

1 Data construction

Unless otherwise noted, all data are seasonally adjusted nominal series deflated with the GDP deflator and divided by the population.

Australia. All data are from the Australian Bureau of Statistics' (ABS) National Income, Expenditure and Product Tables covering the period 1960-2007. Government Spending is the sum of *general government final consumption expenditure* (Quarterly: Table 3, Series A2304036K; Annual: Table 32, Series A2304588J) and *general government gross fixed capital formation* (Quarterly: Table 3, Series A2304064V; Annual: Table 32, Series A2304599R). Private consumption consists of households' *final consumption expenditure* (Quarterly: Table 8, Series A2302236T; Annual: Table 32, Series A2304591W) minus *furnishings and household equipment* (Quarterly: Table 8, Series A2302225K; Annual: Table 8, annual aggregate of quarterly (non-seasonally adjusted) Series A2302243R) and *purchase of vehicles* (Quarterly: Table 8, Series A2302227R; Annual: Table 8, annual aggregate of quarterly (non-seasonally adjusted) Series A2302245V). In addition, we extract GDP (Quarterly: Table 1, Series A2304418T; Annual: Table 30, Series A2304617J), the GDP deflator (Table 5, Series A2303730T; Annual: Table 32, Series A2304682C), and calculate the population as GDP divided by *GDP per capita* (Quarterly: Table 1, Series A2304420C; Annual: Table 30, Series A2304887J).

Canada. All data, except the population figures, are from the OECD's Quarterly National Accounts covering the period 1961-2007. Government Spending is the sum of *general government final consumption expenditure* and *general government gross fixed capital formation*. Private consumption consists of households' *final consumption expenditure on non-durable goods and services*. The GDP deflator is calculated as *GDP* divided by *GDP in constant prices*. Population numbers are taken from Statistics Canada (CANSIM) (Quarterly: Table 051-0005, Series v1; Annual: annual average of quarterly numbers).

United Kingdom. All data are from the Office of National Statistics' (ONS) National Accounts covering the period 1963-2007. Government Spending is the sum of *general government final consumption expenditure* (NMRP) and *general government gross fixed capital formation* (NNBF).¹ Private consumption consists of households' *final consumption expenditure on non-durable goods* (UTIJ) and *services* (UTIN). The GDP deflator is calculated as *GDP* (YBHA) divided by *GDP in constant prices* (ABMI); population is computed by dividing *GDP* (YBHA) by *GDP per head* (IHXT).

¹General government gross fixed capital formation is only available non-seasonally adjusted. Following the approach of the ONS, we seasonally adjust the series using the X12 Arima procedure.

Australia

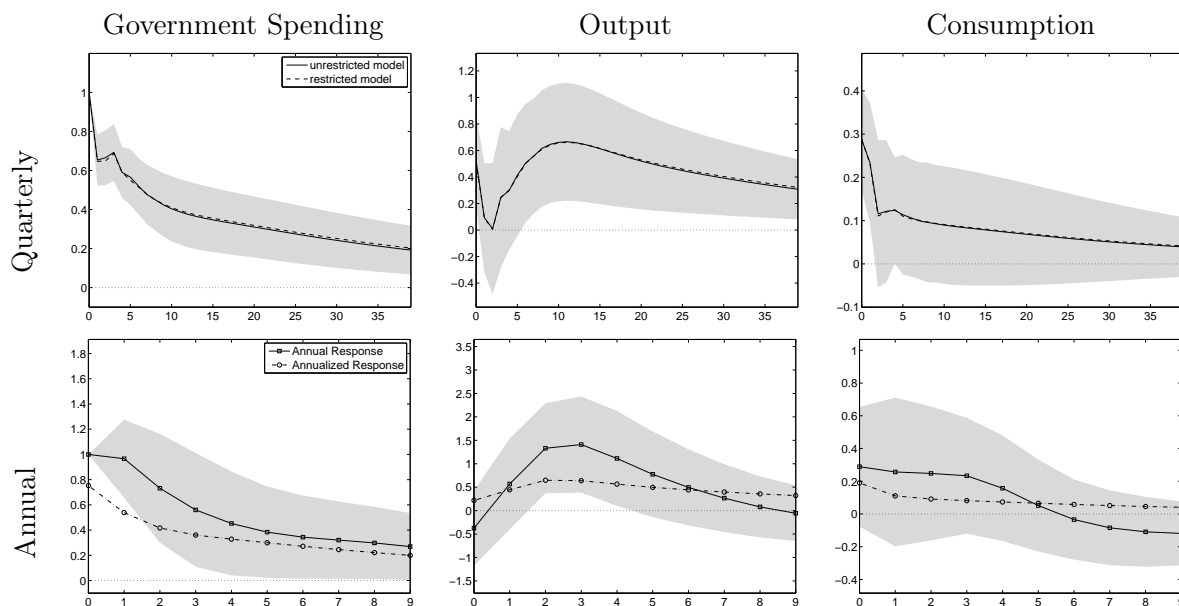


Figure 1: Effect of government spending shock. *Notes:* Impulse responses to exogenous increase in real government spending by one percent of GDP. Solid line: unrestricted baseline model; shaded areas: bootstrapped 90 percent confidence intervals; dashed line: restricted baseline model. Vertical axes indicate deviations from unshocked path in percent of GDP. Horizontal axes indicate quarters.

Table 1: TEST STATISTICS

	LR-statistic	Wald-statistic
Baseline VAR	8.59 (0.20)	8.79 (0.19)

Note: Under the null, the tests are distributed as $\chi^2(6)$. Values are test statistics, p-values are given in parentheses.

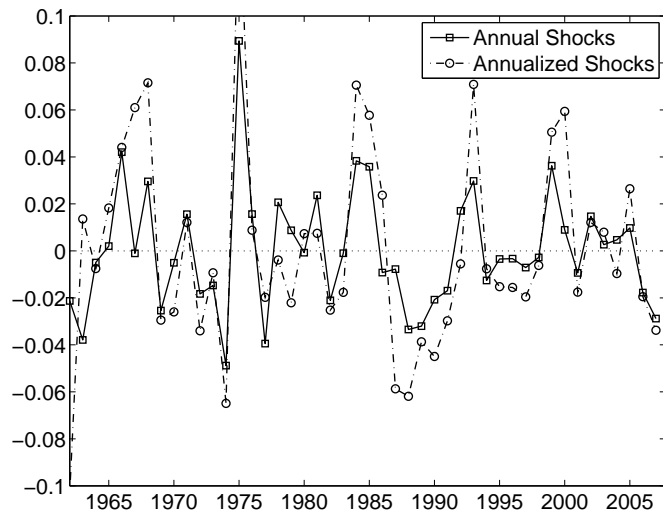


Figure 2: Annual vs. annualized shocks. *Notes:* Solid line with squares: annual shocks in baseline VAR; dashed-dotted line with circles: annualized shocks in baseline VAR.

Canada

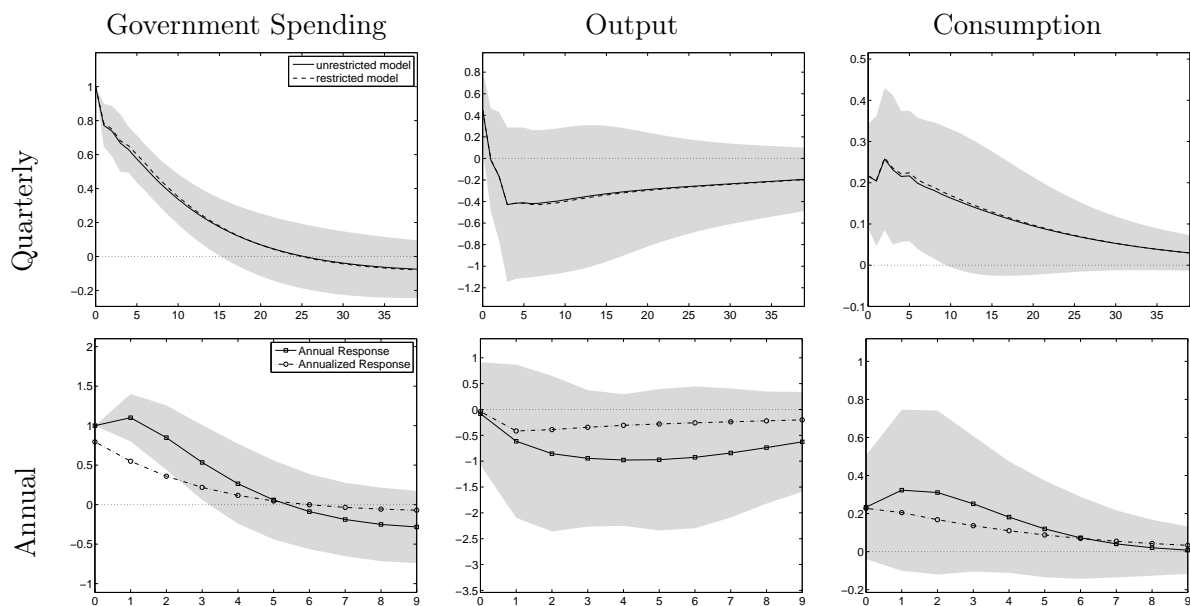


Figure 3: Effect of government spending shock. *Notes:* Impulse responses to exogenous increase in real government spending by one percent of GDP. Solid line: unrestricted baseline model; shaded areas: bootstrapped 90 percent confidence intervals; dashed line: restricted baseline model. Vertical axes indicate deviations from unshocked path in percent of GDP. Horizontal axes indicate quarters.

Table 2: TEST STATISTICS

	LR-statistic	Wald-statistic
Baseline VAR	4.65 (0.59)	4.71 (0.58)

Note: Under the null, the tests are distributed as $\chi^2(6)$. Values are test statistics, p-values are given in parentheses.

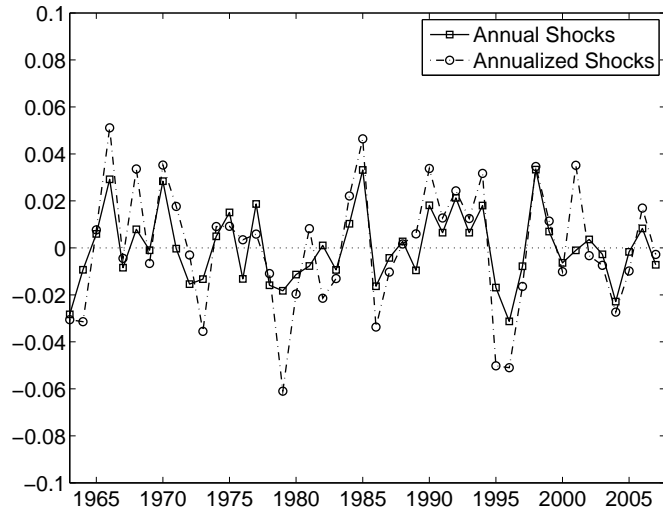


Figure 4: Annual vs. annualized shocks. *Notes:* Solid line with squares: annual shocks in baseline VAR; dashed-dotted line with circles: annualized shocks in baseline VAR.

United Kingdom

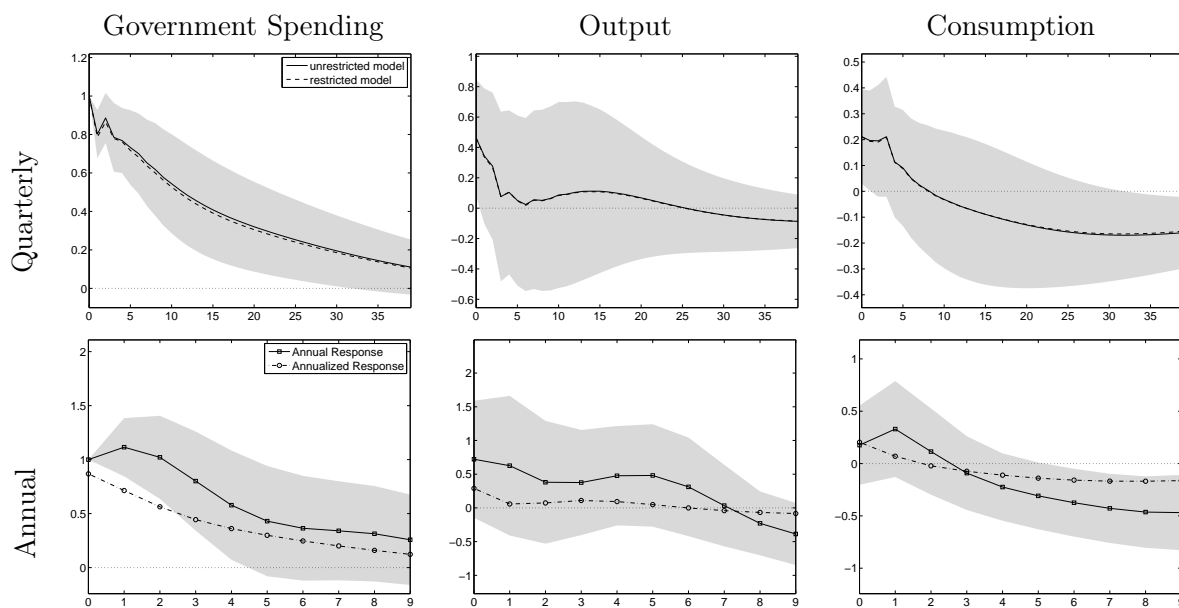


Figure 5: Effect of government spending shock. *Notes:* Impulse responses to exogenous increase in real government spending by one percent of GDP. Solid line: unrestricted baseline model; shaded areas: bootstrapped 90 percent confidence intervals; dashed line: restricted baseline model. Vertical axes indicate deviations from unshocked path in percent of GDP. Horizontal axes indicate quarters.

Table 3: TEST STATISTICS

	LR-statistic	Wald-statistic
Baseline VAR	7.46 (0.28)	7.62 (0.27)

Note: Under the null, the tests are distributed as $\chi^2(6)$. Values are test statistics, p-values are given in parentheses.

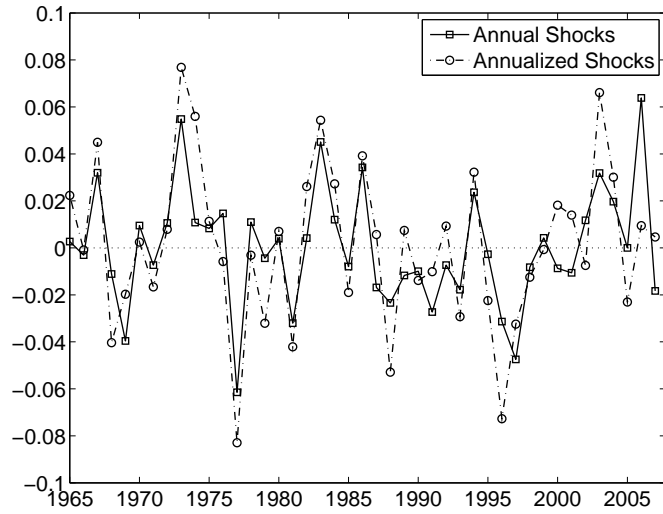


Figure 6: Annual vs. annualized shocks. *Notes:* Solid line with squares: annual shocks in baseline VAR; dashed-dotted line with circles: annualized shocks in baseline VAR.