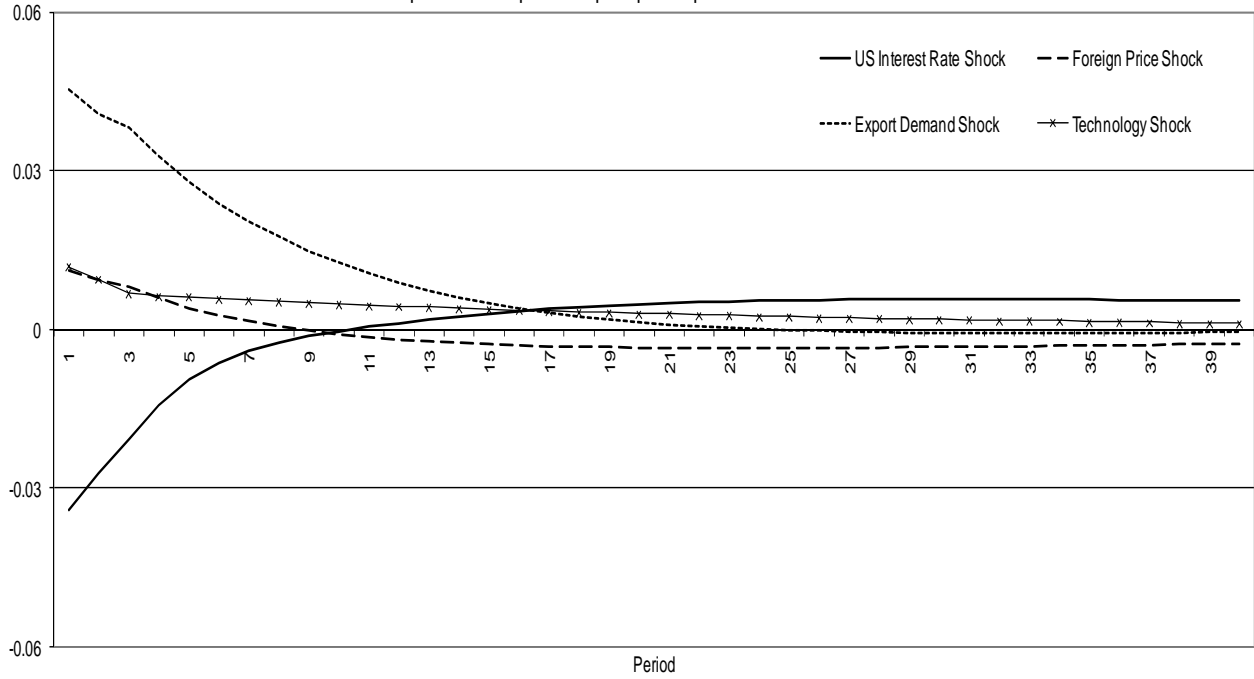


Figure 10  
Responses of the Real Exchange Rate to Selected Shocks

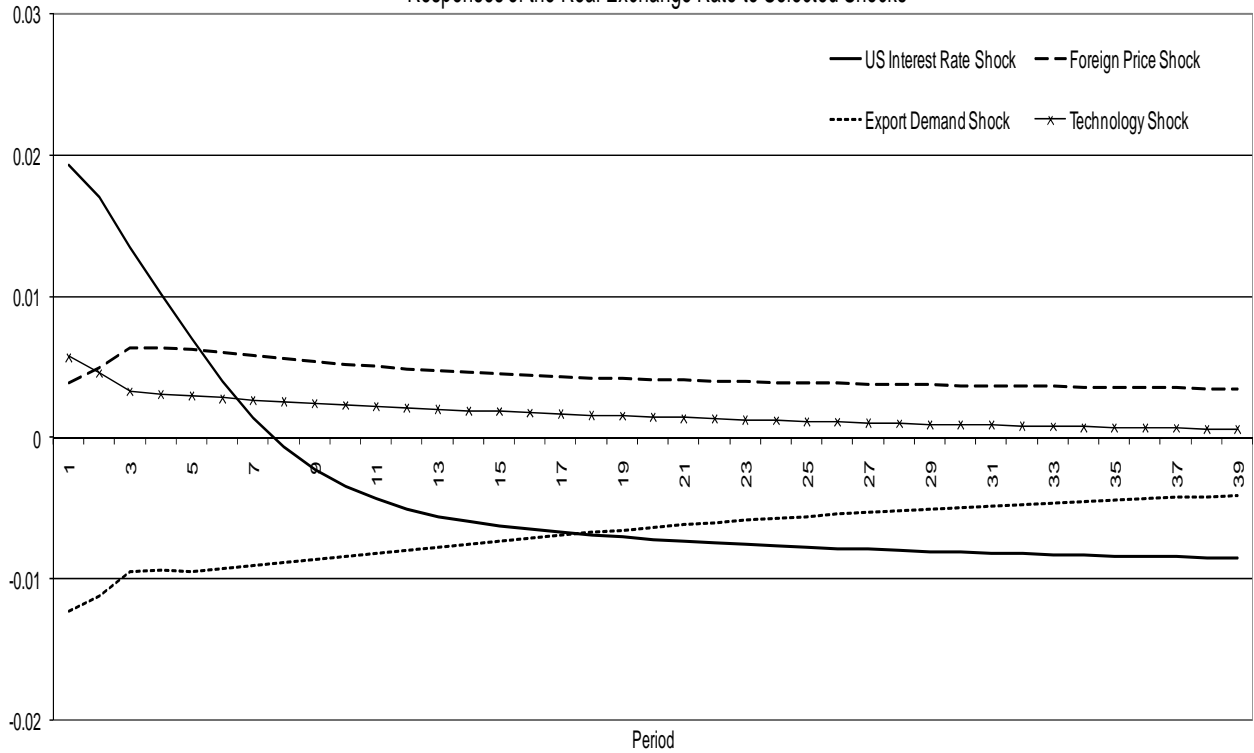


Figure 11  
Responses of the Real Wage Rate to Selected Shocks

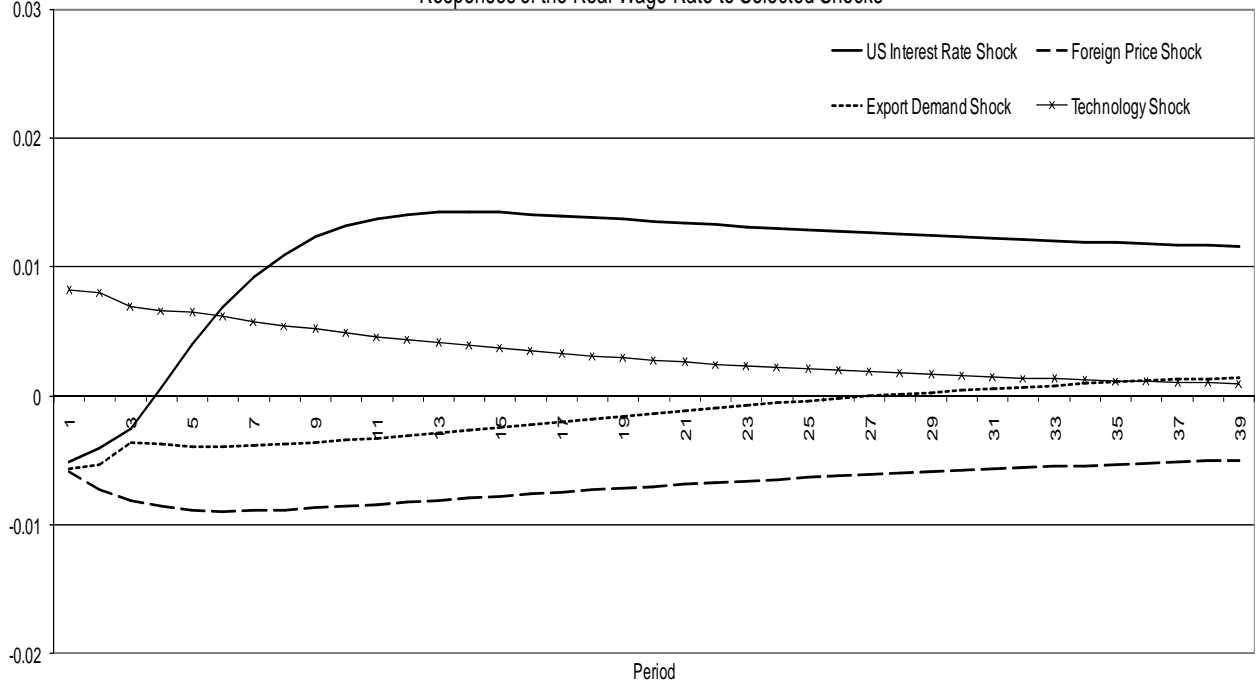


Figure 12  
Responses of Output per Capita to Selected Shocks

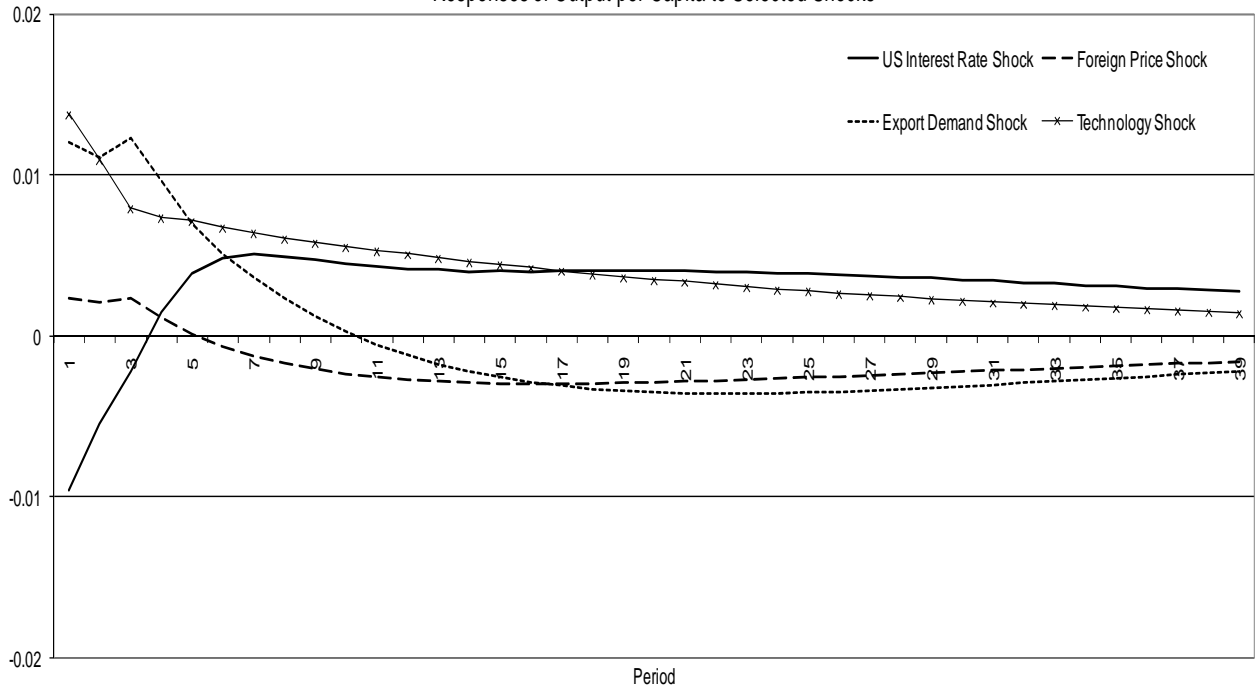


Figure 13, Panel A  
Responses of Selected Variables to the Risk Premium Shock

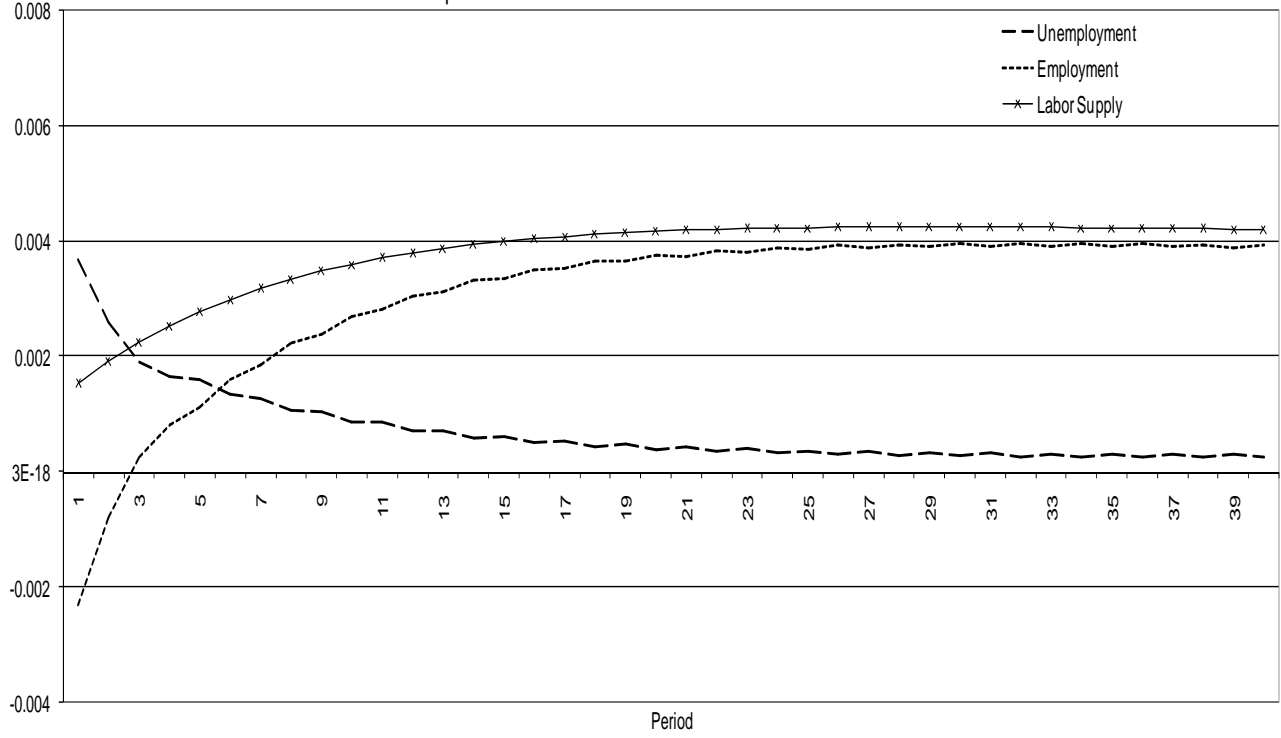


Figure 13, Panel B  
Responses of Selected Variables to the Risk Premium Shock

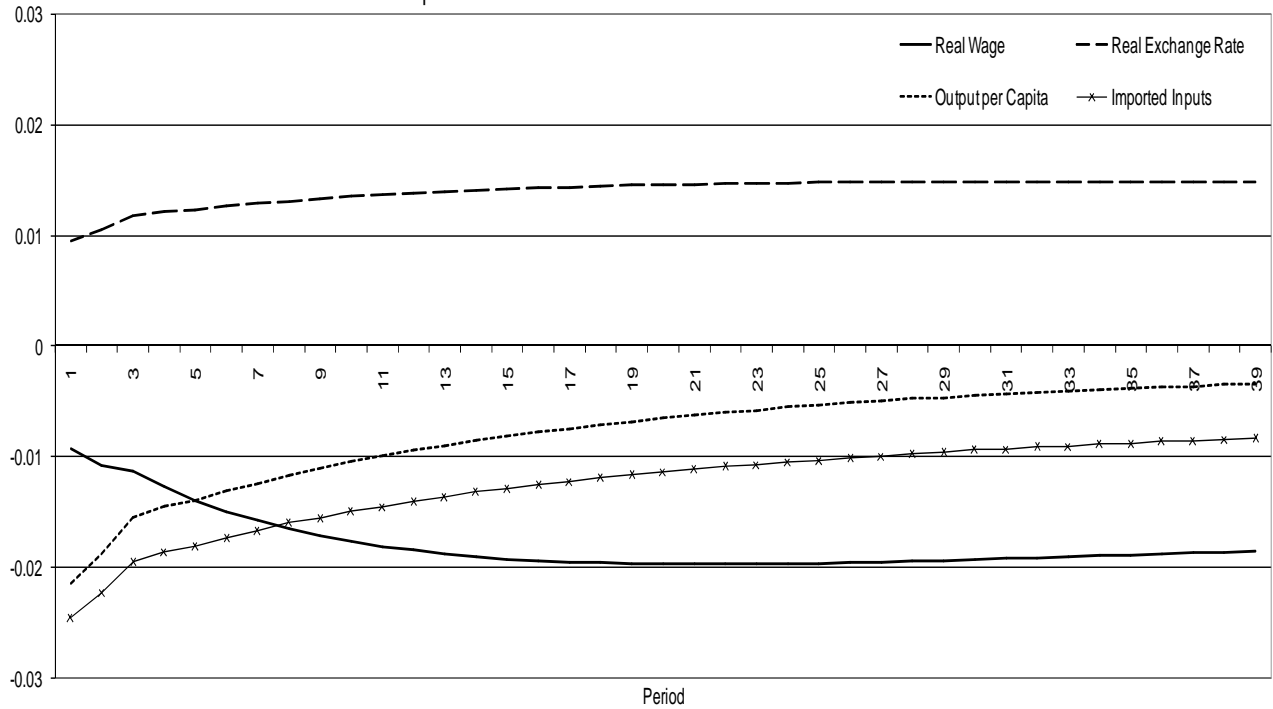


Figure 14

Comparison of Actual Values (Solid Line) and Model Predictions (Dashed Line)

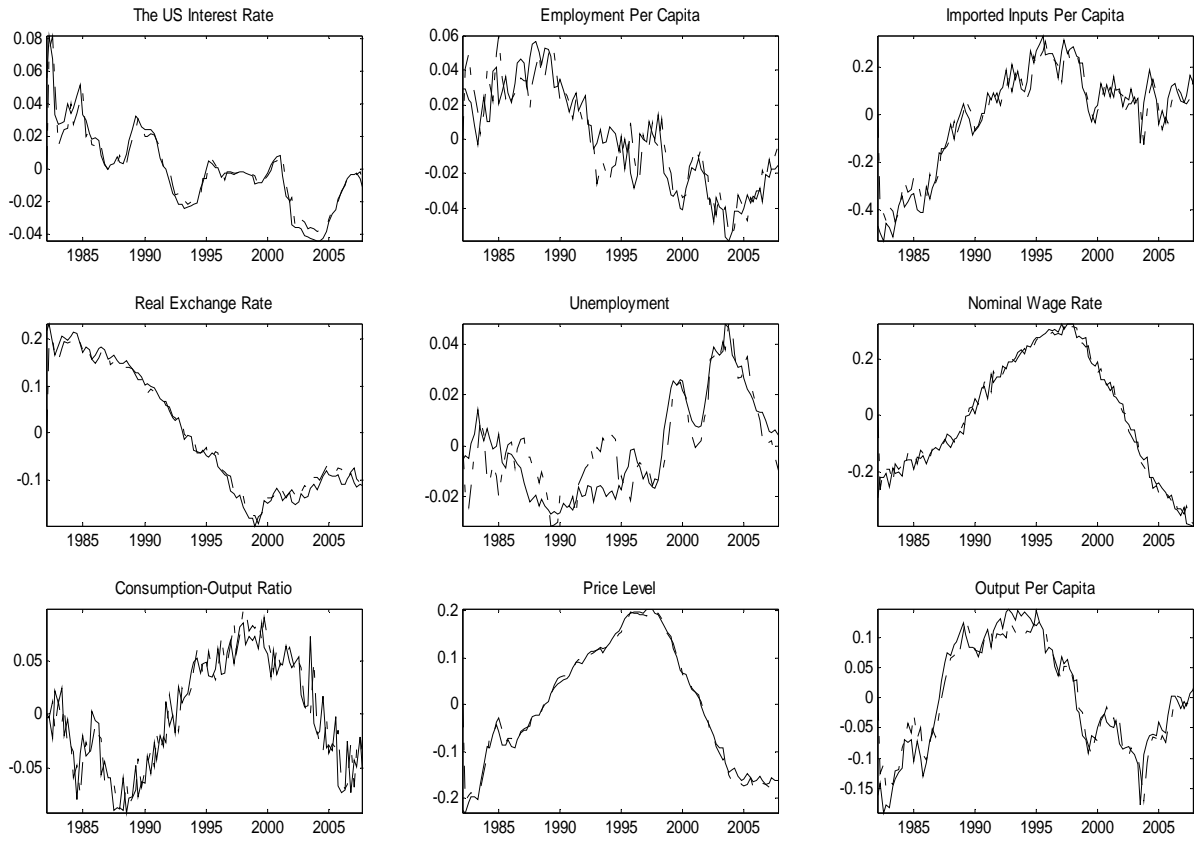


Figure 15

Shock Series Implied by Model Estimates

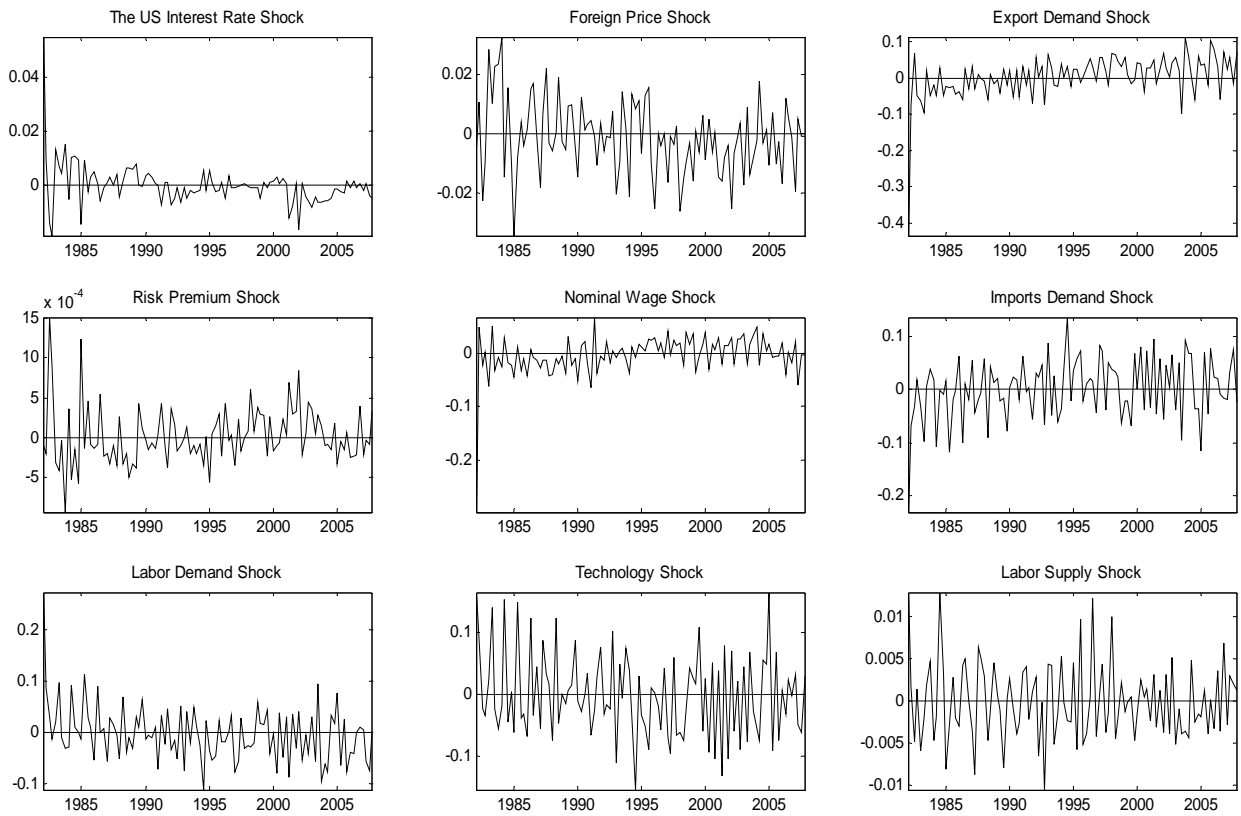


Figure 16, Panel A  
Historical Decomposition of Output per Capita

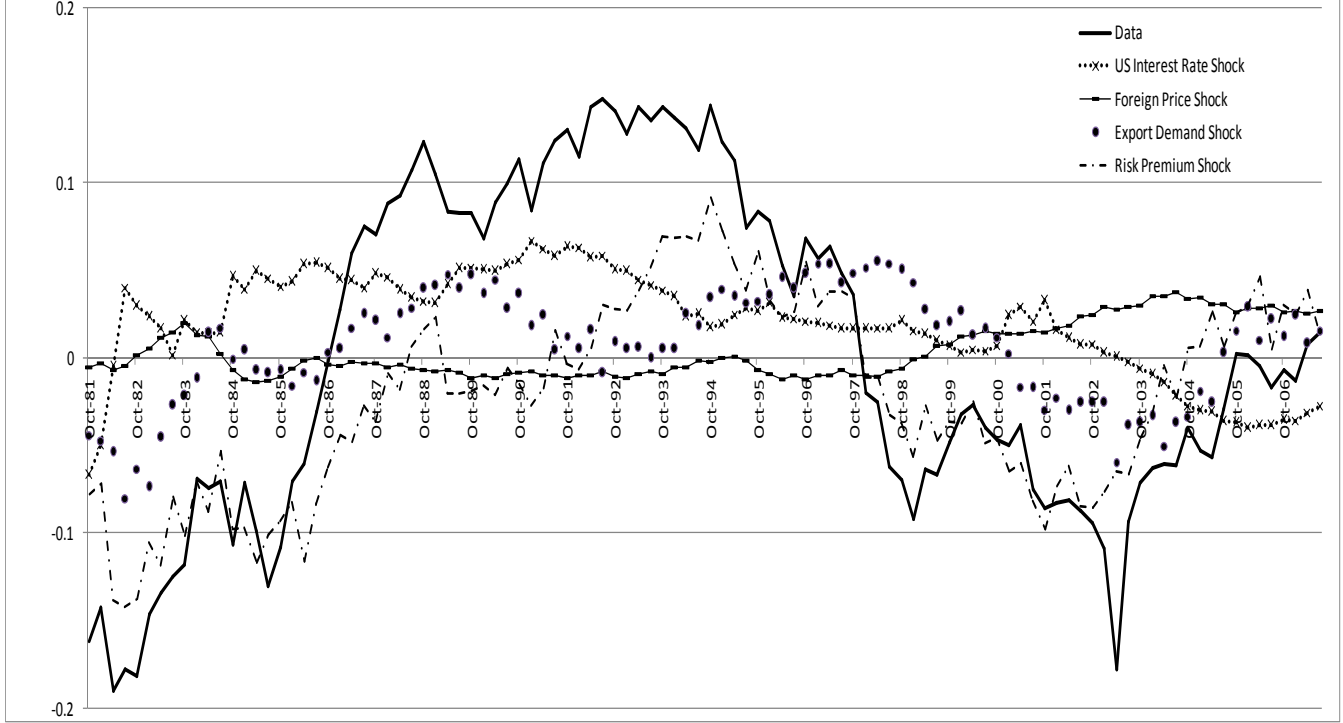


Figure 16, Panel B  
Historical Decomposition of Output per Capita

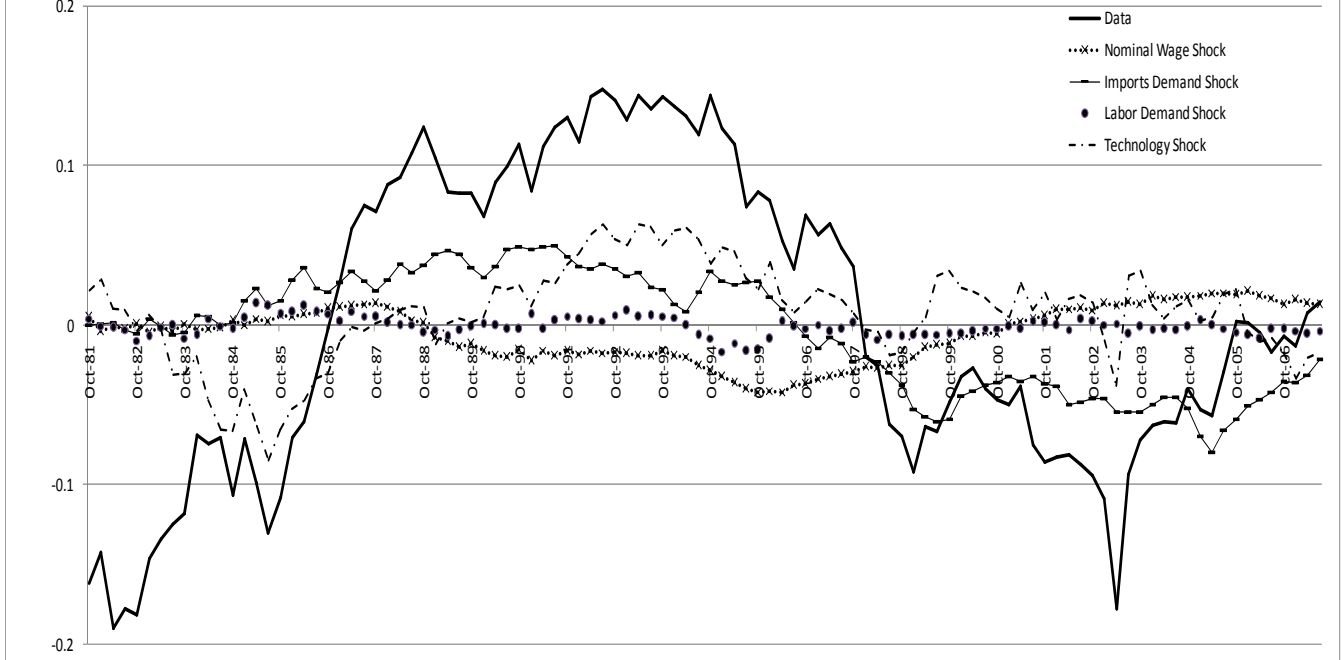


Figure 17, Panel A  
Historical Decomposition of the Unemployment Rate

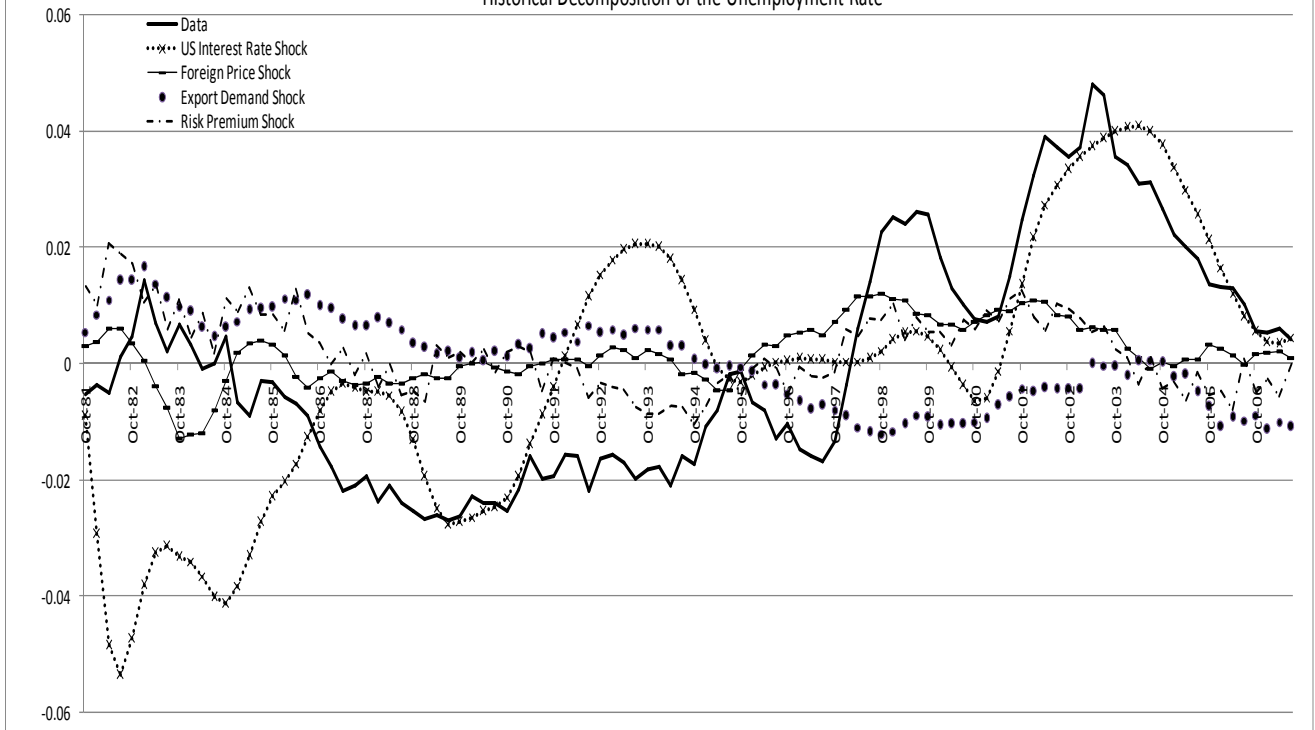


Figure 17, Panel B  
Historical Decomposition of the Unemployment Rate

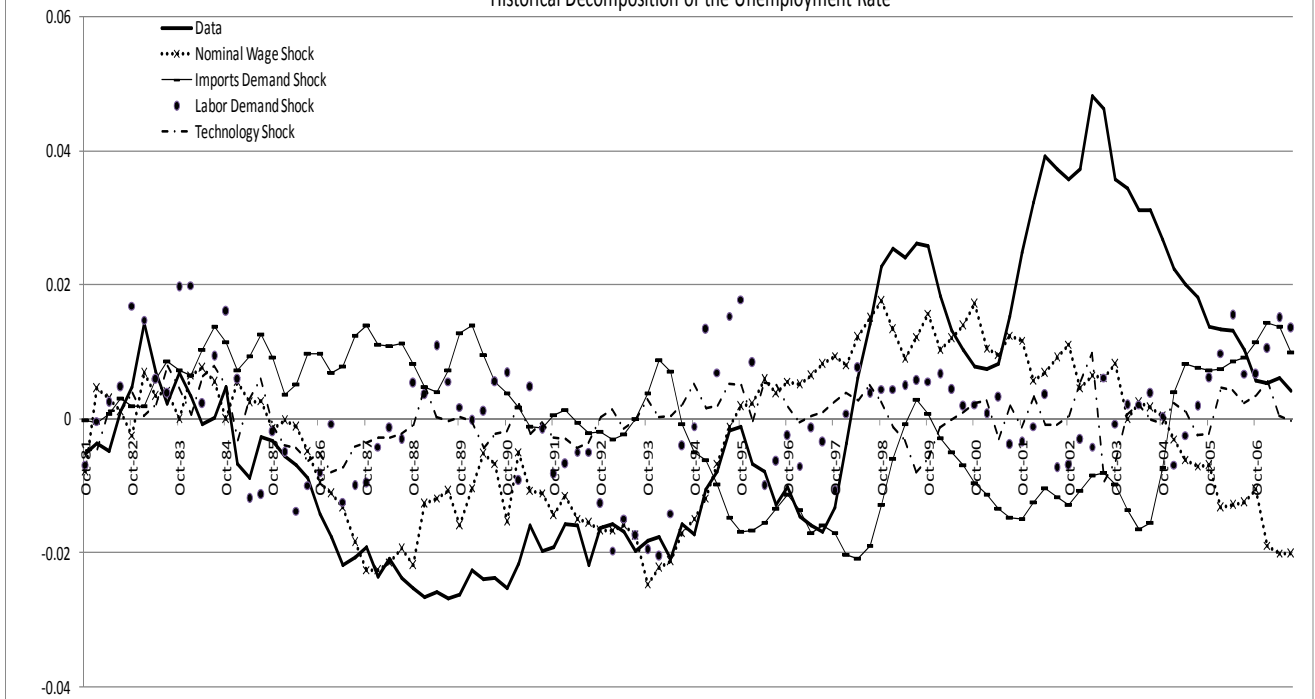


Figure 18, Panel A  
Historical Decomposition of Output per Capita

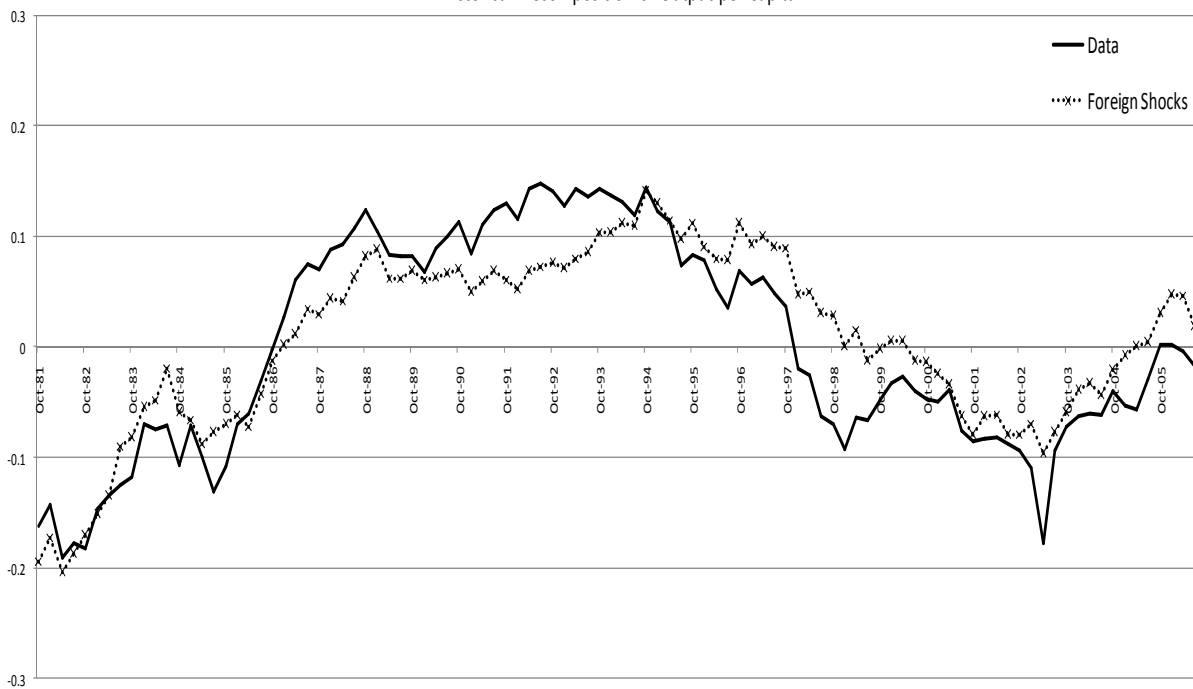


Figure 18, Panel B  
Historical Decomposition of the Unemployment Rate

