Errors in the Fourth Edition March 4, 2015

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Questions 6a and 6b should read:

$y_t = 1 + 0.7y_{t-1} - 0.1y_{t-2} + \varepsilon_t$ (second subscript $_{t-1}$ should be $_{t-2}$)
$y_t = 1 - 0.3y_{t-1} + 0.1y_{t-2} + \varepsilon_t$ (second subscript $_{t-1}$ should be $_{t-2}$)

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There is a typo in the 3rd paragraph. The text should read:

In order to get another perspective on the stability condition, use lag operators to rewrite the VAR model of (5.20) and (5.21) as

$$y_t = a_{10} + a_{11}Ly_t + a_{12}Lz_t + e_{1t}$$
$$z_t = a_{20} + a_{21}Ly_t + a_{22}Lz_t + e_{2t}$$

or

$$(1 - a_{11}L)y_t = a_{10} + a_{12}Lz_t + e_{1t}$$

THIS SHOULD BE Ly_t $(1 - a_{22}L)z_t = a_{20} + a_{21}Ly_t + e_{2t}$

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There are some technical conditions that are required for weak exogeneity. In a personal correspondence, Neil Ericsson informed me that $c_{21} = 0$ is not necessary for exogeneity. He writes:

> Actually, c_{21} can take on any acceptable value for a covariance because $E(v_t^*\Delta z_t) = E(v_t^*e_{2t}) = 0$, by construction. Factorizing the joint distribution of Δy_t and Δz_t (in equations (6.63) and (6.64) into the conditional-marginal factorization given by equation (6.66) and (6.64) ensures that orthogonality. So, weak exogeneity doesn't require the condition that $c_{21} = 0$.
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> That said, there are other conditions that are needed for weak exogeneity: (a) the conditional-marginal factorization operates a sequential cut between the parameter space of the conditional distribution and the parameter space of the marginal distribution, and (b) the parameters of interest are those in the cointegrating vector. While these might be regarded as purely "technical" conditions, there are some commonplace situations where they are violated. There's some discussion of this in my 1992 paper in the Journal of Policy Modeling, reprinted in the introduction to John Irons's and my 1994 OUP edited volume "Testing Exogeneity".
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> Ericsson, N. R. (1992) "Cointegration, Exogeneity, and Policy Analysis: An Overview", Journal of Policy Modeling, 14, 3, 251-280.
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> Ericsson, N. R., and J. S. Irons (eds.) (1994) Testing Exogeneity, Oxford University Press, Oxford.