

1. Appendix: Data sources

For all countries we use quarterly time series data for the period 1970:1-1999:4 when they are available. For the United States, we use the Commerce Department data for real GDP, measured in chain-weighted 1992 US dollars. The baseline output gap is obtained from the potential output estimation published by the Congressional Budget Office (CBO). Alternative measures of detrended GDP, using the Hodrick-Prescott filter or a quadratic trend, are also considered. The inflation rate is taken as the four quarter average rate of growth of the chain-weighted GDP deflator published by the Commerce Department and the three-month interest rate is the rate of negotiable certificates of deposits from the Federal Reserve. The instrument set includes the 3-month Treasury bill secondary market rates, the federal funds rates, the ten-year Treasury securities rates, and the M2 money supply, all of them from the Federal Reserve. The price of Brent oil is also included as an instrument.

For EMU, we use the BBVA database for GDP, consumer price index and 3-month interest rates. The original source of national data is OECD *Main Economic Indicators*, and the aggregation procedure is a PPP-based weighted average. The weights for real GDP and interest rates are obtained from the real GDP series expressed in a common currency in 1990. The CPI weights are from real consumption expenditure series in common currency in the same year, 1990. The choice of a fixed conversion rate from one basis year, instead of the current rate for each year, helps to preserve the dynamics of original series. Otherwise, exchange rate variability would have contaminated their behavior.

In the BBVA database, the effects of German reunification upon macroeconomic variables are not considered. Before 1991, West German data are used. Thereafter, data referred to the whole of Germany. In some cases, models must incorporate dummy variables in order to correct this break. For Germany, we use the data for real GDP, consumer price index and short-term interest rates as published in the OECD Main Economic Indicators.

The data set is available at <http://iei.uv.es/~rdomenec/rules/rules.html>.

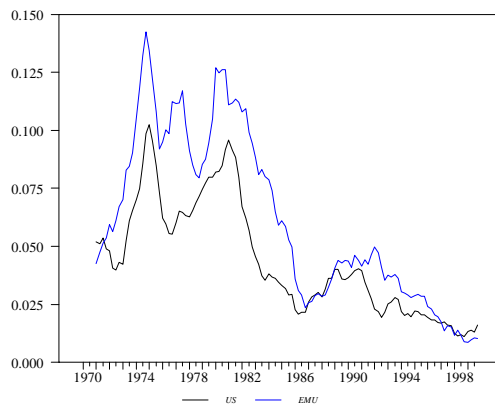


Figure 1: Inflation (four quarter average rate of growth of prices).

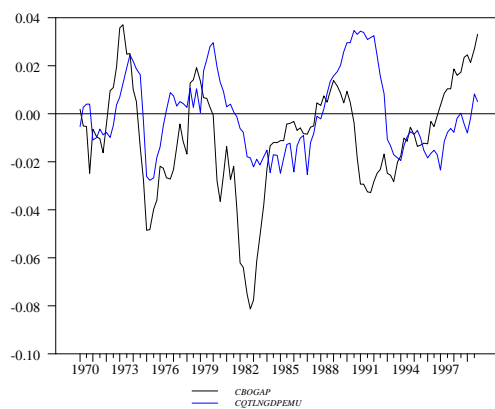


Figure 2: Output gap (%).