

Topics in Time Series Analysis

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This course reviews some recent developments in the analysis of time series data in economics, with a special emphasis on their use for forecasting and macroeconomic applications. The focus will be both on the theoretical underpinnings of the techniques and on their empirical implementation.

The techniques will be illustrated with several empirical applications, mostly implemented in Gauss or Matlab. Students can use any other programming software.

The final grade will be given by an average of the grades in three assignments (75%) and final exam (25%). The assignments will contain mostly empirical questions, the final exam mostly theoretical questions.

The topics that will be covered include:

1. Review of linear models

- a) Review of the three approaches to analyze stationary processes: the Wold Theorem, the Autocovariance function, the Spectrum
- b) Review of estimation and inference for stationary and non-stationary processes
- c) Model selection by information criteria
- d) Forecasting
- e) Example: AR vs Leading indicator forecasts for euro area GDP and inflation (Forecast robustness)
- f) Example: Country specific vs euro area forecasts for euro area IP, inflation and unemployment (Forecasting the aggregate vs aggregating the forecasts)
- g) Example: h-step ahead forecasts for US macro variables (Multi-step estimation vs iterated formulae for h-step ahead forecasting)
- h) Example: path confidence regions (measures of forecast uncertainty)

References

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- Jorda, O., Knoppel, M., Marcellino, M. (2010) "Empirical Simultaneous Confidence Regions for Path-Forecasts", Bundesbank WP 2010/6.

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Watson, M.W. (2007), "How Accurate Are Real-Time Estimates of Output Trends and Gaps?", *Federal Reserve Bank of Richmond Economic Quarterly*, 93, 143-161.

2. Time-varying and nonlinear models

- a) Smooth transition and threshold autoregressive models
- b) Neural networks
- c) Markov switching models
- d) ARCH and stochastic volatility models
- e) Example: comparison of several forecasting models for euro area and US macro variables (Forecasting with nonlinear models)
- f) Example: a multivariate TAR model for forecasting GDP growth (Time-varying VARs and international shock transmission)
- g) Example: a multivariate MS-ECM of the UK labour market (Impulse response functions in nonlinear models)
- h) Example: the great moderation in the US (SV and Bayesian time-varying models)

References

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3. The Kalman Filter

- a) State space representation of dynamic linear models
- b) Structural time series models
- c) Derivation of the Kalman filter
- d) Forecasting
- e) Maximum likelihood estimation
- f) Example: the Stock-Watson coincident index for the US (Small scale factor model)
- g) Example: the Mariano-Murasawa coincident index for the US (Mixed frequency data)
- h) Example: the Kim-Yoo coincident index for the US (Markov switching factor model)
- i) Example: Ireland's sticky price model (MLE of a DSGE model)
- j) Example: MIDAS models vs mixed frequency VAR (alternative approaches for mixed data)

References

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- Luetkepohl, H., (2005), *New Introduction to Multiple Time Series Analysis*, Springer (Ch. 18)
- Harvey, A. (1993), *Time Series Models*, London: Harvester. (Ch 4, 5)
- Kim, C-J. and Nelson C.R. (1999), *State space models with regime switching*, Cambridge: MIT Press (Ch. 3-5)
- Canova, F. (2007), *Methods for Applied Macroeconomic Research*, Princeton: Princeton University Press. (Ch. 6)
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- Mariano, R. and Murasawa, J. (2003), "A new coincident index of business cycles based on monthly and quarterly series," *Journal of Applied Econometrics*, vol. 18(4), pages 427-443.
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- Kuzin, V., Marcellino, M and Schumacher, C. (2011) "MIDAS vs Mixed-Frequency VAR for Nowcasting GDP in the Euro Area", *International Journal of Forecasting*, 27, 529-542.

4. Methods for the analysis of large datasets

- a) Factor models: representation and principal component based estimation
- b) Shrinkage estimators and Bayesian methods
- c) Reduced rank regressions
- d) Variable selection: information criteria, LASSO and Boosting
- e) Example: factor based forecasts of euro area, US and UK macro variables
- f) Example: factor based interpolation, backdating, and nowcasting
- g) Example: the role of factors in Taylor rules and monetary VARs for the euro area and the US
- h) Example: factor augmented error correction models
- i) Example: forecast comparison of alternative methods

j) Example: time-varying factor models

References

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- Artis, M., Banerjee, A. and Marcellino, M. (2005), "Factor Forecasts for the UK", *Journal of Forecasting*, 24, 279-298..
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- Eickmeier, S., Lemke, W. and Marcellino, M. (2011) "A Classical Time Varying FAVAR Model: Estimation, Forecasting, and Structural Analysis", CEPR WP 8321.
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Dates of lectures and classes:

L1: Friday 20 April, 13.00
L2: Monday 23 April, 11.00
L3: Tuesday 24 April, 15.00

TA1: Wednesday 25 April, 11.00

L4: Wednesday 25 April, 17.15
L5: Monday 30 April, 15.00

TA2: Wednesday 2 May, 11.00

L6: Thursday 3 May, 8.45
L7: Monday 7 May, 11.00

TA3: Wednesday 9 May, 11.00

L8: Friday 11 May, 8.45

TA4: Wednesday 16 May, 11.00

L9: Thursday 17 May, 8.45
L10: Friday 18 May, 8.45

TA5: Wednesday 23 May, 11.00

Problem sets - deadlines

PS1: Wednesday 25 April – due: Wednesday 9 May
PS2: Wednesday 9 May – due: Monday 21 May
PS3: Wednesday 23 May – due: Friday 1 June

Exam

Monday 28 May, 10.00 – 12.00