

# Midterm

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## 1 Part 1

1. We know, that the first autocorrelation coefficient  $\phi_1$  is close to one and so we can write that  $y_t = \phi_0 + \phi_1 y_{t-1} + \epsilon_t$ . Due to the fact, that  $\phi_1$  is close to one we can decide, that there is a unit root. So, Canadian inflation rate has a stochastic trend. One of more formal approach to test for the unit root is Augmented DickeyFuller test.
- 2.