Econ 312a

Advanced Econometrics II (Spring 2018)

Instructor: Prof. Davide Pettenuzzo (dpettenu@brandeis.edu)

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Office: Sachar 122

Office hours: My regular office hours for the Spring semester are Wednesday 10:00-11:00 AM. If you need to see me outside the regular office hours, please make an appointment

Time and location

Lectures: Sachar Chancellor's Suite; Tue & Thu, 09:30 - 10:50 AM

Recitations: Once a week - time and location TBD

Course description

This course examines the models and statistical techniques used to study time series data. Topics will include linear and non-linear univariate as well as multivariate econometric models.

Course goals: The first goal of the course is to provide you with a good understanding of econometric models for time series data. These models are widely used in the empirical literature, and a good understanding of these models is crucial for the second goal of the course: provide the students with the tools to understand and evaluate empirical studies. The third goal of the course is to develop practical skills, which are necessary to perform independent research using real world data.

A theme throughout the course is the use of computational methods for analyzing the material covered in class, and throughout the course we will rely heavily on examples and applications with Matlab.

Prerequisites: This is an advanced econometric course, and students are required to have a good knowledge of matrix algebra, probability and distribution theory, statistical inference, the classical multiple linear regression model (OLS) and the problems related to the assumptions of this model (multicollinearity, measurement error, heteroskedasticity), and the maximum likelihood method. Econ 311a is a prerequisite.

Textbooks and reading material

Required textbook


I will follow Hamilton's book rather closely: On the syllabus the notation H* indicates which chapter corresponds to each topic.

Additional textbooks and online material

- Kim, C.J., and Nelson, C.R.; State-space models with regime switching
- Lütkepohl, H.; New Introduction to Multiple Time Series Analysis – Springer
• Cochrane, J.H.; Time series for macroeconomics and finance, unpublished lecture notes available at
• A helpful reference on facts about matrices (i.e. identities, approximations, decompositions, proofs, etc.) can be
  found at http://orion.uwaterloo.ca/~hwolkowi/matrixcookbook.pdf

Additional reading material

• The assignments will consist of empirical applications of the material covered during classes, and will require
  familiarity with the software package MatLab. Early classes will go over some of the basics of the programming
  language, focusing on the tools that are required to work with time series
  o There are many Matlab “primers” available over the internet that will help you build the skills needed
    to complete the assignments. A few examples include:
    ▪ http://faculty.olin.edu/bstorey/Notes/matlab.pdf
    ▪ http://web.ift.uib.no/Teori/KURS/WRK/mat/singlemat.html
    ▪ http://www.math.toronto.edu/mpugh/primer.pdf
  o In addition, while a little dated, the following book is very helpful:
    ▪ Manual: Duane Hanselman and Bruce Littlefield, 2005, “Mastering MATLAB 7”,
      Pearson/Prentice Hall

Evaluation
There will be problem sets, a mid-term exam, and a “replication” paper. Problem sets will involve a combination of
theory and applied work (applied work will require the use of Matlab). The approximate week of distribution of the
problem sets is indicated in the syllabus with the notation PS*. The midterm will be held on March 15, 2018,
during the regular class hours. The replication paper will involve drafting a medium length paper (between 10 and 15 pages)
summarizing the replication of the results contained in a published or working paper (to be approved by the Professor),
as well as an interesting and meaningful extension to it. You can work on the problem sets alone or in small groups, but
you are required to turn in your answers individually. You are required to work on the replication paper individually. The
final grading will weight problem sets, replication paper, and mid-term exam as follows:

• Problem sets: 30%
• Mid-term exam: 30%
• Replication paper: 40%

Course outline
As you can see below, the syllabus contains a rather long list of topics. This is what I plan to cover during the 14 weeks
of classes. Due to time constrains I might skip over some of points listed to be able to cover some of the more
interesting and cutting edge topics that I believe will help you in developing your thesis proposal.

Week 1. Introduction to probabilistic structure of time series data (H1, H2)
  • Difference equations
  • Lag operators

Week 2. Stationary ARMA processes (H3, H4) – PS1
  • ARMA processes, stationarity, ergodicity, invertibility
  • The Box and Jenkins (1976) methodology
  • Autocorrelations and partial autocorrelations
Week 3. The linear regression model – MLE and small sample properties (H5)
  • Maximum likelihood estimation of stationary ARMA processes

Week 4. The linear regression model – Large sample properties (H7, H8) – PS2
  • OLS and GLS estimators for stationary ARMA processes – small sample properties
  • Review of asymptotic theory for i.i.d. random variables and serially dependent variables

Week 5. The linear regression model (cont’d) (H8)
  • OLS and GLS estimators for stationary ARMA processes – large sample results

Week 6. Forecasting and forecasting evaluation (H4) – PS3

Week 7. Stationary vector autoregressions (H10, H11)
  • VAR model specification, stationarity, mean and autocovariance function
  • Estimation and testing of unrestricted VARs
  • Asymptotic properties of stationary VARs
  • Granger causality

Week 8. Midterm week
  • Review of material covered during first half
  • Midterm exam (March 15, 2018)

Week 9. Stationary vector autoregressions, continued (H11)
  • Estimation and testing of restricted VARs
  • Impulse response functions and variance decomposition
  • Structural VAR models and identification

Week 10. State space models and the Kalman filter (H13) – PS4
  • State-space representation of dynamic processes
  • Derivation of the filter: filtered and smoothed state variables
  • Some applications of the Kalman filter:
    i. Forecasting
    ii. Evaluating the likelihood function of general ARMA(p,q) processes
    iii. Estimating time varying parameter (TVP) models

Week 11. Other non-linear time series models (H22)
  • Threshold autoregressive models and smooth transition models
  • Regime switching models
  • Structural break models

Week 12. Models of non-stationary time series – part I (H15, H16, H17)
  • Processes with deterministic time trends
  • Brownian motions and the functional central limit theorem
  • Unit root processes and tests

Week 13. Bayesian methods for empirical macroeconomic and finance
  • Bayesian VARs
  • Bayesian State Space modeling and stochastic volatility
    i. Homoskedastic TVP-VAR
Heteroskedastic TVP-VAR

Week 14. Final project due (TBD)

Disabilities
If you are a student with a documented disability on record at Brandeis University and wish to have a reasonable accommodation made for you in this class, please see me immediately.

Academic Integrity
You are expected to be familiar with and to follow the University’s policies on academic integrity (see http://www.brandeis.edu/studentlife/sdc/ai/). Instances of alleged dishonesty will be forwarded to the Office of Campus Life for possible referral to the Student Judicial System. Potential sanctions include failure in the course and suspension from the University.

Additional Reading
Almost all the material for the class comes from Hamilton's book. The references contained in Hamilton's book are quite comprehensive if you ever need to go deeper into a topic. The references below might be helpful if you have difficulty understanding the material.

Introduction to time series data
- Davidson, Russell and James G. Mackinnon (1993), Estimation and Inference in Econometrics. New York: Oxford University Press. (Chapter 4) [Davidson and Mackinnon]

Stationary ARMA processes

Estimation and forecasting
- Amemiya, Chapter 4.

Asymptotic theory

Unit roots


**Covariance stationary vector autoregressions**


**Cointegration**


**State space modeling and the Kalman filter**
