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**A Stylized Econometric Model  
for the Ethiopian Economy**

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## **Abstract\***

Initially, the econometric models were estimated for and applied to the economies of Holland, the USA, Canada, and the UK; and later efforts were undertaken for other developed economies such as Japan, France, Greece, Israel, Germany, Australia and others. Today there is hardly any economy for which such models have not been attempted. There are economies where such econometric models have been estimated applied for policy analysis by official agencies like Banks etc. It is now established fact that the experience with model building activities in developed economies has benefited similar efforts for developing economies albeit in varying degrees depending upon the inherent characteristics of the country concern. Empirically econometric analysis for a developing economy is a challenging task, and is undertaken in the light of available data evidence and the purpose of analysis. The quality of data for a developing economy is always doubtful perhaps it is one of the reasons that econometric framework of developing economies is highly in an unsatisfactory state and where ever it exists it has not received official acceptability. The model building As a result even among the category of developing economies, the models for the Asian economies should look different from those for the Latin American or the African economies. Besides providing the forecasts, the multivariate framework of the economy, the econometric models serve other goals as well. Most important has been towards consolidating empirical and theoretical knowledge of how economy functions, providing a consistent framework for policy analysis and interpretation of data measurements at the forecast origin. Design a macro-econometric system for an economy specially a developing one should be strictly related to the needs of the study, e.g., long term or short term. Specifications are to be guided by the institutional framework of the economy, nature and availability of data, and

the requirements of the short-term forecasts and dynamics. Degree of exogeneity and the size of the model are to be determined so as to simulate the impact of economic policy instruments within the economy. In view of limitations of data base, the model size plays an important role while constructing a macro model of an economy. Smaller models are preferred to bigger models because of the underlying simplicity these models impart for the understanding of the structure of the economy. On the other hand, larger models provide greater details about the policy analysis. The purpose of this paper is to formulate a stylized econometric model for the Ethiopian economy and estimate it so as to have an idea about the structure and working of the economy.

Plan of the paper is to present the road map to econometric analysis with special reference to a developing economy. This is followed by salient features of the economy of Ethiopia. An analytical frame-work of an econometric model is described, which is followed by a prototype model for the Ethiopian economy. Finally concluding remarks are presented.

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