EVALUATING THE RATIONALITY OF BUSINESS EXPECTATIONS FOR SELECTED SECTORS

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ABSTRACT

In this research, it analyses the panel of actual and expected data of semiannual surveys on capital expenditure, gross revenue, and employment of four sectors; namely Logging, Constructions, Manufacturing, and Finance which compiled from various issues of the ‘Business Expectations Survey of Limited Companies’. The period of study is from 1984:1 to 2001:1 giving a total of thirty-six time series observations. In this study, the variables are subjected to the Unit Root test, Cointegration test, Unbiased test, Serial Correlation, and Weak Form Efficiency test.

The objective of this study is to present some empirical evidence on the rationality of business firms’ expectations for three variables; namely, gross revenue, capital expenditure and employment, in Finance, Manufacturing, Logging and Constructions by using survey data. The aim is to investigate whether the forecasts documented by such surveys are accurate, that is, whether business firms in the chosen industry make rational forecasts regarding the three variables mentioned above and if not, ways to produce improved forecasts must be found.

The empirical evidence on the whole discovered that this paper does not give conclusive support to the rational expectations hypothesis except certain series namely; Capital and revenue in Logging sector, revenue and employment in both Manufacturing and Construction sector, and revenue in Finance sector.
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