TABLE 22

COMPARISON OF FORECASTS:
YIELD SPREAD MODEL VS. ALTERNATIVE MODELS
ANNUAL DATA: 1900–1984

Model (1): $D(1)CA_{t+1} = \beta_0 + \beta_1(Real\,Yield\,Fitted)_t + \beta_2(Cons.\,AR\,Fitted)_t + \epsilon_{t+1}$
(2): $D(1)CA_{t+1} = \beta_0 + \beta_1(Real\,Yield\,Fitted)_t + \beta_2(Stocks\,Fitted)_t + \epsilon_{t+1}$
(3): $D(1)CA_{t+1} = \beta_0 + \beta_1(Nominal\,Yield\,Fitted)_t + \beta_2(Cons.\,AR\,Fitted)_t + \epsilon_{t+1}$
(4): $D(1)CA_{t+1} = \beta_0 + \beta_1(Nominal\,Yield\,Fitted)_t + \beta_2(Stocks\,Fitted)_t + \epsilon_{t+1}$

Model	Obs.	β_0	s(β_0)	t(β_0)	β_1	s(β_1)	t(β_1)	β_2	s(β_2)	t(β_2)	$\overline{R}^2$
full sample 1901–1984											
(1)	84	-.0063	.0102	-0.62	.4790	.4404	1.08	.9121	.1872	4.87	.25
(2)	84	-.0155	.0222	-0.69	.9877	.7269	1.35	.9670	.8280	1.16	.09
(3)	84	.0034	.0035	0.94	-.1033	.0780	-1.32	.9259	.1961	4.72	.26
(4)	84	.0027	.0136	0.19	-.1769	.1309	-1.35	1.0645	.8555	1.24	.08
first sub-period 1935–1984											
(1)	50	-.0332	.0105	-3.16	1.2259	.3055	4.01	1.3502	.4627	2.91	.13
(2)	50	-.0190	.0126	-1.50	.9760	.3275	2.98	.9258	.5455	1.69	.07
(3)	50	-.0039	.0058	-0.66	.1764	.0796	2.21	.9516	.4181	2.27	.08
(4)	50	.0048	.0084	0.56	.1629	.0846	1.92	.5577	.3959	1.40	.04
final sub-period 1954–1984											
(1)	31	-.0415	.0163	-2.55	1.4673	.4231	3.46	1.6132	.4682	3.44	.19
(2)	31	-.0205	.0196	-1.04	1.0090	.2384	4.23	1.0168	.5291	1.92	.09
(3)	31	-.0014	.0087	-0.16	.1785	.1960	0.91	.8262	.5397	1.53	.03
(4)	31	.0037	.0069	0.53	.1517	.2661	0.57	.6080	.6450	0.94	-.00
(1)[a]	31	-.0137	.0096	-1.42	.8679	.5760	1.50	.8191	.5062	1.61	.06
(2)[a]	31	-.0211	.0144	-1.46	1.0221	.6337	1.61	1.0365	.4320	2.39	.08
(3)[a]	31	-.0021	.0104	-0.20	.2711	.1451	1.86	.7328	.5501	1.33	.09
(4)[a]	31	.0076	.0101	0.75	.2835	.1866	1.51	.2311	.6420	0.35	.06

Standard errors corrected for moving average process in residuals and for conditional heteroskedasticity. See White (1980) and Hansen (1982). [a] Estimated with government one year bond.