

ABSTRACT

Private Investment in Trinidad and Tobago: An Empirical Analysis

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This study uses cointegration theory and error correction models to estimate candidate dynamic specifications of private investment within a model of aggregate demand for the Trinidad and Tobago economy. Variables entering the long run relationship are examined for unit roots using the Dickey-Fuller test statistic. Johansen's maximum likelihood approach is also used to determine the rank of the cointegrating matrix.

The cointegration-error correction models reveal that variables may have long run effects but be completely insignificant in the short term. Findings also suggest that the speed at which deviations from the equilibrium relationships are corrected, is fastest in the case of private investment. Historical simulation as well as exogenous shocks to the model further confirmed the view that the linkages among the stochastic equations were adequate and coherent.