

# DETECTING PARAMETER NONCONSTANCY AND CHANGES IN REGIME

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*Abstract:* Automated model selection and impulse indicator saturation are two key tools in a coherent framework for generating, analyzing, and justifying empirical macro-econometric evidence. This paper illustrates and generalizes these tools by re-analyzing the empirical model of seasonally unadjusted UK narrow money demand in Ericsson, Hendry, and Tran (1994). Both tools demonstrate the robustness of that model to a wide range of feasible alternatives. These tools also yield statistical and economic improvements to that model, and so provide insights into the practical justification of empirical evidence in macro-economics. Combined, these tools permit computer-automated parsimonious detection of parameter nonconstancy and changes in regime.

*Keywords:* Autometrics, changes in regime, dynamic specification, impulse indicator saturation, model selection, money demand, United Kingdom.

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