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ESTIMATE OF THE ELASTICITY OF SUBSTITUTION IN SLOVAK ECONOMY - A FREQUENCY FILTER SUR MODEL

Abstract:

The elasticity of substitution between capital and labor in Slovak economy is estimated in the paper. To avoid normalization of the constant elasticity substitution production function problem, we focus in the capital and labor demand specification. Data series of capital, labor, output and their prices gathered from the National Bank of Slovakia macroeconomic database are used. To abstract from the business cycle shocks, data are modified by frequency filters. Finally, to avoid a false regression, the specifications are differenced. Since we do not reject the correlation between error terms of the specification, we use the seemingly unrelated regression method to estimate the coefficients. In result the estimated elasticity of substitution in the Slovak economy is relatively small; its value ranges from 0.03 to 0.11.

Keywords:

elasticity of the input substitution, seemingly unrelated regression model, frequency filter

JEL Classification: C32, E23, E25