Box-Jenkins approach

Slide 39:

Parsimony of the model:

$k \downarrow$, $df: (n-k) \uparrow$, $Var(b_j) \downarrow$ and vice versa.

Example 1 continued

Ad g) **PDF, pp. 8-10.**

$u_t \sim N(0, \sigma_u^2)$

"sigma" is $\hat{\sigma}_u$

Impulse response (IR) function:

We apply a one-time unit increase (shock) to the disturbance term u_t and observe the effects over time on y_t.