

A Service of

ZBW

Leibniz-Informationszentrum Wirtschaft Leibniz Information Centre for Economics

Liu, Gang

Working Paper Estimating Energy Demand Elasticities for OECD Countries. A Dynamic Panel Data Approach

Discussion Papers, No. 373

Provided in Cooperation with: Research Department, Statistics Norway, Oslo

Suggested Citation: Liu, Gang (2004) : Estimating Energy Demand Elasticities for OECD Countries. A Dynamic Panel Data Approach, Discussion Papers, No. 373, Statistics Norway, Research Department, Oslo

This Version is available at: https://hdl.handle.net/10419/192355

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



WWW.ECONSTOR.EU

Discussion Papers No. 373, March 2004 Statistics Norway, Research Department

Gang Liu

Estimating Energy Demand Elasticities for OECD Countries A Dynamic Panel Data Approach

Abstract:

This paper estimates price and GDP/income elasticities of several energy goods in OECD countries over 1978 to 1999 by applying the one-step GMM estimation method suggested by Arellano and Bond (1991) to a panel data set. The energy demand is specified by a simple partial adjustment model. We find that compared to conventional OLS and Within estimator, the one-step GMM estimator gives more intuitive results in terms of sign and magnitude. The results show that for electricity, natural gas and gas oil demand, price elasticities are in general larger (in absolute value) while GDP/income elasticities are lower in the residential sector than in the industrial sector. This paper yields lower values for price elasticities compared to the results from earlier studies. The long-run GDP/income elasticities found in this paper, however, are quite similar to those found in earlier studies, and are around unity in general.

Keywords: Energy demand elasticities, Panel data, ADL models, Partial adjustment model, Onestep GMM estimator

JEL classification: C23, Q41

Acknowledgement: I thank Knut Einar Rosendahl for his valuable comments on all earlier drafts. This paper benefits a lot from comments and discussions with Terje Skjerpen. Thanks also go to Torstein Arne Bye for his helpful comments. I am grateful to Cecilie Lindh for preliminary data collection. Financial support from the Petropol program of the Nowegian Research Council is highly appreciated as well.

Address: Gang Liu, Statistics Norway, Research Department. E-mail: gang.liu@ssb.no

Discussion Papers

comprise research papers intended for international journals or books. As a preprint a Discussion Paper can be longer and more elaborate than a standard journal article by including intermediate calculation and background material etc.

Abstracts with downloadable PDF files of Discussion Papers are available on the Internet: http://www.ssb.no

For printed Discussion Papers contact:

Statistics Norway Sales- and subscription service N-2225 Kongsvinger

 Telephone:
 +47 62 88 55 00

 Telefax:
 +47 62 88 55 95

 E-mail:
 Salg-abonnement@ssb.no

1. Introduction

There exists discernible divergence among the estimates of energy demand elasticities from empirical studies due to the differences in modeling methodologies and/or data sets applied in these studies.¹ This makes it difficult to predict future demand for energy and analyze the effects of policy measures, for instance, when addressing the issue of stabilizing the greenhouse gas concentration. In this paper we employ a dynamic panel data estimation technique that has not been applied for this purpose before (as far as we know), hoping to increase the understanding of energy demand.

The application of panel data estimation techniques to the study of energy demand was pioneered by Balestra and Nerlove (1966) and followed by many other researchers in recent years.² Usually this estimation method employs a pooled cross-section time-series data set consisting of a group of countries over a period of time and assumes a uniform vector of slope coefficients across countries but different intercepts in order to account for country-specific factors (e.g. Baltagi and Griffin, 1983).

It has been highly recognized that using a panel data set, by taking into consideration variations both across time and individual countries, is more efficient in estimation than using either pure cross-section or pure time-series data only (Hsiao, 1985,1986; Klevmarken, 1989; Solon, 1989). Moreover, Baltagi (2001) states that panel data are also better able to study the dynamics of adjustment in some circumstances.

However, in a dynamic context, some problems will emerge. For example, the presence of lagged dependent variables on the right hand side of a regression equation could result in correlation between these variables and the gross error term, which renders the conventional ordinary least square (OLS) estimator biased and inconsistent. For instance, in a one-way error component model, Nickell (1981) found the Within estimator (OLS estimator by taking into account fixed effects for individual countries) to be biased when the number of observations per unit is finite and small and its consistency will depend upon time length being large. To solve the problem, Anderson and Hsiao (1981) suggested an instrument variable (IV) estimation method that leads to consistent but not necessarily efficient estimates of the parameters in the model. Arellano and Bond (1991) proposed a generalized method of moments (GMM) procedure that is considered to be more efficient than the Anderson and Hsiao (1982) estimator.

To my knowledge the Arellano and Bond (1991) estimation method has not been widely, if ever, applied for energy demand analysis. As such, this paper aims to make use of a simple partial adjustment model and apply the Arellano and Bond (1991) GMM estimation method to a panel data

¹ For a recent survey on international energy elasticities, see Atkinson and Manning (1995).

² For an up-to-date discussion on panel data estimation techniques and applications, see Baltagi (2001).

set in order to estimate simultaneously short- and long-run price and GDP/income energy demand elasticities for a variety of energy goods in OECD countries over the period from 1978 to 1999. We will also compare the GMM results with the OLS and Within estimates in this paper.

The rest of this paper unfolds as follows. In Section 2 we discuss the construction and specification of a partial adjustment model of energy good demand in detail. Section 3 reviews the data and discusses estimation techniques employed in this study. OLS estimates and GMM estimates of the model are presented in Section 4 and compared. Section 5 concludes.

2. Model Specification

In order to estimate simultaneously short- and long-run elasticities of energy demand from one model, the introduction of dynamic factors becomes indispensable. However, there has been no unanimous voice in the literature with regard to the manner in which the dynamic factor should enter the model. A model that explicitly considers dynamic optimization over time is appealing in theory (e.g. Pindyck and Rotemberg, 1983), but is possibly less attractive for estimation purposes. While an *ad hoc* model has the virtue of simplicity of estimation (e.g. Prosser, 1985), it is harder to interpret convincingly. More often than not, it is researchers that make the final judgment on how to compromise between these two aspects.³

Given the data collected, we shall employ the autoregressive distributed lag (ADL) model in this study. Although the ADL model belongs generally to the family of *ad hoc* models, some of them have really sound behavioral theory as the foundation for the model construction. A general ADL (p, q) model has the form

(1)
$$y_{t} = \mu + \sum_{i=1}^{p} \gamma_{i} y_{t-i} + \sum_{j=0}^{q} \beta'_{k,j} \mathbf{x}_{k,t-j} + u_{t},$$

where y_i is the current value of the dependent variable (energy use or energy demand in this study ⁴), γ_i , i = 1,2,..., p, are coefficients of (autoregressive) lagged values of the dependent variable y. $\mathbf{x}_{k,t-j}$, j = 0,1,...,q, are *k*-element column vectors of current and distributed lagged values of independent variables and $\mathbf{\beta}_{k,j}$ is a column vector with *k* coefficients.⁵ μ is a usual constant and u_t a white noise error term.

³ For a discussion on different dynamic models and the relationship among them, see Watkins (1991).

⁴ Strictly speaking, energy use and energy demand are different concepts. The former is what we observe and is influenced by both demand and supply factors. In this study, we have implicitly assumed energy market to be in equilibrium at any observation year and therefore use either of the two concepts equivalently.

⁵ In this paper, we only choose real energy price and per capita GDP/income as independent variables. Thus we have k = 2.

Restrictions on the lag length p and q, or more precisely, on the distribution of the coefficients γ_i and $\beta_{k,j}$ will give different ADL models, and the way dynamic adaptation is modeled depends on the lag structure assumed. One particular case, which is employed in this study on energy demand analysis, is the ADL (1,0) model or so-called partial adjustment model. Although it is not derived from explicit dynamic optimization, this model rests on sound theoretical foundation for the model construction. Moreover, the virtue of simplicity of estimation remains.

Due to psychological reasons, people do not change their consumption habits immediately following a price decrease or an income increase perhaps because the process of change may involve some immediate disutility. Technological and institutional reasons also account for the dynamic nature. It takes time for producers to adjust the energy utilizing equipments when the price of energy goods changes. Therefore, one may expect that short-run price or income elasticities are generally smaller (in absolute value) than the corresponding long-run elasticities.

For the reasons mentioned above, the energy demand in this study is modeled as partial adjustment behavior of either industrial producers who demand energy goods as production inputs or residential consumers who need energy goods for direct use.

The derivation of the ADL (1,0) model is as follows. Consider the following equation form 6

(2)
$$y_t^* = \alpha_0 + \alpha_1 P_t + \alpha_2 I_t + \varepsilon_t,$$

where y_t^* is desired demand of either industrial sector or residential sector for one type of energy good at time t; P_t is the corresponding real price of this type of energy good at time t^7 ; I_t is either a country's real gross domestic product (GDP) at time t which is relevant for the industrial sector, or real disposable income at time t which is relevant for the residential sector; ε_t is a usual error term and assumed to be identically and independently distributed with zero mean and constant variance, i.e., $\varepsilon_t \sim IID(0, \sigma^2)$; α_0 , α_1 and α_2 are parameters in the model.

Note that y_t^* here is the *desired* demand, which is unobservable to researchers. What the researchers could observe is the *actual* demand, y_t . The relationship between the desired demand and the actual demand is characterized by the partial adjustment behavior of either industrial producers or residential consumers as follows,

⁶ We have tried to introduce a linear time trend in order to catch the effect of autonomous technology development in this equation. However, the time trend is not significant.

⁷ Due to the characteristic of the data set with many missing values, no cross-price effects are considered in equation (2).

(3)
$$y_t - y_{t-1} = \theta(y_t^* - y_{t-1}),$$

where y_{t-1} is previous (one time period lagged) actual demand; θ is a parameter with range as (0,1] and is referred to as the coefficient of adjustment.

Equation (3) states that the *actual* change occurring during one time period, $(y_t - y_{t-1})$, is just a share of the difference (or change) between the desired demand in the current period and the actual demand in the previous period, i.e., $(y_t^* - y_{t-1})$, the *desired* change. Clearly, the coefficient of adjustment, θ , reflects the speed of adjustment towards the desired level of demand, the larger the value of θ is, the faster the adjustment is. If the value of θ equals 1, the actual demand will immediately approach to the desired level during the current period.

Inserting the expression for y_t^* derived from equation (3) into equation (2) and rearranging yields

(4)
$$y_{t} = \beta_{0} + \gamma y_{t-1} + \beta_{1} P_{t} + \beta_{2} I_{t} + u_{t},$$

where the new parameters are related to the old ones in the following way: $\beta_0 = \theta \alpha_0$, $\beta_1 = \theta \alpha_1$, $\beta_2 = \theta \alpha_2$ and $\gamma = 1 - \theta$; The new error term is given by $u_t = \theta \varepsilon_t$.

From equation (4) the short-run and interim effects of a change in the real price can be easily obtained as

(5)
The current period:
$$\frac{\partial y_t}{\partial P_t} = \beta_1;$$

One period after: $\frac{\partial y_{t+1}}{\partial P_t} = \gamma \beta_1;$
Two periods after: $\frac{\partial y_{t+2}}{\partial P_t} = \gamma^2 \beta_1;$

Therefore, the long-run effect of a price change, which is just the sum of all the short-run and all the interim effects, can be written as ⁸

(6)
$$\beta_1 + \gamma \beta_1 + \gamma^2 \beta_1 + \ldots = \beta_1 / (1 - \gamma).$$

With β_1 replaced by β_2 , equation (5) and (6) equally apply to the derivation of short- and long-run effects of a change in real GDP (or real disposable income).

Note that if the variables in equation (4) are in logarithms instead of level terms, as we shall do in this study, the short-run and long-run effects discussed above are simply short-run, intermediate and long-run elasticities with respect to the relevant variables.

In the present study we shall make use of a panel data set over countries. As a result, the regression equation (4) has two dimensions. The data and the estimation method will be illustrated in the following section.

3. Data and Estimation Method

The data for this study represents annual data of per capita consumption and real price of energy goods, real per capita GDP and/or real per capita disposable income for OECD countries over the period 1978 -1999.⁹ The energy goods consist of electricity, natural gas, hard coal and gas oil (heating oil) used by the industrial and the residential sector, heavy fuel oil by the industrial sector, automotive diesel and motor gasoline by the whole economy in all the OECD countries.

All of the data are drawn from the OECD Statistical Compendium 2001 except for the prices, which are taken from the International Energy Agency (IEA)'s online databank. Due to lack of data, we take the prices of light fuel oil as those of gas oil in corresponding industrial sector and residential sector, and the prices of automotive diesel by the industrial sector as those of automotive diesel used by the whole economy. The prices of steam coal and heavy sulfur fuel oil by industrial sector are used as those of hard coal and heavy fuel oil respectively. The prices of motor gasoline are represented by those of premium leaded gasoline consumed by the residential sector.

⁸ Actually equation (4) can be written as $(1 - \gamma L)y_i = \beta_0 + \beta_1 P_i + \beta_2 I_i + u_i$, where L is a Lag operator and its function is

 $L^{i}y_{t} = y_{t-1}$. Dividing by $(1 - \gamma L)$ on both sides of the above equation yields

 $y_{t} = \beta_{0} \sum_{i=0}^{\infty} \gamma^{i} + \beta_{1} \left(\sum_{i=0}^{\infty} \gamma^{i} L^{i} \right) P_{i} + \beta_{2} \left(\sum_{i=0}^{\infty} \gamma^{i} L^{i} \right) I_{i} + \left(\sum_{i=0}^{\infty} \gamma^{i} L^{i} \right) u_{i}$. Clearly we see that the partial adjustment (or ADL (1,0)) model has a special form of lag structure on the independent variables, i.e., geometrically declining lag.

⁹ OECD countries in this study refer to the following 23 countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States, Canada, Australia, Japan and New Zealand.

End-use prices for energy goods from IEA's databank, which are in US dollars per unit, are first converted back to domestic currency by using annual market exchange rates. Real prices are then computed by dividing these prices by the GDP deflator in each country. The latter is obtained as national GDP at current prices divided by real national GDP at 1995 constant prices. We also divide national disposable income at current prices by the GDP deflator for the respective individual country to get real national disposable income.

Although it is real GDP (or disposable income) and the real energy prices in domestic currency that influence energy demand, analysis of panel data requires internationally comparable statistics. Therefore, real national GDP and/or real national disposable income in individual countries are converted to a US dollar base by using 1995 market exchange rates for the respective countries. Finally, the per capita terms of consumption, real GDP and/or real disposable income are taken as the correspondent aggregate terms divided by the respective population for each individual country.

Due to missing values in the data set for some energy goods during some period of time, the finally obtained panel data set is unbalanced (See Appendix Table A1 and A2 for a brief view of the quality of the data sets employed in this study). This diverges from the conventional balanced panels where each country has the same number of observations across the time dimension.¹⁰

For the purpose of this study, all the variables, per capita consumption, real prices, real per capita GDP and/or real per capita disposable income are log-transformed.

As we have panel data, we rewrite equation (4) with two dimensions as follows,

(7)
$$y_{it} = \beta_0 + \gamma y_{it-1} + \beta_1 P_{it} + \beta_2 I_{it} + u_{it},$$

where the new subscript i, i = 1, 2, ..., N, stands for the country and the previous subscript in equation (4), t, t = 1, 2, ..., T, is still the time.

With the belief that systematic variation occurs across the individual countries but not across time, the error term u_{it} is assumed to have a structure of a one-way error component in the following way

(8)
$$u_{it} = \mu_i + \eta_{it},$$

where μ_i denotes the unobservable individual country specific effect and η_{ii} denotes the remainder disturbance (genuine error term). Note that μ_i is time-invariant and accounts for any country-specific

¹⁰ The econometric software used in this study is the package of Panel Data Models in PcGive (Doornik and Hendry, 2001), which is expressly designed to handle such unbalanced panels.

effect that is not included in the regression equation (7). It may be assumed to be either a fixed parameter or a random variable. The remainder disturbance varies with individual countries and time and can be thought of as the usual disturbance in the regression.

Here we assume $\mu_i \sim IID(0, \sigma_{\mu}^2)$ and $\eta_{it} \sim IID(0, \sigma_{\eta}^2)$, independent of each other and among themselves. Further assumptions are

(9)

$$E(I_{it}\mu_{i}) \neq 0 , i = 1, 2, ..., N, t = 1, 2, ..., T;$$

$$E(I_{it}\eta_{is}) = 0 \text{ and } E(P_{it}\eta_{is}) = 0, i = 1, 2, ..., N, t = 1, 2, ..., T.$$

The former one states that the unobserved country specific effect is correlated with the country's real per capita GDP or disposable income that are indicators of the economic level of the country. The latter one indicates that P_{it} and I_{it} are strictly exogenous.

Since y_{it} is a function of μ_i , it immediately follows that y_{it-1} is also a function of μ_i . Thus, y_{it-1} , which is a right hand side regressor in (7) is correlated with the error term. This renders the usual OLS estimators biased and inconsistent. Although the Within (fixed effects) estimator wipes out the μ_i by transformation, $(y_{it-1} - \overline{y}_{i-1})$ (where $\overline{y}_{i-1} = \sum_{t=2}^{T} y_{it-1} / (T-1)$)¹¹ will still be correlated with $(\eta_{it} - \overline{\eta}_{i.})$ (where $\overline{\eta}_{i.} = \sum_{t=1}^{T} \eta_{it} / T$), even if η_{it} are not serially correlated. This is because y_{it-1} is correlated with $\overline{\eta}_{i.}$ by construction. The latter average contains η_{it-1} which is obviously correlated with y_{it-1} .

And erson and Hsiao (1981) once suggested first differencing equation (7) to remove the μ_i and then using $\Delta y_{it-2} = (y_{it-2} - y_{it-3})$ or simply y_{it-2} as an instrument for $\Delta y_{it-1} = (y_{it-1} - y_{it-2})$. These instruments will not be correlated with $\Delta \eta_{it} = (\eta_{it} - \eta_{it-1})$, as long as the η_{it} themselves are not serially correlated. This instrument variable (IV) estimation method leads to consistent but not necessarily efficient estimates of the parameters in the model (Baltagi, 2001).

Arellano and Bond (1991) proposed a generalized method of moments (GMM) procedure, which is considered to be more efficient than the Anderson and Hsiao (1982) estimator. This method, by utilizing the orthogonality conditions that exist between lagged values of y_{it} and the disturbances

¹¹ This is somewhat modified when facing unbalanced panel data, see Greene (2000).

 η_{it} , can generate consistent estimates when the number of countries N and/or the time T goes to infinity. In the following we shall apply this GMM method to estimate equation (7).

Taking first difference of equation (7) yields

(10)
$$\Delta y_{it} = \gamma \Delta y_{it-1} + \beta_1 \Delta P_{it} + \beta_2 \Delta I_{it} + \Delta \eta_{it},$$
$$i = 1, 2, ..., N, \ t = 3, 4, ..., T.$$

It is easily verified that Δy_{it-1} is correlated with $\Delta \eta_{it}$ through the correlations between y_{it-1} and η_{it-1} . However, there exist qualified instrument variables that are correlated with Δy_{it-1} but not with $\Delta \eta_{it}$, namely, y_{i1} , y_{i2} ... y_{it-2} for Δy_{it-1} .

Define a matrix with (T-2) rows as

(11)
$$\mathbf{Z}_{i} = \begin{pmatrix} \begin{bmatrix} y_{i1}, \Delta P_{i3}, \Delta I_{i3} \end{bmatrix} & 0 \\ & \begin{bmatrix} y_{i1}, y_{i2}, \Delta P_{i4}, \Delta I_{i4} \end{bmatrix} & \\ & 0 & & \\ 0 & & \begin{bmatrix} y_{i1}, \dots, y_{iT-2}, \Delta P_{iT}, \Delta I_{iT} \end{bmatrix} \end{pmatrix},$$
$$i = 1, 2, \dots, N.$$

Then the instrument matrix, $\mathbf{Z} = [\mathbf{Z}'_1, ..., \mathbf{Z}'_N]$, is formed by stacking the above matrix over all individual countries *i*. By using the moment conditions given by $E(\mathbf{Z}'_i \Delta \mathbf{\eta}_i) = 0$, where $\Delta \mathbf{\eta}_i' = (\eta_{i3} - \eta_{i2}, ..., \eta_{iT} - \eta_{iT-1})$, and premultiplying the equation (10) in vector form by \mathbf{Z}' , one gets

(12)
$$\mathbf{Z}'\Delta\mathbf{y} = \mathbf{Z}'(\Delta\mathbf{y}_{-1})\boldsymbol{\gamma} + \mathbf{Z}'(\Delta\mathbf{X})\boldsymbol{\beta} + \mathbf{Z}'\Delta\boldsymbol{\eta},$$

where $\Delta \mathbf{y}$, $\Delta \mathbf{y}_{-1}$, and $\Delta \mathbf{\eta}$ are $N(T-2) \times 1$ matrices constructed respectively from matrices $\Delta \mathbf{y}_{i}' = (y_{i3} - y_{i2}, ..., y_{iT} - y_{iT-1}), \Delta \mathbf{y}_{i,-1}' = (y_{i2} - y_{i1}, ..., y_{iT-1} - y_{iT-2})$ and $\Delta \mathbf{\eta}_{i}'$ in the same fashion as $\mathbf{Z} \cdot \Delta \mathbf{X} = (\Delta \mathbf{P}, \Delta \mathbf{I})$ is a stacked $N(T-2) \times 2$ matrix and $\mathbf{\beta}' = (\beta_{1}, \beta_{2})$.

Now performing generalized least square (GLS) estimation method on (12) yields the socalled one-step GMM consistent estimator as

(13)
$$\begin{pmatrix} \hat{\gamma} \\ \hat{\beta} \end{pmatrix} = \left([\Delta \mathbf{y}_{-1}, \Delta \mathbf{X}]^{T} \mathbf{Z} \left(\mathbf{Z} \left(\mathbf{I}_{N} \otimes \mathbf{G} \right) \mathbf{Z} \right)^{-1} \mathbf{Z} \left[\Delta \mathbf{y}_{-1}, \Delta \mathbf{X} \right] \right)^{-1} \\ \times \left([\Delta \mathbf{y}_{-1}, \Delta \mathbf{X}]^{T} \mathbf{Z} \left(\mathbf{Z} \left(\mathbf{I}_{N} \otimes \mathbf{G} \right) \mathbf{Z} \right)^{-1} \mathbf{Z}^{T} \Delta \mathbf{y} \right),$$
where $\mathbf{G} = \begin{pmatrix} 2 & -1 & 0 & \dots & \dots & 0 & 0 & 0 \\ -1 & 2 & -1 & \dots & \dots & 0 & 0 & 0 \\ \ddots & \ddots & \ddots & \ddots & \ddots & \ddots & \ddots \\ \vdots & \ddots & \ddots & \ddots & \ddots & \ddots & \vdots \\ \vdots & \ddots & \ddots & \ddots & \ddots & \ddots & \vdots \\ 0 & 0 & 0 & \dots & \dots & -1 & 2 & -1 \\ 0 & 0 & 0 & \dots & \dots & 0 & -1 & 2 \end{pmatrix}$ is a $(T-2) \times (T-2)$ matrix.¹²

According to equation (9), P_{it} and I_{it} are strictly exogenous regressors in equation (7). It is, however, not unusual to consider I_{it} as predetermined instead of strictly exogenous variable, which implies that the current GDP/income is affected by the previous use of energy. Then part of equation (9) has to be changed as

(14)
$$E(I_{it}\eta_{is}) \neq 0$$
 for $s < t$ and zero otherwise.

That is, I_{it} is correlated with the previous disturbance η_{is} , s < t, but not the current and the future disturbances.

With this assumption, it is easy to verify that in the first difference equation (10), ΔI_{ii} now is correlated with $\Delta \eta_{ii}$ through the correlations between I_{ii} and η_{ii-1} . Still, we can find qualified instrument variables that are correlated with ΔI_{ii} , but not with $\Delta \eta_{ii}$, i.e., I_{i1} , I_{i2} , I_{ii-1} for ΔI_{ii} .

As a result, the matrix \mathbf{Z}_i in (11) will be modified to

¹² Discussion on one-step GMM estimator in detail can be found in Baltagi (2001) and Doornik and Hendry (2001).

(15)
$$\mathbf{W}_{i} = \begin{pmatrix} \begin{bmatrix} y_{i1}, \Delta P_{i3}, I_{i1}, I_{i2} \end{bmatrix} & 0 \\ & \begin{bmatrix} y_{i1}, y_{i2}, \Delta P_{i4}, I_{i1}, I_{i2}, I_{i3} \end{bmatrix} \\ & \cdots \\ 0 & & \begin{bmatrix} y_{i1}, \dots, y_{iT-2}, \Delta P_{iT}, I_{i1}, \dots, I_{iT-1} \end{bmatrix} \end{pmatrix},$$

$$i = 1, 2, ..., N$$
.

One-step GMM estimators are again given by equation (13) with Z_i in (11) replaced by W_i in (15). To sum up, we finally apply the one-step GMM estimator presented in (13) and give the estimates in the following section.

4. Estimation Results

In order to compare, we apply conventional ordinary least square (OLS) estimation method to the pooled data and report the results in Appendix Table A3 and A4. The standard error of long-run elasticity is calculated by the dynamic analysis procedure in PcGive (Doornik and Hendry, 2001).

The OLS estimates show a typical pattern of sizable bias caused by using the lagged endogenous dynamic model with pooled data. The estimates of γ , the coefficient for the lagged dependent variable, tend to be biased towards unity and the short-run elasticities towards zero (Pesaran and Smith, 1995). Even worse, most of the results are either with unexpected sign (i.e., positive price elasticities and negative GDP/income elasticities) or insignificant.

Products	SR price ela.	LR price ela.	SR income ela.	LR income ela.	γ	# of Obs.
Electricity	-0.030 (0.018)	-0.157 (0.095)	0.058 (0.047)	0.303 (0.265)	0.810 (0.031)	446
Natural Gas	-0.102 (0.161)	-0.364 (0.493)	0.137 (0.278)	0.490 (1.089)	0.720 (0.087)	351
Hard Coal	0.000 (0.227)	0.001 (0.443)	-1.148 (0.692)	-2.243 (1.511)	0.488 (0.166)	221
Gas Oil	-0.143 (0.056)	-0.318 (0.110)	0.030 (0.169)	0.066 (0.373)	0.443 (0.048)	364
Motor Gas. ^b	-0.191 (0.017)	-0.600 (0.082)	0.196 (0.059)	0.614 (0.189)	0.681 (0.051)	428

Table 1: One-step GMM Estimates of Elasticities of Energy Goods in OECD. ResidentialSector (With Strictly Exogenous Income)^a

a. Standard errors in parentheses;

Notes:

b. Motor gasoline for the whole economy.

Products	SR price ela.	LR price ela.	SR GDP ela.	LR GDP ela.	γ	# of Obs.
Electricity	-0.013 (0.022)	-0.044 (0.073)	0.300 (0.089)	1.035 (0.262)	0.710 (0.059)	432
Natural Gas	-0.067 (0.023)	-0.243 (0.086)	0.376 (0.254)	1.363 (0.918)	0.724 (0.046)	330
Hard Coal	0.162 (0.111)	0.589 (0.447)	1.155 (0.341)	4.203 (1.274)	0.725 (0.043)	287
Gas Oil	0.043 (0.070)	0.127 (0.205)	0.529 (0.276)	1.557 (0.591)	0.660 (0.088)	372
Auto. diesel ^b	-0.094 (0.018)	-0.268 (0.068)	0.425 (0.168)	1.207 (0.408)	0.648 (0.050)	412
Heavy Fuel	-0.167 (0.041)	-0.516 (0.161)	-0.084 (0.440)	-0.260 (1.363)	0.675 (0.060)	370

 Table 2: One-step GMM Estimates of Elasticities of Energy Goods in OECD. Industrial Sector (With Strictly Exogenous GDP)^a

b. Automotive diesel for the whole economy.

In Appendix Table A5 and A6 we also give the pooled fixed effect estimates by applying the Within estimator. Allowing for country-specific fixed effects reduces the above problem somewhat, but the estimates are still unsatisfying. For example, the elasticities for motor gasoline have expected sign. However, an estimate of γ of 0.86 indicates that only 14 per cent of the adaptation occurs in the first year. Such a low value for the lagged endogenous variable implies a rather slow adjustment (adjustment would be only 75 per cent complete almost 10 years after a change in gasoline price ¹³).

Finally the one-step GMM procedure is applied to the ADL (1,0) or partial adjustment model (7) by using panel data for the OECD countries over 1978 - 1999.¹⁴ The estimation results are presented in Table 1 and 2.¹⁵ Note that here we have assumed that GDP/income is strictly exogenous relative to equation (7). We also list the one-step GMM estimation results in Appendix Table A7 and A8 with the less restrictive assumption that GDP/income is predetermined (i.e., the current GDP/income is correlated with the previous error terms but not with the current error term, which implies that the current GDP/income is affected by the previous use of energy). However, no significant differences between the estimates appear under the two different assumptions. Thus the strict exogeneity assumption seems warranted.

¹³ The interpretation should be done with care. Since all variables in equation (7) are in logarithms, a change of one variable is actually the percentage change of the level for that variable.

 $^{^{14}}$ We also tried ADL (1,1) and ADL (0,3) models. It appeared that the introduction of lagged independent variables did not add much.

¹⁵ Among the selected OECD countries (see footnote 8), Turkey is less developed compared with the others. However, inclusion and exclusion of Turkey seem not to have significant impact on the estimates.

Since the assumption of no serial correlation in η_{it} is essential for the consistency of estimators in our model, we pay attention to the tests for the absence of first-order and second-order serial correlation in the first-differenced residuals. If the disturbances η_{it} are not serially correlated, there should be evidence of significant negative first-order serial correlation in the differenced residuals (i.e. $\Delta \eta_{it}$), and no evidence of second-order serial correlation in the differenced residuals. We use the conventional AR(1) and AR(2) tests and find that among eleven energy goods, nine show significant negative first-order serial correlation in the differenced residuals.

The estimation results show that for electricity, natural gas and gas oil demand, price elasticities are in general larger (in absolute value) while GDP/income elasticities lower in the residential than in the industrial sector. One possible explanation could be as follows. Because the OECD countries in the study are relatively mature societies, the consumption of energy goods in the residential sector may increase only to a moderate extent when income increases. On the other hand, the production of more variety of goods needs correspondingly more energy as input in the industrial sector. By intuition, the residential sector is generally more sensitive to the price change than the industrial sector.

To a large extent the estimated price elasticities in Table 1 and 2, compared to other studies (see Section 5), are low.¹⁶ The price elasticities have expected negative sign in eight out of eleven cases. The exceptions are hard coal for the residential and industrial sectors and gas oil (light heating oil) for industry. These elasticities are however not significantly different from zero. In five cases, the price elasticities are significantly below zero at the 5 per cent significance level.

GDP/Income elasticities have expected positive sign in nine cases, of which four (electricity, hard coal in industrial sector, automotive diesel and motor gasoline) are significant at the 5 per cent significance level; one (gas oil in industrial sector) is significant at the 10 per cent significance level.

The estimates for hard coal have unexpected positive price elasticities in both the residential and industrial sector. It appears that the ADL (1,0) model fits the data worst for hard coal demand. Given a rather poor quality of data for hard coal since data are missing to a large extent, this is not a surprise. The estimate of hard coal also has negative income elasticity in the residential sector, which may be understandable as the use of coal often negatively affects the environment and is typically an inferior good. The same argument goes for demand for heavy fuel oil with negative GDP elasticity.

¹⁶ Some researcher also found low price elasticity for natural gas in a recent study (see Krichene, 2002).

In the industrial sector, demand for gas oil has positive price elasticity. However, it is not significant from zero.

In the Appendix Table A9 and A10 we also report the results by grouping OECD western and northern European countries together.¹⁷ The purpose is to reduce the heterogeneity caused by grouping all the OECD countries with the assumption that western and northern European countries are more homogeneous in economic structure than the other OECD countries.

The estimates of electricity, gas oil, motor gasoline and automotive diesel with relatively larger number of observation are better than the others in Table A9 and A10 in terms of sign and significance. This is not surprising since the consistency and efficiency properties of one-step GMM estimators hold only asymptotically, namely, in large samples. Furthermore, by taking into consideration of standard errors, these estimates are not different from their counterparts in Table 1 and 2, which seems to give an evidence that the unobservable individual country specific effect μ_i (see equation 8) has caught most part of the heterogeneity across the OECD countries.

5. Comparison with Results from Other Studies

Many studies on the estimation of energy demand elasticities use cross-section data, which is considered to be able to adequately obtain long-run effects. For instance, Field and Grebenstein (1980) estimated the aggregate energy price elasticity of between -0.54 and -1.65 by using pooled cross-section data for US manufacturing in 1971. By using cross-section data of aggregate energy for thirty nations, Fiebig *et al.* (1987) found price elasticity of between -0.66 and -0.88, and the income elasticity of between 1.24 and 1.64. Pindyck (1979) studied the structure of demand for energy on a cross-sectional basis for a group of OECD countries. In the residential sector, he estimated long-run price elasticity for oil ranged between -0.22 and -1.17, and for natural gas, between -0.41 and -2.34. In the transport sector, the long-run gasoline price elasticity was found to be -1.31.

Dynamic time-series analyses possibly account for the majority of the estimation of energy demand elasticities. In a dynamic *ad hoc* model by using aggregate time-series data for the OECD countries over 1961 to 1981, Kouris (1983) found for primary energy demand a short- and long-run price elasticity of -0.15 and -0.43, and a short-run income elasticity of 1.08. In another dynamic *ad hoc* model by using aggregate time-series data for the OECD countries on aggregate final energy demand over 1960 to 1982, Prosser (1985) yielded a short- and long-run price elasticity of -0.22 and -0.40, and an income elasticity of 1.02, respectively.

¹⁷ They are Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Luxembourg, Netherlands, Norway, Sweden, Switzerland and United Kingdom.

In recent years time-series analysis has become more popular especially with the development of some advanced time-series techniques, such as cointegration analysis. For instance, Bentzen and Engsted (1993) estimated the price and income elasticities for aggregate energy consumption in Denmark to be -0.14 and 0.67 in the short-run, and -0.47 and 1.21 in the long-run. By using aggregate time series data for the UK, Hunt and Manning (1989) found the short-run price and income elasticities for aggregate final energy consumption (on a heat supplied basis) to be -0.08 and 0.80, respectively. Their long-run price and income elasticities were -0.30 and 0.38, respectively.

There are quite a few studies using panel data in the estimation of energy demand elasticities. Balestra and Nerlove (1966) studied the demand for natural gas in the US. Their long-run estimates were -0.63 for the price elasticity and 0.62 for the income elasticity. Kouris (1976) pooled cross-section time- series data for eight nations and found the price and income elasticities for aggregate primary energy consumption to be -0.77 and 0.84, respectively. Using a panel data for seven nations on aggregate energy consumption, Nordhaus (1977) estimated the short-run elasticities of between -0.03 and -0.68 for price and between 0.29 and 1.11 for income, while the long-run elasticities were between -1.94 and 1.45 for price and between 0.26 and 1.42 for income. Hesse and Tarkka (1986) studied the energy demand in the European manufacturing industry before and after the 1973 oil price shock. Using two panel datasets of electricity for nine countries over 1960 to 1972 (before price shock) and over 1973 to 1980 (after price shock), they found price elasticities of between 0.31 and -0.35 before the price shock, and between 0.14 and -0.49 after the price shock, respectively.

Studies on the estimation of energy demand elasticities vary in many aspects. Therefore, it is hard to reach consensus on the magnitude of the various energy demand elasticities in the literature. However, the findings of this paper in general agree more with the empirical research that tends to yield low values for price elasticities. The (significant) long-run GDP/income elasticities found in this paper are quite similar to those of earlier empirical research, and are generally around unity (Atkinson and Manning, 1995).

Differences between the findings of this paper and those of other research could be due to the specification of the models. Recall that in the partial adjustment model, which we applied in this study, the long-run elasticity is implicitly restricted by the model itself through equation (6) (also see footnote 7). Differences could also arise from other various sources, including the use of cross-section or time-series data, the quality of the data set used, assumptions on the error terms and the estimation methodology.

6. Conclusion

This paper has estimated price and GDP/income elasticities of energy demand for electricity, natural gas, hard coal, gas oil in residential and industrial sectors, and heavy fuel oil in industrial sector,

automotive diesel and motor gasoline in the whole economy. The one-step GMM estimation method suggested by Arellano and Bond (1991) has been applied to an unbalanced panel data set consisting of OECD countries over 1978 to 1999. The energy demand is specified by a simple partial adjustment model. Compared with the OLS and the Within estimator, the one-step GMM estimator gives more intuitive results in terms of sign and magnitude.

The estimated results show that for electricity, natural gas and gas oil demand, price elasticities are in general larger (in absolute value) while GDP/income elasticities are in general lower in the residential than in the industrial sector. Compared with the results from other studies, the findings of this paper yield low values for price elasticities. However, more recent time-series analyses also seem to support this. The (significant) long-run GDP/income elasticities found in this paper are quite similar to those of earlier empirical studies, and are generally around unity.

References

Anderson, T.W. and C. Hsiao (1981): Estimation of dynamic models with error components, *Journal* of the American Statistical Association **76**, 598-606.

Anderson, T.W. and C. Hsiao (1982): Formulation and estimation of dynamic models using panel data, *Journal of Econometrics* **18**, 47-82.

Arellano, M. and S. Bond (1991): Some tests of specification for panel data: Monte Carlo evidence and an application to employment equations, *Review of Economic Studies* **58**, 277-297.

Atkinson, J. and N. Manning (1995): "A survey of international energy elasticities". Chapter 3 in *Global Warming and Energy Demand*, edited by Terry Barker, *et al.* London: Routledge 11 New Fetter Lane.

Balestra, P. and M. Nerlove (1966): Pooling cross-section and time-series data in the estimation of a dynamic model: The demand for natural gas, *Econometrica* **34**, 585-612.

Baltagi, B.H. (2001): *Econometric Analysis of Panel Data*, second edition. Chichester: John Wiley & Sons, Ltd.

Baltagi, B.H. and J.M. Griffin (1983): Gasoline demand in the OECD: An application of pooling and testing procedures, *European Economic Review* **22**, 117-137.

Bentzen, J. and T. Engsted (1993): Short- and long-run elasticities in energy demand: a cointegration approach. *Energy Economics* **15**, 9-16.

Doornik, J.A. and D.F. Hendry (2001): *Econometric Modelling Using PcGive, Volume III*. London: Timberlake Consultants Ltd.

Fiebig, D.G., J. Seale, J. and H. Theil (1987): The demand for energy: evidence from a cross-country demand system, *Energy Economics* **9**, 149-153.

Field, B.C. and C. Grebenstein (1980): Capital-energy substitution in US manufacturing, *Review of Economics and Statistics* **61**, 207-212.

Greene, W.H. (2000): *Econometric Analysis*, London: Prentice-Hall International (UK) Limited, Fourth Edition.

Hesse, D.M. and H. Tarkka (1986): The demand for capital, labor and energy in European manufacturing industry before and after the oil price shocks. *Scandinavian Journal of Economics* **88**, 529-546.

Hisao, C. (1985): Benefits and limitations of panel data, Econometric Reviews 4, 121-174.

Hisao, C. (1986): Analysis of Panel Data, Cambridge University Press, Cambridge.

Hunt, L.C. and N. Manning (1989): Energy price and income-elasticities of demand: some estimates from the UK using the cointegration procedure, *Scottish Journal of Political Economy* **36**, 183-193.

Klevmarken, N.A. (1989): Panel studies: What can we learn from them? Introduction, *European Economic Review* **33**, 523-529.

Kouris, G. (1976): The determinants of energy demand in the EEC area, *Energy Policy* 4, 343-355.

Kouris, G. (1983): Energy consumption and economic activity in industrialized economies - a note, *Energy Economics* **5**, 207-212.

Krichene, N. (2002): World crude oil and natural gas: a demand and supply model, *Energy Economics* **24**, 557-576.

Nickell, S. (1981): Biases in dynamic models with fixed effects, *Econometrica* 49, 1417-1426.

Nordhaus, W.D. (1977): "The demand for energy: an international perspective". In Nordhaus, W.D. (ed.) *International Studies of the Demand for Energy*. Amsterdam: North-Holland.

Pesaran, M.H. and R. Smith (1995): "Alternative approaches to estimating long-run energy demand elasticities: An application to Asian developing countries" Chapter 2 in *Global Warming and Energy Demand*, edited by Terry Barker, *et al.* London: Routledge 11 New Fetter Lane.

Pindyck, R.S. (1979): The Structure of World Energy Demand. Cambridge, MA: MIT Press.

Pindyck, R.S. and J.J. Rotemberg (1983): Dynamic factor demands and the effects of energy price shocks, *American Economic Review* **73**, 1066-1079.

Prosser, R.D. (1985): Demand elasticities in OECD countries: dynamic aspects, *Energy Economics* 7, 9-12.

Solon, G.S. (1989): "The value of panel data in economic research". In D. Kasprzyk, G.J. Duncan, G. Kalton and M.P. Singh, eds., Panel Surveys, John Wiley, New York, 486-496.

Watkins, G.C. (1991): Short- and long-term equilibria, *Energy Economics* 13, 1-9.

Appendix

Country	Income	Elect	ricity	Natur	al Gas	l Gas Hard Coal		Gas/I	Diesel	Moto	r Gas.
		Cnsp. ¹	Price	Cnsp.	Price	Cnsp.	Price	Cnsp.	Price	Cnsp.	Price
Austria	*2	*	*	*	79-99	*	*	*	*	*	78-92
Belgium	*	*	78-98	*	78-98	*	*	*	*	*	*
Denmark	*	*	*	83-99	84-99	*	79-99	*	*	*	78-95
Finland	*	*	*	*	*	*	*	*	*	*	78-93
France	*	*	78-98	*	*	*	*	85-99	*	*	*
Germany	*	*	*	*	*	*	78-94	*	*	*	78-96
Greece	*	*	*	NA^3	NA	*	NA	*	*	*	*
Ireland	*	*	*	86-99	*	*	78-94	*	*	*	*
Italy	*	*	*	*	*	*	78-83	*	*	*	*
Luxembourg	*	*	*	*	*	78-91	*	*	79-99	*	79-98
Netherlands	*	*	*	*	*	*	78-87	*	*	*	78-96
Norway	*	*	*	NA	NA	*	79-85	*	*	*	*
Portugal	*	*	*	98-99	NA	78-91	NA	80-94	NA	*	78-98
Spain	*	*	*	*	*	*	NA	*	*	*	*
Sweden	*	*	78-97	85-99	NA	78-87	78-89	*	*	*	*
Switzerland	78-98	*	*	*	*	*	78-92	*	*	*	*
Turkey	*	*	*	88-99	88-99	*	80-99	NA	*	*	*
UK	*	*	*	*	*	*	*	*	*	*	*
USA	*	*	*	*	*	*	NA	*	*	*	*
Canada	*	*	78-94	*	*	*	NA	*	*	*	*
Australia	78-98	*	78-97	*	78-97	*	NA	*	78-83	*	*
Japan	78-98	*	*	*	*	*	NA	NA	*	*	*
NewZealand	78-98	*	*	*	*	*	81-84	*	78-87	*	78-95

Table A1: Available Data on Income, Consumption and Price for Energy Goods in the Residential Sector in OECD countries

Notes: 1, Abbreviation for consumption;

2, A star (*) indicates full data from year 1978 to year 1999;

3, *NA* indicates that no data are available.

Country	GDP	Electr	Electricity		al Gas	Hard Coal		Gas/Diesel		Transportation Gas/Diesel		Heavy Fuel Oil	
		Cnsp. ¹	Price	Cnsp.	Price	Cnsp.	Price	Cnsp.	Price	Cnsp.	Price	Cnsp.	Price
Austria	* ²	*	*	*	*	*	*	NA ³	80-98	*	*	*	78-98
Belgium	*	*	78-98	*	78-97	*	78-90	*	*	*	*	*	*
Denmark	*	*	*	84-99	78-80	*	78-95	*	*	*	*	*	78-88
Finland	*	*	*	*	*	*	*	*	*	*	*	*	78-92
France	*	*	*	*	*	*	*	*	*	*	*	*	*
Germany	*	*	*	*	*	*	78-94	*	*	*	*	*	78-90
Greece	*	*	*	82-99	97-99	*	78-80	*	*	*	*	*	78-94
Ireland	*	*	*	79-99	*	*	NA	*	*	*	*	*	*
Italy	*	*	*	*	78-98	*	*	*	*	*	*	*	*
Luxembourg	*	*	78-89	*	79-82	*	NA	*	81-99	*	79-99	*	81-94
Netherlands	*	*	*	*	*	*	78-91	*	78-91	*	*	*	78-96
Norway	*	*	78-91	NA	NA	*	78-94	*	*	*	*	*	78-94
Portugal	*	*	*	97-99	NA	*	97-99	*	NA	*	*	*	*
Spain	*	*	*	*	*	*	NA	*	*	*	*	*	*
Sweden	*	*	78-97	85-99	NA	*	78-91	*	*	*	*	*	78-84
Switzerland	*	*	*	*	*	*	*	*	*	*	94-99	*	78-90
Turkey	*	*	*	82-99	88-99	*	79-99	*	NA	*	*	*	*
UK	*	*	*	*	*	*	*	*	*	*	*	*	*
USA	*	*	*	*	*	*	*	*	*	*	92-99	*	*
Canada	*	*	78-94	*	*	*	78-89	*	*	*	*	*	*
Australia	*	*	78-97	*	78-97	*	82-89	*	78-83	*	NA	*	78-83
Japan	*	*	*	*	*	*	*	*	*	*	*	*	*
NewZealand	*	*	*	*	*	*	78-84	*	*	*	*	*	*

Table A2: Available Data on GDP, Consumption and Price for Energy Goods in the Industrial Sector in OECD countries

Notes: 1, Abbreviation for consumption;

2, A star (*) indicates full data from year 1978 to year 1999;

3, *NA* indicates that no data are available.

Products	SR price ela.	LR price ela.	SR income ela.	LR income ela.	γ	# of Obs.
Electricity	0.004 (0.008)	1.174 (3.358)	-0.023 (0.003)	-7.012 (6.404)	0.997 (0.003)	469
Natural Gas	0.006 (0.076)	0.152 (1.960)	-0.213 (0.093)	-5.349 (3.090)	0.960 (0.024)	370
Hard Coal	0.025 (0.049)	1.403 (2.503)	-0.112 (0.057)	-6.267 (2.883)	0.982 (0.007)	237
Gas Oil	-0.045 (0.020)	2.992 (1.161)	-0.037 (0.034)	2.513 (1.960)	1.015 (0.007)	384
Motor Gas. ^b	-0.038 (0.009)	-0.986 (0.166)	0.035 (0.011)	0.898 (0.219)	0.961 (0.010)	451

Table A3: Pooled OLS Estimates of Elasticities of Energy Goods in OECD. Residential Sector ^a

Notes:

b. Motor gasoline for the whole economy.

Table A4: Pooled OLS Estimates of Elasticities of Energy Goods in OECD. Industrial Sector ^a

Products	SR price ela.	LR price ela.	SR GDP ela.	LR GDP ela.	γ	# of Obs.
Electricity	-0.003 (0.003)	-1.826 (2.145)	-0.010 (0.003)	-5.930 (5.804)	0.998 (0.062)	455
Natural Gas	-0.035 (0.038)	-1.251 (0.851)	-0.111 (0.025)	-3.955 (1.895)	0.972 (0.017)	349
Hard Coal	0.058 (0.041)	0.948 (0.768)	-0.033 (0.018)	-0.544 (0.376)	0.939 (0.015)	307
Gas Oil	-0.034 (0.016)	-0.459 (0.258)	0.041 (0.026)	0.549 (0.326)	0.925 (0.014)	392
Auto. diesel ^b	-0.014 (17.181)	4.410 (0.051)	0.009 (0.009)	-2.753 (12.103)	1.003 (0.012)	434
Heavy Fuel	-0.049 (0.014)	1.407 (0.744)	-0.028 (0.013)	0.810 (0.376)	1.035 (0.014)	393

Notes: a. Standard errors in parentheses;

Products	SR price ela.	LR price ela.	SR income ela.	LR income ela.	γ	# of Obs.
Electricity	-0.043 (0.013)	-3.692 (11.195)	-0.046 (0.048)	-3.980 (15.238)	0.988 (0.033)	469
Natural Gas	-0.196 (0.097)	-0.774 (0.297)	0.258 (0.149)	1.018 (0.572)	0.747 (0.059)	370
Hard Coal	-0.063 (0.133)	-0.400 (0.939)	-0.861 (0.351)	-5.490 (1.213)	0.843 (0.055)	237
Gas Oil	-0.036 (0.023)	-0.654 (0.455)	-0.008 (0.047)	-0.144 (0.857)	0.945 (0.017)	384
Motor Gas. ^b	-0.137 (0.016)	-0.986 (0.166)	0.051 (0.036)	0.366 (0.216)	0.861 (0.024)	451

 Table A5: Pooled Fixed Effect Estimates of Elasticities of Energy Goods in OECD. Residential Sector^a

b. Motor gasoline for the whole economy.

Table A6: Pooled Fixed	Effect Estimates of Elasticities of Energy	Goods in OECD.	Industrial
Sector ^a			

Products	SR price ela.	LR price ela.	SR GDP ela.	LR GDP ela.	γ	# of Obs.
Electricity	-0.007 (0.020)	-0.045 (0.124)	0.144 (0.029)	0.946 (0.187)	0.848 (0.029)	455
Natural Gas	-0.121 (0.035)	-0.507 (0.166)	0.057 (0.118)	0.238 (0.468)	0.761 (0.080)	349
Hard Coal	0.237 (0.100)	1.410 (0.696)	0.265 (0.264)	1.582 (1.646)	0.832 (0.029)	307
Gas Oil	-0.015 (0.041)	-0.089 (0.256)	-0.026 (0.100)	-0.155 (0.600)	0.833 (0.036)	392
Auto. diesel ^b	-0.085 (0.021)	-0.429 (0.150)	0.338 (0.096)	1.712 (0.165)	0.802 (0.043)	434
Heavy Fuel	-0.088 (0.027)	-4.889 (8.349)	-0.241 (0.121)	-13.331 (22.289)	0.982 (0.028)	393

Notes: a. Standard errors in parentheses;

Products	SR price ela.	LR price ela.	SR income ela.	LR income ela.	γ	# of Obs.
Electricity	-0.029 (0.018)	-0.132 (0.080)	0.088 (0.048)	0.398 (0.229)	0.780 (0.025)	446
Natural Gas	-0.114 (0.146)	-0.369 (0.427)	0.101 (0.220)	0.327 (0.732)	0.691 (0.061)	351
Hard Coal	0.049 (0.178)	0.102 (0.353)	-1.043 (0.679)	-2.178 (1.366)	0.521 (0.143)	221
Gas Oil	-0.122 (0.044)	-0.272 (0.089)	-0.029 (0.159)	-0.064 (0.353)	0.551 (0.046)	364
Motor Gas. ^b	-0.173 (0.019)	-0.584 (0.083)	0.171 (0.056)	0.577 (0.202)	0.704 (0.045)	428

 Table A7: One-step GMM Estimates of Elasticities of Energy Goods in OECD. Residential

 Sector (With Predetermined Income)^a

b. Motor gasoline for the whole economy.

Table A8: One-step GMM Estimates of	of Elasticities of Energy	Goods in OECD.	Industrial Sector
(With Predetermined GDP)) ^a		

Products	SR price ela.	LR price ela.	SR GDP ela.	LR GDP ela.	γ	# of Obs.
Electricity	-0.012 (0.018)	-0.037 (0.055)	0.325 (0.079)	0.987 (0.203)	0.670 (0.050)	432
Natural Gas	-0.074 (0.021)	-0.266 (0.077)	0.330 (0.236)	1.179 (0.859)	0.720 (0.043)	330
Hard Coal	0.170 (0.110)	0.607 (0.426)	1.307 (0.265)	4.670 (0.912)	0.720 (0.039)	287
Gas Oil	0.025 (0.067)	0.074 (0.202)	0.389 (0.214)	1.163 (0.443)	0.665 (0.091)	372
Auto. diesel ^b	-0.095 (0.020)	-0.270 (0.069)	0.447 (0.133)	1.266 (0.304)	0.647 (0.043)	412
Heavy Fuel	-0.161 (0.039)	-0.492 (0.142)	-0.025 (0.441)	-0.077 (1.351)	0.673 (0.047)	370

Notes: a. Standard errors in parentheses;

Products	SR price ela.	LR price ela.	SR income ela.	LR income ela.	γ	# of Obs.
Electricity	-0.025 (0.029)	-0.140 (0.160)	0.052 (0.059)	0.291 (0.356)	0.823 (0.028)	255
Natural Gas	0.021 (0.248)	0.075 (0.903)	0.258 (0.377)	0.934 (1.399)	0.724 (0.010)	205
Hard Coal	0.153 (0.181)	0.271 (0.303)	-1.629 (0.440)	-2.890 (1.405)	0.436 (0.159)	195
Gas Oil	-0.109 (0.058)	-0.264 (0.124)	0.041 (0.151)	0.100 (0.361)	0.587 (0.043)	252
Motor Gas. ^b	-0.170 (0.025)	-0.635 (0.088)	0.188 (0.063)	0.700 (0.293)	0.732 (0.044)	235

 Table A9: One-step GMM Estimates of Elasticities of Energy Goods in the Residential Sector of the OECD European Countries (With Strictly Exogenous Income) a

b. Motor gasoline for the whole economy.

Table A10: Or	ne-step GMM Estimates of Elasticities of Energy Goods in the Industrial Sector of
th	e OECD European Countries (With Strictly Exogenous GDP) ^a

Products	SR price ela.	LR price ela.	SR GDP ela.	LR GDP ela.	γ	# of Obs.
Electricity	-0.035 (0.026)	-0.115 (0.080)	0.205 (0.097)	0.671 (0.240)	0.695 (0.079)	239
Natural Gas	-0.092 (0.026)	-0.331 (0.076)	0.024 (0.239)	0.086 (0.862)	0.722 (0.043)	180
Hard Coal	0.174 (0.140)	0.716 (0.627)	1.243 (0.454)	5.124 (1.585)	0.757 (0.038)	182
Gas Oil	0.112 (0.087)	0.317 (0.274)	0.361 (0.265)	1.017 (0.571)	0.645 (0.101)	230
Auto. diesel ^b	-0.114 (0.025)	-0.288 (0.069)	0.513 (0.188)	1.290 (0.324)	0.602 (0.080)	245
Heavy Fuel	-0.162 (0.049)	-0.365 (0.114)	0.610 (0.585)	1.374 (1.273)	0.556 (0.069)	193

Notes: a. Standard errors in parentheses;

Recent publications in the series Discussion Papers

- 283 P. Boug, Å. Cappelen and A.R. Swensen (2000): Expectations in Export Price Formation: Tests using Cointegrated VAR Models
- 284 E. Fjærli and R. Aaberge (2000): Tax Reforms, Dividend Policy and Trends in Income Inequality: Empirical Evidence based on Norwegian Data
- 285 L.-C. Zhang (2000): On dispersion preserving estimation of the mean of a binary variable from small areas
- 286 F.R. Aune, T. Bye and T.A. Johnsen (2000): Gas power generation in Norway: Good or bad for the climate? Revised version
- 287 A. Benedictow (2000): An Econometric Analysis of Exports of Metals: Product Differentiation and Limited Output Capacity
- 288 A. Langørgen (2000): Revealed Standards for Distributing Public Home-Care on Clients
- 289 T. Skjerpen and A.R. Swensen (2000): Testing for longrun homogeneity in the Linear Almost Ideal Demand System. An application on Norwegian quarterly data for non-durables
- 290 K.A. Brekke, S. Kverndokk and K. Nyborg (2000): An Economic Model of Moral Motivation
- 291 A. Raknerud and R. Golombek: Exit Dynamics with Rational Expectations
- 292 E. Biørn, K-G. Lindquist and T. Skjerpen (2000): Heterogeneity in Returns to Scale: A Random Coefficient Analysis with Unbalanced Panel Data
- 293 K-G. Lindquist and T. Skjerpen (2000): Explaining the change in skill structure of labour demand in Norwegian manufacturing
- 294 K. R. Wangen and E. Biørn (2001): Individual Heterogeneity and Price Responses in Tobacco Consumption: A Two-Commodity Analysis of Unbalanced Panel Data
- 295 A. Raknerud (2001): A State Space Approach for Estimating VAR Models for Panel Data with Latent Dynamic Components
- 296 J.T. Lind (2001): Tout est au mieux dans ce meilleur des ménages possibles. The Pangloss critique of equivalence scales
- 297 J.F. Bjørnstad and D.E. Sommervoll (2001): Modeling Binary Panel Data with Nonresponse
- 298 Taran Fæhn and Erling Holmøy (2001): Trade Liberalisation and Effects on Pollutive Emissions and Waste. A General Equilibrium Assessment for Norway
- 299 J.K. Dagsvik (2001): Compensated Variation in Random Utility Models
- 300 K. Nyborg and M. Rege (2001): Does Public Policy Crowd Out Private Contributions to Public Goods?
- 301 T. Hægeland (2001): Experience and Schooling: Substitutes or Complements
- 302 T. Hægeland (2001): Changing Returns to Education Across Cohorts. Selection, School System or Skills Obsolescence?
- 303 R. Bjørnstad: (2001): Learned Helplessness, Discouraged Workers, and Multiple Unemployment Equilibria in a Search Model
- 304 K. G. Salvanes and S. E. Førre (2001): Job Creation, Heterogeneous Workers and Technical Change: Matched Worker/Plant Data Evidence from Norway

- 305 E. R. Larsen (2001): Revealing Demand for Nature Experience Using Purchase Data of Equipment and Lodging
- 306 B. Bye and T. Åvitsland (2001): The welfare effects of housing taxation in a distorted economy: A general equilibrium analysis
- 307 R. Aaberge, U. Colombino and J.E. Roemer (2001): Equality of Opportunity versus Equality of Outcome in Analysing Optimal Income Taxation: Empirical Evidence based on Italian Data
- 308 T. Kornstad (2001): Are Predicted Lifetime Consumption Profiles Robust with respect to Model Specifications?
- 309 H. Hungnes (2001): Estimating and Restricting Growth Rates and Cointegration Means. With Applications to Consumption and Money Demand
- 310 M. Rege and K. Telle (2001): An Experimental Investigation of Social Norms
- 311 L.C. Zhang (2001): A method of weighting adjustment for survey data subject to nonignorable nonresponse
- 312 K. R. Wangen and E. Biørn (2001): Prevalence and substitution effects in tobacco consumption. A discrete choice analysis of panel data
- 313 G.H. Bjertnær (2001): Optimal Combinations of Income Tax and Subsidies for Education
- 314 K. E. Rosendahl (2002): Cost-effective environmental policy: Implications of induced technological change
- 315 T. Kornstad and T.O. Thoresen (2002): A Discrete Choice Model for Labor Supply and Child Care
- 316 A. Bruvoll and K. Nyborg (2002): On the value of households' recycling efforts
- 317 E. Biørn and T. Skjerpen (2002): Aggregation and Aggregation Biases in Production Functions: A Panel Data Analysis of Translog Models
- 318 Ø. Døhl (2002): Energy Flexibility and Technological Progress with Multioutput Production. Application on Norwegian Pulp and Paper Industries
- 319 R. Aaberge (2002): Characterization and Measurement of Duration Dependence in Hazard Rate Models
- 320 T. J. Klette and A. Raknerud (2002): How and why do Firms differ?
- 321 J. Aasness and E. Røed Larsen (2002): Distributional and Environmental Effects of Taxes on Transportation
- 322 E. Røed Larsen (2002): The Political Economy of Global Warming: From Data to Decisions
- 323 E. Røed Larsen (2002): Searching for Basic Consumption Patterns: Is the Engel Elasticity of Housing Unity?
- 324 E. Røed Larsen (2002): Estimating Latent Total Consumption in a Household.
- 325 E. Røed Larsen (2002): Consumption Inequality in Norway in the 80s and 90s.
- 326 H.C. Bjørnland and H. Hungnes (2002): Fundamental determinants of the long run real exchange rate: The case of Norway.
- 327 M. Søberg (2002): A laboratory stress-test of bid, double and offer auctions.
- 328 M. Søberg (2002): Voting rules and endogenous trading institutions: An experimental study.

- 329 M. Søberg (2002): The Duhem-Quine thesis and experimental economics: A reinterpretation.
- 330 A. Raknerud (2002): Identification, Estimation and Testing in Panel Data Models with Attrition: The Role of the Missing at Random Assumption
- 331 M.W. Arneberg, J.K. Dagsvik and Z. Jia (2002): Labor Market Modeling Recognizing Latent Job Attributes and Opportunity Constraints. An Empirical Analysis of Labor Market Behavior of Eritrean Women
- 332 M. Greaker (2002): Eco-labels, Production Related Externalities and Trade
- 333 J. T. Lind (2002): Small continuous surveys and the Kalman filter
- 334 B. Halvorsen and T. Willumsen (2002): Willingness to Pay for Dental Fear Treatment. Is Supplying Fear Treatment Social Beneficial?
- 335 T. O. Thoresen (2002): Reduced Tax Progressivity in Norway in the Nineties. The Effect from Tax Changes
- 336 M. Søberg (2002): Price formation in monopolistic markets with endogenous diffusion of trading information: An experimental approach
- 337 A. Bruvoll og B.M. Larsen (2002): Greenhouse gas emissions in Norway. Do carbon taxes work?
- 338 B. Halvorsen and R. Nesbakken (2002): A conflict of interests in electricity taxation? A micro econometric analysis of household behaviour
- 339 R. Aaberge and A. Langørgen (2003): Measuring the Benefits from Public Services: The Effects of Local Government Spending on the Distribution of Income in Norway
- 340 H. C. Bjørnland and H. Hungnes (2003): The importance of interest rates for forecasting the exchange rate
- A. Bruvoll, T.Fæhn and Birger Strøm (2003):
 Quantifying Central Hypotheses on Environmental Kuznets Curves for a Rich Economy: A Computable General Equilibrium Study
- 342 E. Biørn, T. Skjerpen and K.R. Wangen (2003): Parametric Aggregation of Random Coefficient Cobb-Douglas Production Functions: Evidence from Manufacturing Industries
- 343 B. Bye, B. Strøm and T. Åvitsland (2003): Welfare effects of VAT reforms: A general equilibrium analysis
- 344 J.K. Dagsvik and S. Strøm (2003): Analyzing Labor Supply Behavior with Latent Job Opportunity Sets and Institutional Choice Constraints
- A. Raknerud, T. Skjerpen and A. Rygh Swensen (2003):
 A linear demand system within a Seemingly Unrelated Time Series Equation framework
- 346 B.M. Larsen and R.Nesbakken (2003): How to quantify household electricity end-use consumption
- 347 B. Halvorsen, B. M. Larsen and R. Nesbakken (2003): Possibility for hedging from price increases in residential energy demand
- 348 S. Johansen and A. R. Swensen (2003): More on Testing Exact Rational Expectations in Cointegrated Vector Autoregressive Models: Restricted Drift Terms
- 349 B. Holtsmark (2003): The Kyoto Protocol without USA and Australia - with the Russian Federation as a strategic permit seller
- 350 J. Larsson (2003): Testing the Multiproduct Hypothesis on Norwegian Aluminium Industry Plants
- 351 T. Bye (2003): On the Price and Volume Effects from Green Certificates in the Energy Market

- 352 E. Holmøy (2003): Aggregate Industry Behaviour in a Monopolistic Competition Model with Heterogeneous Firms
- 353 A. O. Ervik, E.Holmøy and T. Hægeland (2003): A Theory-Based Measure of the Output of the Education Sector
- 354 E. Halvorsen (2003): A Cohort Analysis of Household Saving in Norway
- 355 I. Aslaksen and T. Synnestvedt (2003): Corporate environmental protection under uncertainty
- 356 S. Glomsrød and W. Taoyuan (2003): Coal cleaning: A viable strategy for reduced carbon emissions and improved environment in China?
- 357 A. Bruvoll T. Bye, J. Larsson og K. Telle (2003): Technological changes in the pulp and paper industry and the role of uniform versus selective environmental policy.
- 358 J.K. Dagsvik, S. Strøm and Z. Jia (2003): A Stochastic Model for the Utility of Income.
- 359 M. Rege and K. Telle (2003): Indirect Social Sanctions from Monetarily Unaffected Strangers in a Public Good Game.
- 360 R. Aaberge (2003): Mean-Spread-Preserving Transformation.
- 361 E. Halvorsen (2003): Financial Deregulation and Household Saving. The Norwegian Experience Revisited
- 362 E. Røed Larsen (2003): Are Rich Countries Immune to the Resource Curse? Evidence from Norway's Management of Its Oil Riches
- 363 E. Røed Larsen and Dag Einar Sommervoll (2003): Rising Inequality of Housing? Evidence from Segmented Housing Price Indices
- 364 R. Bjørnstad and T. Skjerpen (2003): Technology, Trade and Inequality
- 365 A. Raknerud, D. Rønningen and T. Skjerpen (2003): A method for improved capital measurement by combining accounts and firm investment data
- 366 B.J. Holtsmark and K.H. Alfsen (2004): PPP-correction of the IPCC emission scenarios does it matter?
- 367 R. Aaberge, U. Colombino, E. Holmøy, B. Strøm and T. Wennemo (2004): Population ageing and fiscal sustainability: An integrated micro-macro analysis of required tax changes
- 368 E. Røed Larsen (2004): Does the CPI Mirror Costs.of.Living? Engel's Law Suggests Not in Norway
- 369 T. Skjerpen (2004): The dynamic factor model revisited: the identification problem remains
- 370 J.K. Dagsvik and A.L. Mathiassen (2004): Agricultural Production with Uncertain Water Supply
- 371 M. Greaker (2004): Industrial Competitiveness and Diffusion of New Pollution Abatement Technology – a new look at the Porter-hypothesis
- 372 G. Børnes Ringlund, K.E. Rosendahl and T. Skjerpen (2004): Does oilrig activity react to oil price changes? An empirical investigation
- 373 G. Liu (2004) Estimating Energy Demand Elasticities for OECD Countries. A Dynamic Panel Data Approach