

TABLE 14

GENERALIZED METHOD OF MOMENTS ESTIMATION^a
 NON-LINEAR SPECIFICATION: AVERAGE REAL INTEREST RATES
 QUARTERLY DATA: 1953:4–1985:3

$$\text{Model: } (1) E_t[\delta^j \left\{ \frac{C_t}{C_{t+j}} \right\}^\alpha (1 + R_{1,t+j}) - 1] = 0 \quad j = 1, 2, 3, 4.$$

$$(2) E_t[\delta^j e^{\alpha(C_t - C_{t+j})} (1 + R_{1,t+j}) - 1] = 0 \quad j = 1, 2, 3, 4.$$

Model	Obs.	α	$s(\alpha)$	$t(\alpha)$	δ	$s(\delta)$	$t(\delta)$	χ^2	d.f.	Prob.
<i>One Quarter Measures 1953:4–1985:2</i>										
(1)	128	.6467	.5497	1.17	1.0019	.0025	393.67	6.87	2	.97
(2)	128	.0267	.0901	0.29	.9993	.0029	344.75	9.68	2	.99
<i>Two Quarter Measures 1959:3–1985:1</i>										
(1)	105	1.1167	1.8889	0.59	1.0027	.0093	108.09	2.21	2	.67
(2)	105	.0310	.1762	0.17	.9985	.0062	161.07	7.21	2	.97
<i>Three Quarter Measures 1960:3–1984:4</i>										
(1)	101	.7910	2.0797	0.38	1.0006	.0118	84.96	1.81	2	.59
(2)	101	.0717	.1434	0.50	0.9993	.0053	188.36	6.02	2	.95
<i>Four Quarter Measures 1954:2–1984:3</i>										
(1)	126	1.3417	1.9042	0.70	1.0025	.0094	106.00	2.52	2	.72
(2)	126	.0705	.5961	0.11	.9978	.0038	256.11	3.79	2	.85

^aInstrumental estimation uses the technique of Hansen (1982). The standard errors are corrected for a moving averages process in the errors for conditional heteroskedasticity. C_t/C_{t+1} is the ratio of real per capita consumption of non-durables and services, $R_{1,t+1}$ is the realized real rate of interest on a one year corporate bond. The instrumentation consists of a constant, the expected real j-period rate (parameters re-estimated at every point in the time series), lagged consumption ratio or difference and the difference in yields on Moody's AAA and BAA rated bonds.