Time series analysis

EDS 222

Tamma Carleton
Fall 2021

Announcements/check-in

- Midterm graded (pass out at the end of class)

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- Final projects: due in 3.5 weeks!
    - Presentations: 11/2 9:30-10:45am (Bren Hall 1414); 11/7 8-10:30am (Bren Hall 14**2**4)

Today

Midterm results

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Pop "quiz" (not really) on hypothesis testing and OLS

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What are time series data?

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Midterm scores

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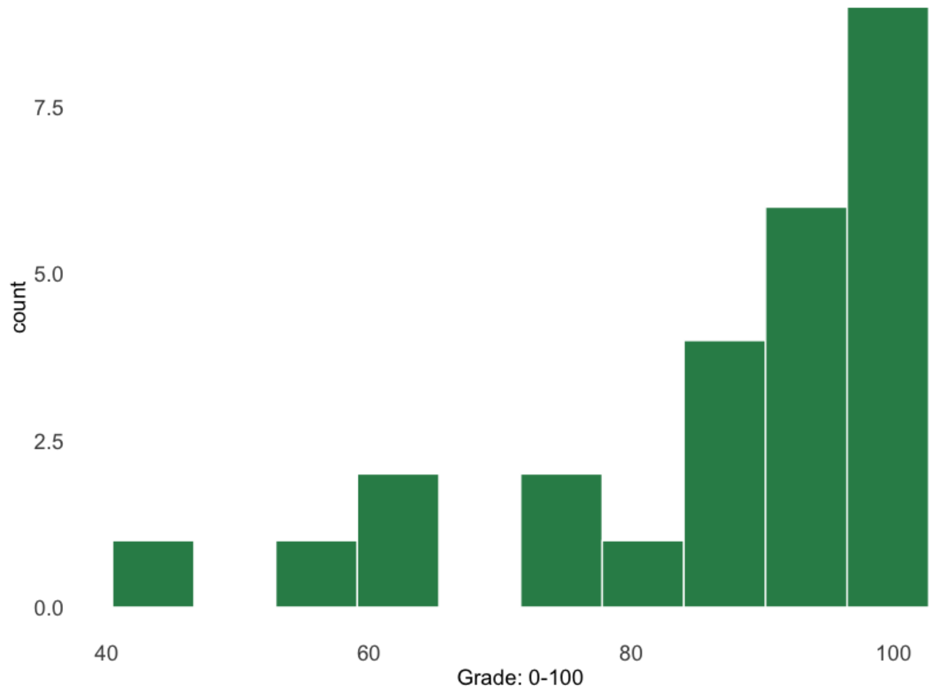

- 2 people got perfect scores! 💯
- Biggest mistakes: quantiles, OLS assumptions and properties

Hypothesis testing and OLS

Hypothesis testing in OLS

Example 1: Smoking and birth weight

```
summary(lm(weight ~ habit, data=ncbirths %>% filter(is.na(habit) == FALSE)))
#>
#> Call:
#> lm(formula = weight ~ habit, data = ncbirths %>% filter(is.na(habit) ==
#>     FALSE))
#>
#> Residuals:
#>    Min     1Q Median     3Q    Max
#> -6.144 -0.704  0.166  0.916  4.606
#>
#> Coefficients:
#>             Estimate Std. Error t value Pr(>|t|)
#> (Intercept)   7.1443     0.0509   140.5   <2e-16 ***
#> habitsmoker  -0.3155     0.1432    -2.2    0.028 *
#> ---
#> Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
#>
#> Residual standard error: 1.5 on 997 degrees of freedom
#> Multiple R-squared:  0.00485,    Adjusted R-squared:  0.00385
#> F-statistic: 4.85 on 1 and 997 DF,  p-value: 0.0278
```

Hypothesis testing in OLS

Example 2: Temperature and ozone

```
summary(lm(Ozone ~ Temp, data=airquality))
#>
#> Call:
#> lm(formula = Ozone ~ Temp, data = airquality)
#>
#> Residuals:
#>    Min     1Q Median     3Q    Max
#> -40.73 -17.41  -0.59  11.31 118.27
#>
#> Coefficients:
#>             Estimate Std. Error t value Pr(>|t|)
#> (Intercept) -146.995     18.287   -8.04  9.4e-13 ***
#> Temp           2.429      0.233   10.42  < 2e-16 ***
#> ---
#> Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
#>
#> Residual standard error: 23.7 on 114 degrees of freedom
#>   (37 observations deleted due to missingness)
#> Multiple R-squared:  0.488,    Adjusted R-squared:  0.483
#> F-statistic:  109 on 1 and 114 DF,  p-value: <2e-16
```

What are time series data?

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Up to this point, we focused on **cross-sectional data**.

- Sampled *across* a population (*e.g.*, people, counties, countries).
- Sampled at *one moment* in time (*e.g.*, Jan. 1, 2015).
- We had n *individuals*, each indexed i in $\{1, \ldots, n\}$.

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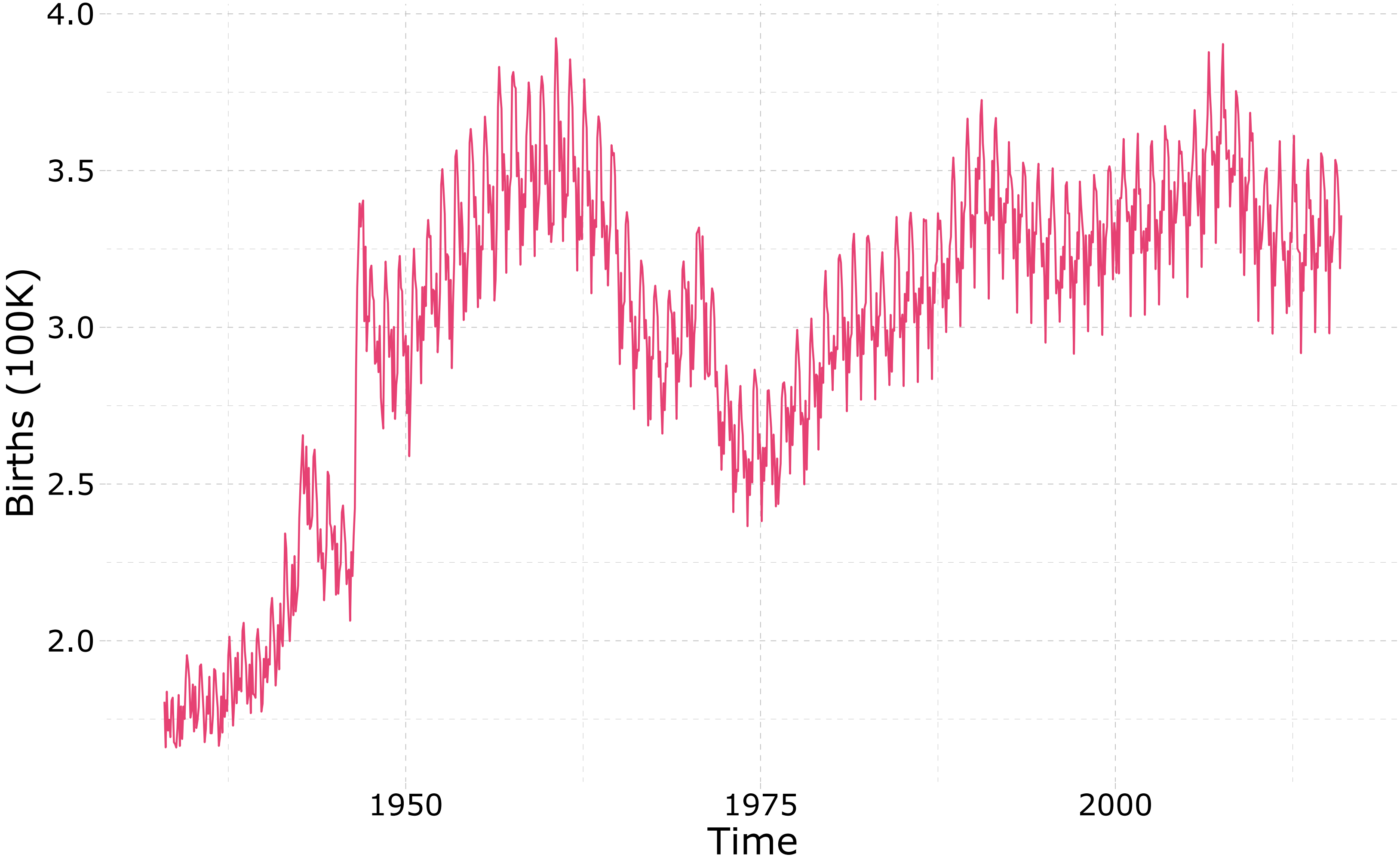
- We had n *individuals*, each indexed i in $\{1, \ldots, n\}$.

Today, we focus on a different type of data: **time-series data**.

- Sampled within one unit/individual (*e.g.*, Oregon).
- Observe multiple times for the same unit (*e.g.*, Oregon: 1990–2020).
- We have T time periods, each indexed t in $\{1, \ldots, T\}$.

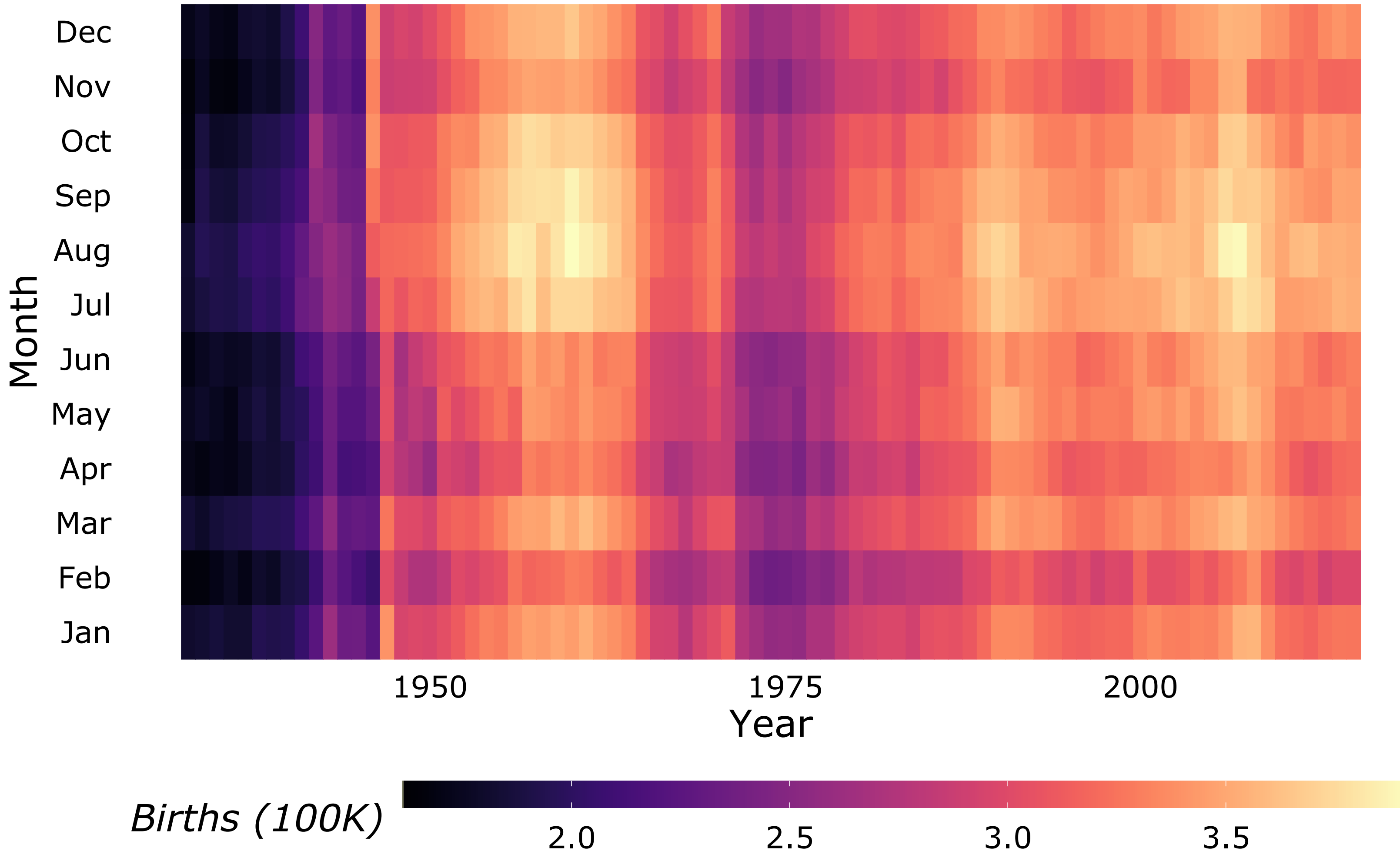
Time series data: Example

US monthly births, 1933–2015: Classic time-series graph



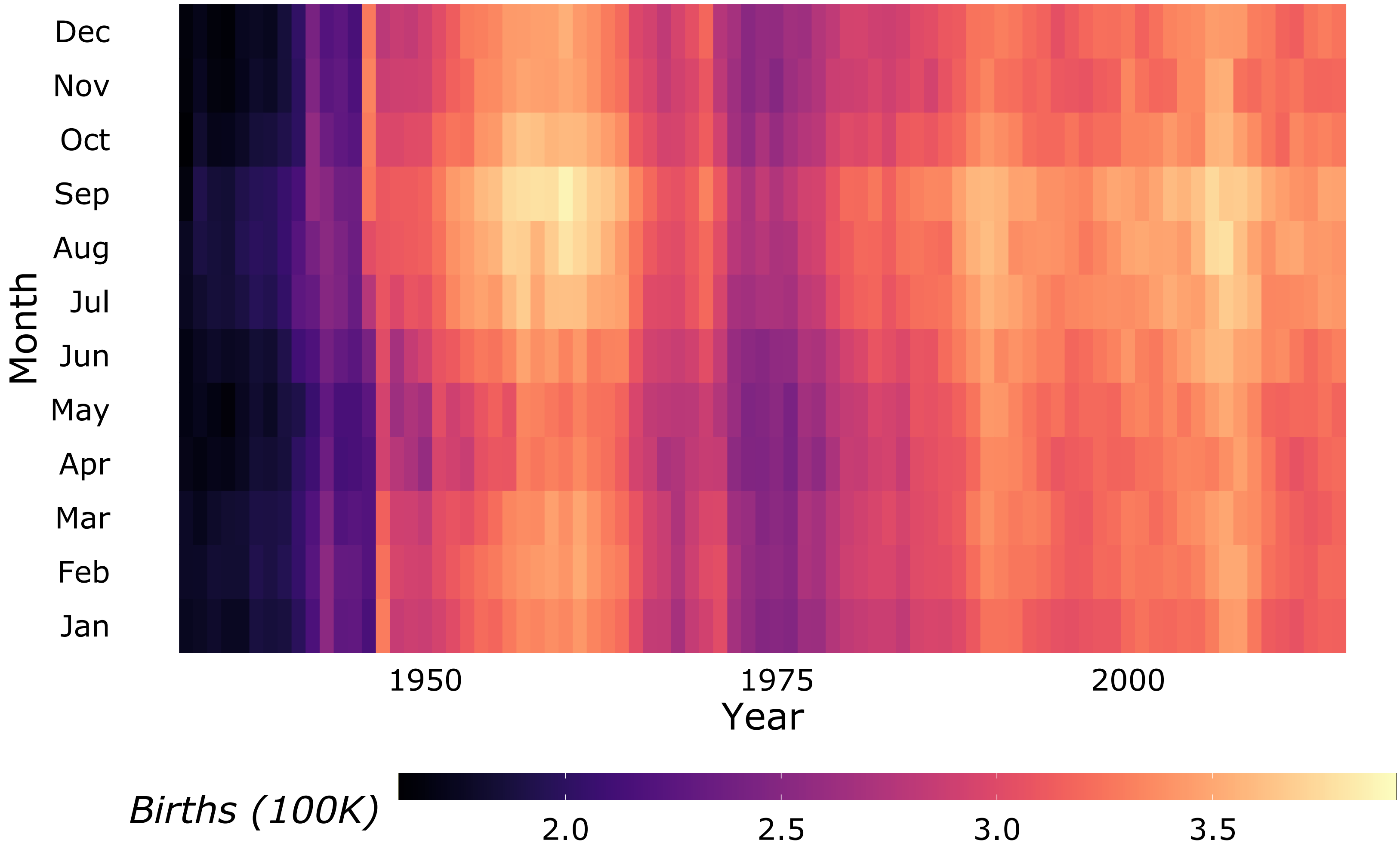
Time series data: Example

US monthly births, 1933–2015: Newfangled time-series graph



Time series data: Example

US monthly births per 30 days, 1933–2015: Newfangled time-series graph



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- Time series data open some **new questions and new challenges** for statistical analysis

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- E.g., recall:

$$Ozone_t = \beta_0 + \beta_1 Temp_t + \varepsilon_t$$

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- Description of `airquality` data:

> Daily air quality measurements in New York, May to September 1973.

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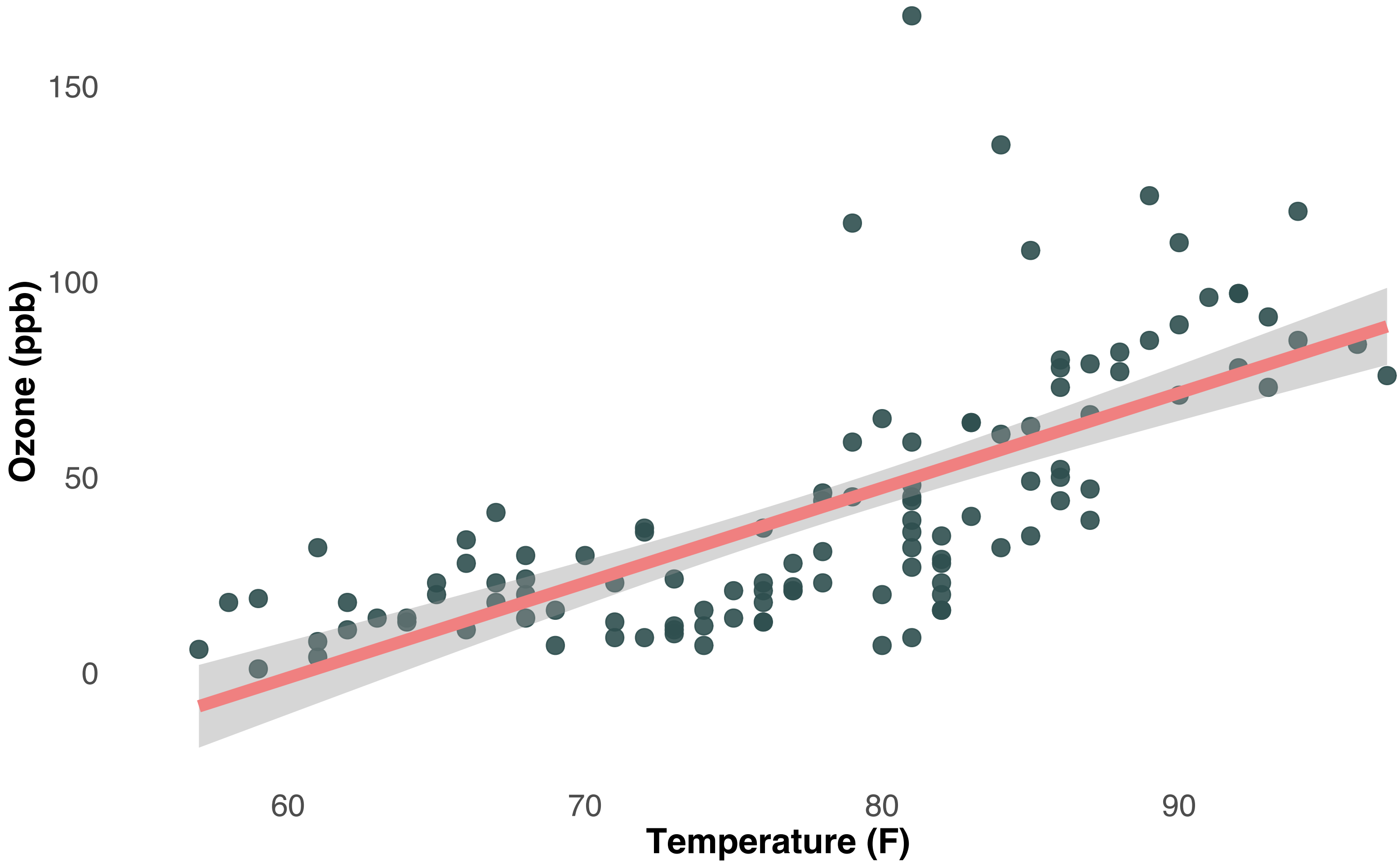
- Description of `airquality` data:

> Daily air quality measurements in New York, May to September 1973.

- These are **time series data** and we already ran an OLS regression with them!

You already have (many of) the tools

$$Ozone_t = \beta_0 + \beta_1 Temp_t + \varepsilon_t$$



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$$Ozone_t = \beta_0 + \beta_1 date_t + \varepsilon_t$$

```
airqts = airquality %>% mutate(date = make_datetime(Month,Day))
head(airqts)
#>   Ozone Solar.R Wind Temp Month Day       date
#> 1    41     190  7.4   67     5   1 0005-01-01
#> 2    36     118  8.0   72     5   2 0005-02-01
#> 3    12     149 12.6   74     5   3 0005-03-01
#> 4    18     313 11.5   62     5   4 0005-04-01
#> 5    NA      NA 14.3   56     5   5 0005-05-01
#> 6    28      NA 14.9   66     5   6 0005-06-01
```

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```

- Regression of *Ozone* on *date* estimates a **linear trend** in ozone
- Tip: `make_datetime()` from the `lubridate` package (handy for dates and times)

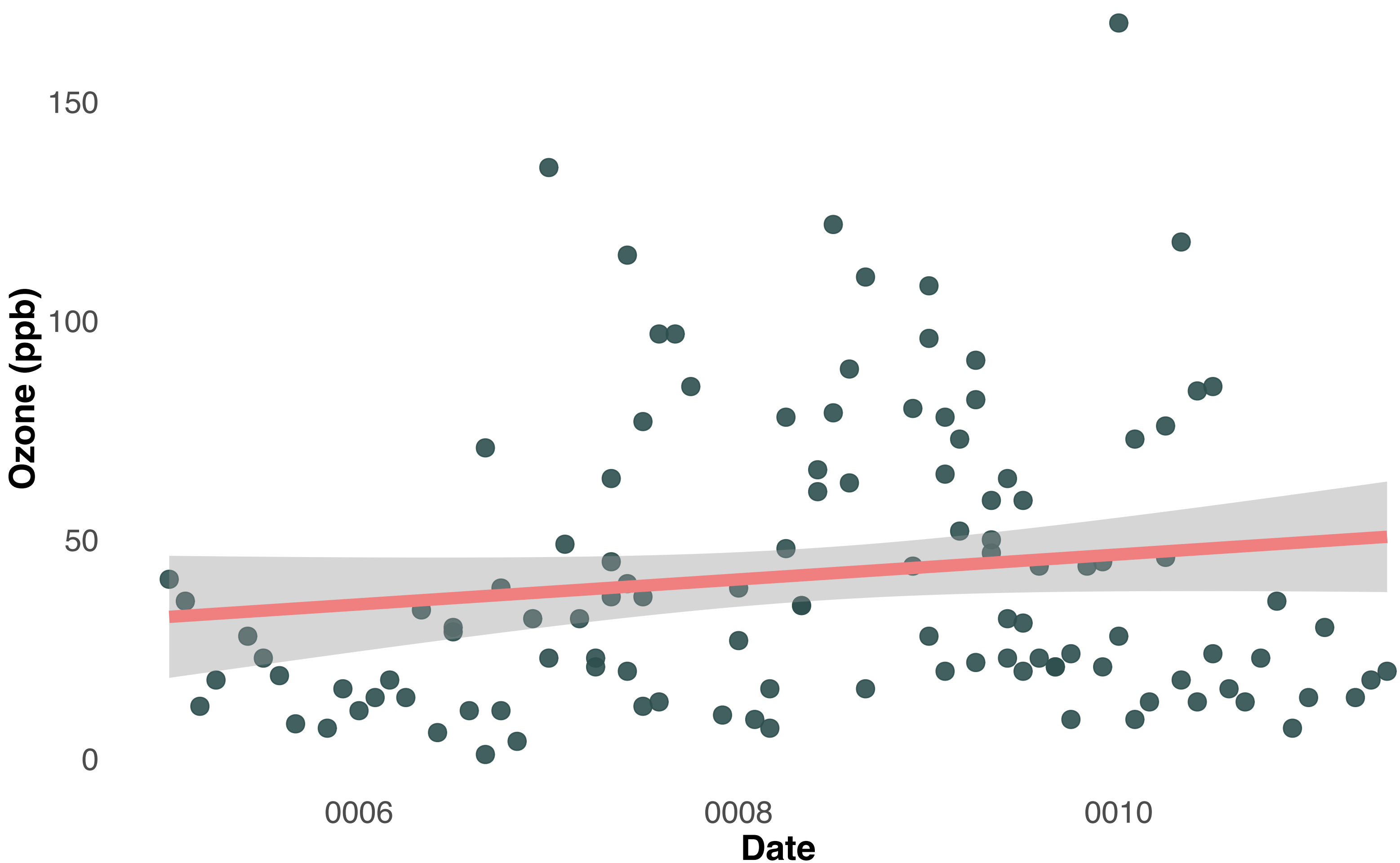
You already have (many of) the tools

$$Ozone_t = \beta_0 + \beta_1 date_t + \varepsilon_t$$

```
summary(lm(Ozone ~ date, data = airqts))
#>
#> Call:
#> lm(formula = Ozone ~ date, data = airqts)
#>
#> Residuals:
#>    Min     1Q Median     3Q    Max
#>  -42.3  -24.9   -7.3   19.3  121.3
#>
#> Coefficients:
#>             Estimate Std. Error t value Pr(>|t|)
#> (Intercept) 5.63e+03   3.65e+03    1.54     0.13
#> date        9.03e-08   5.90e-08    1.53     0.13
#>
#> Residual standard error: 32.8 on 114 degrees of freedom
#>   (37 observations deleted due to missingness)
#> Multiple R-squared:  0.0202,    Adjusted R-squared:  0.0116
#> F-statistic: 2.34 on 1 and 114 DF,  p-value: 0.128
```

You already have (many of) the tools

$$Ozone_t = \beta_0 + \beta_1 date_t + \varepsilon_t$$



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- But there are some new **features** we want to explore:
  - Does my data have exhibit **trending behavior**?
  - Is there **seasonality**?
  - Is my data **cyclical**?

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- Many of the summary statistics, regression, and hypothesis testing tools apply to time series data without much adjustment
- But there are some new **features** we want to explore:
  - Does my data have exhibit **trending behavior**?
  - Is there **seasonality**?
  - Is my data **cyclical**?
- And some new **challenges** to overcome:
  - Additional **assumptions** needed in OLS
  - Threat to existing assumptions: Are our error terms **independent**? Is **exogeneity** harder now?

Decomposition

Time series components

Seasonality

A repeated pattern over known and equal periods (e.g., month; quarter, decade)

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A broader cyclical trend with unknown and/or unequal periods (e.g., business cycle, ENSO)

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A repeated pattern over known and equal periods (e.g., month; quarter, decade)

Cyclicality

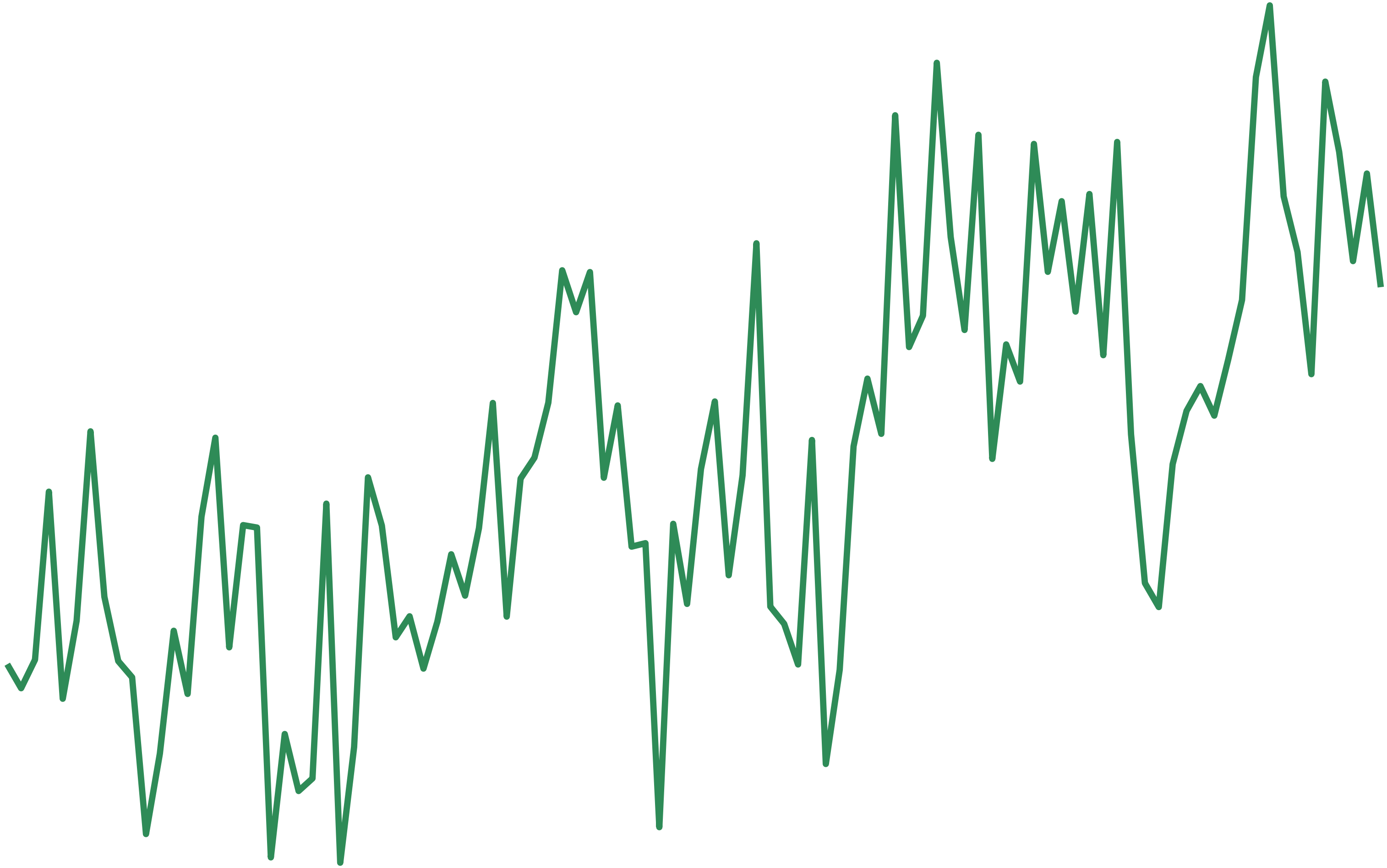
A broader cyclical trend with unknown and/or unequal periods (e.g., business cycle, ENSO)

Trends

Long-term increase or decrease in the data (not necessarily linear!)

Time series components

Often, seasonality, cyclicality and trends occur all at the same time:



Time series components

For many time series,* we can decompose the data into:

$$y_t = S_t + T_t + R_t$$

where S_t is a **seasonal** component, T_t is the cycle *and* trend components, and R_t is the remainder.

Time series components

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$$y_t = S_t + T_t + R_t$$

where S_t is a **seasonal** component, T_t is the cycle *and* trend components, and R_t is the remainder.

Decomposition allows us to isolate each component of the time series visually and quantitatively.

[*]: This decomposition is "additive", which works for many time series. See Hyndman for details on more complex "multiplicative" decomposition.

Decomposition: Moving averages

A key tool in "decomposing" a time series into its component parts is computing a **moving average**

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A moving average of order *m* is computed as:

$$\hat{T}_t = \frac{1}{m} \sum_{j=-k}^{k} y_{t+j}$$

where $m = 2k + 1$.

Decomposition: Moving averages

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where $m = 2k + 1$.

The moving average gives you an estimate of the irregular trend-cycle component T at time *t* by averaging values of the time series within *k* periods of *t*

Moving average example

Computing an $m = 5$ moving average over the data plotted on the last slide:

```
df = as.data.frame(cbind(x, y)) # these are the data we plotted above
df = df %>% mutate(ma = slider::slide_dbl(y, mean,
                  .before = 2, .after = 2, .complete = TRUE))
```

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```
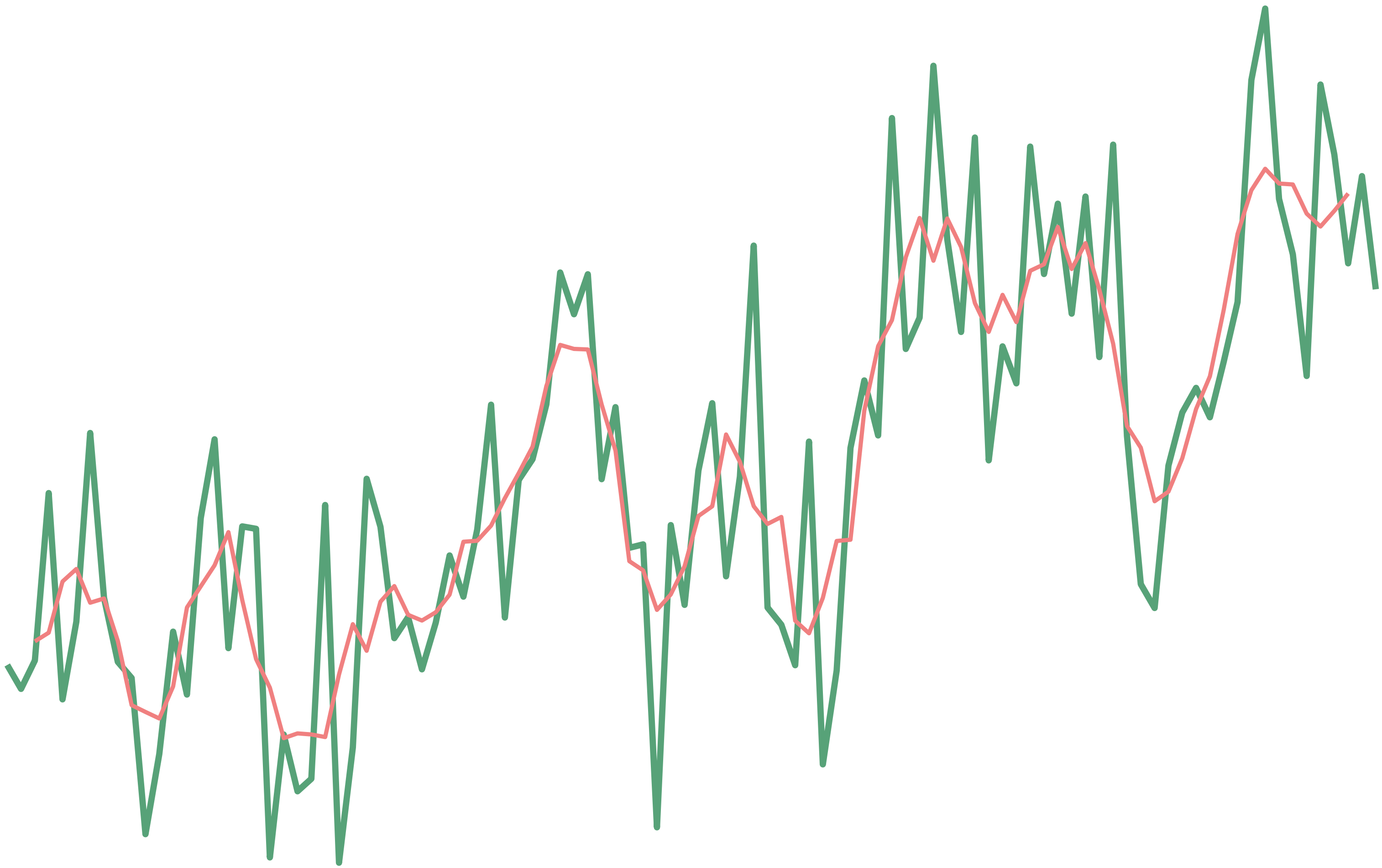

- Helpful package: `slider` (there are others too!)

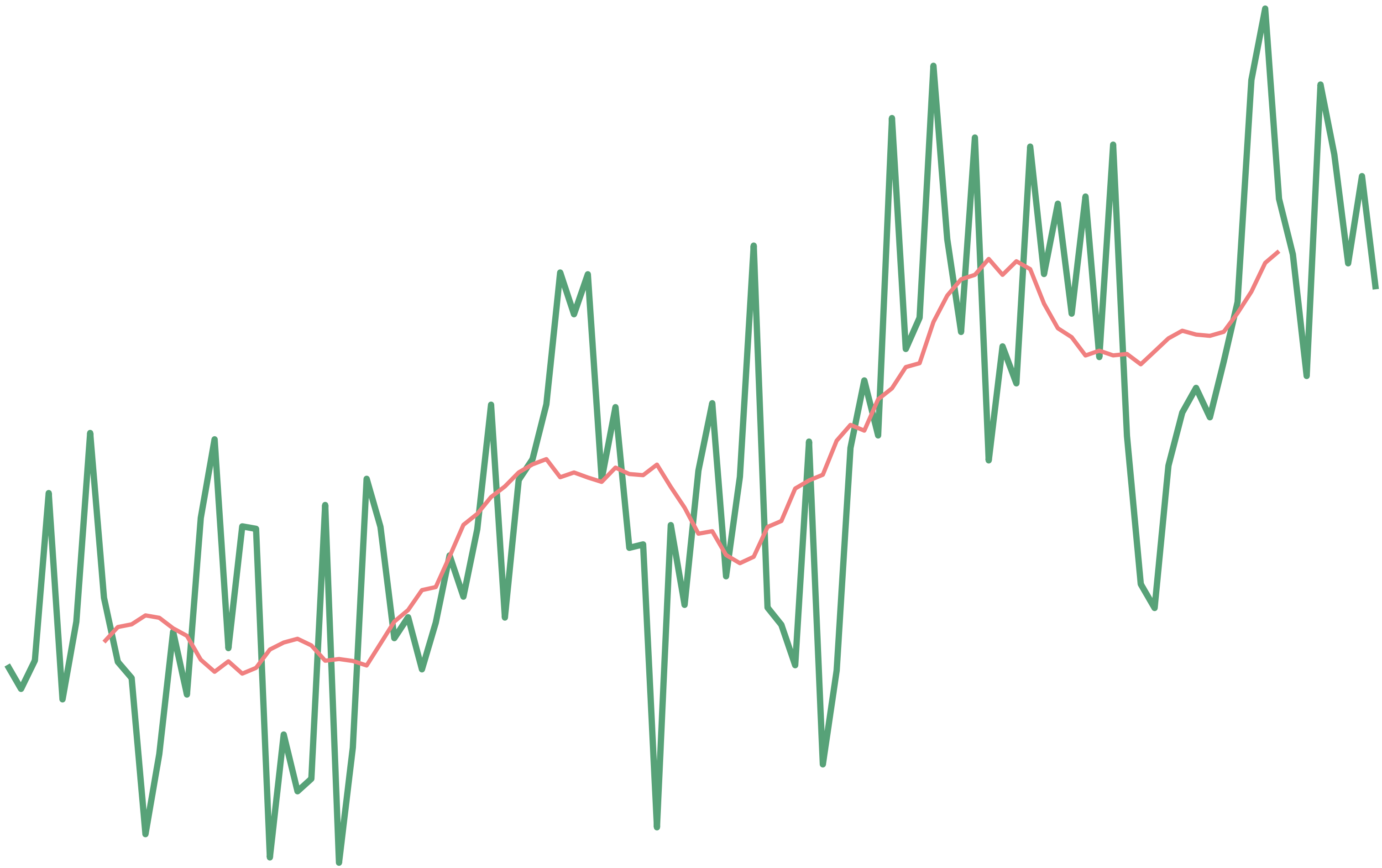
Moving average example

Computing an $m = 5$ moving average:



Moving average example

Computing an $m = \mathbf{15}$ moving average:



Classical decomposition

Step 1: estimate a moving average

Estimate an m-moving average to compute $\hat{T}_t$

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De-trended series $= y_t - \hat{T}_t$

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Simple average over de-trended series for each season s

Classical decomposition

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De-trended series $= y_t - \hat{T}_t$

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Simple average over de-trended series for each season s

Step 4: remainder

Whatever is left over

Classical decomposition

Consider a time series of monthly totals of accidental deaths in the USA:

```
df = USAccDeaths
```

Classical decomposition

Let's decompose the accidental deaths time series.

You can do this by hand, or...

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You can do this by hand, or...

```
decomp = as_tsibble(USAccDeaths) %>%
  model(
    classical_decomposition(value, type = "additive")
  ) %>%
  components()
head(decomp)
#> # A dable: 6 x 7 [1M]
#> # Key:     .model [1]
#> # :        value = trend + seasonal + random
#>   .model                          index value trend seasonal random season_adj
#>   <chr>                           <mth> <dbl> <dbl>    <dbl>  <dbl>       <d
#> 1 "classical_decomposition(v… 1973 Jan  9007    NA    -806.     NA        98
#> 2 "classical_decomposition(v… 1973 Feb  8106    NA   -1523.     NA        96
#> 3 "classical_decomposition(v… 1973 Mar  8928    NA    -741.     NA        96
#> 4 "classical_decomposition(v… 1973 Apr  9137    NA    -515.     NA        96
#> 5 "classical_decomposition(v… 1973 May 10017    NA     340.     NA        96
#> 6 "classical_decomposition(v… 1973 Jun 10826    NA     745.     NA       100
```

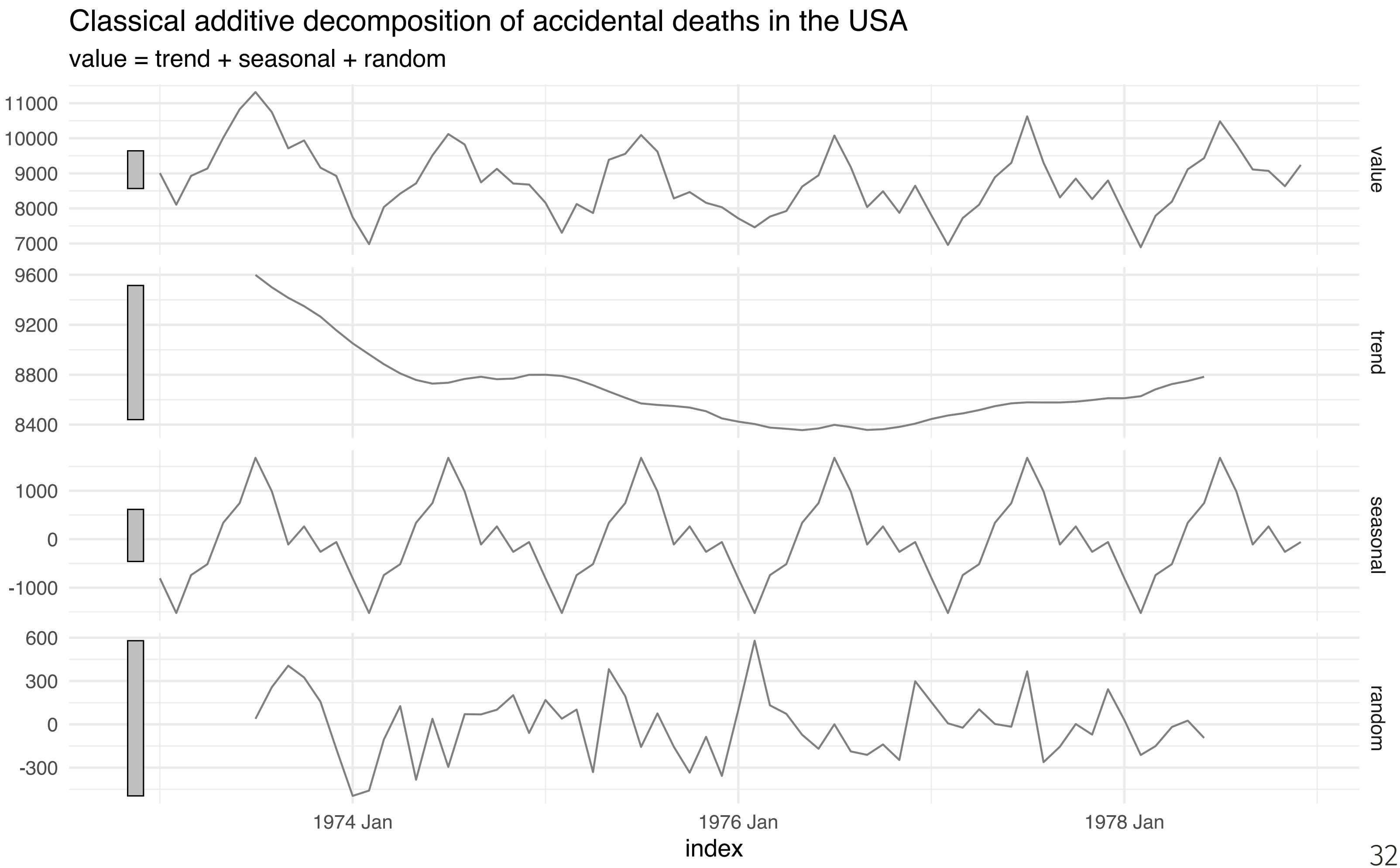
Classical decomposition

You can do this by hand, or...

```
as_tsibble(USAccDeaths) %>%
  model(
    classical_decomposition(value, type = "additive")
  ) %>%
  components() %>%
  autoplot() +
  labs(title = "Classical additive decomposition of accidental deaths in the USA
```

Classical decomposition

You can do this by hand, or...



Decomposition

- As outlined in Hyndman & Athanasopoulos, **classical decomposition has some drawbacks**:
    - Assumes the seasonal component is fixed over time
    - Loses data at the start and end (due to moving average)
    - Can be sensitive to outliers/short-run anomalous behavior

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- As outlined in Hyndman & Athanasopoulos, **classical decomposition has some drawbacks**:
  - Assumes the seasonal component is fixed over time
  - Loses data at the start and end (due to moving average)
  - Can be sensitive to outliers/short-run anomalous behavior
- **Seasonal and Trend Decomposition using Loess** (STL)
  - Flexible and versatile method
  - Seasonal compoenent can change over time
  - Robust to outliers
  - use `STL()` in place of `classical_decomposition()`

Decomposition

Why decompose a time series?

1. To **better understand** your data
    - Do summers tend to have higher crime?
    - Is there an positive trend in ocean temperatures?
    - Does deforestation follow business cycles?

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1. To **better understand** your data
   - Do summers tend to have higher crime?
   - Is there an positive trend in ocean temperatures?
   - Does deforestation follow business cycles?
2. To aid in **forecasting**
   - You can forecast using estimated seasonality and trend-cycles
   - Details are not covered in this class, see Hyndman & Athanasopoulos for an overview and implementation in `R`

Autocorrelation

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Many time series data are **autocorrelated**, meaning past values are correlated with future values (note: also called **serial correlation**)

That is, y_t may be correlated with y_{t-1}, y_{t-2}, y_{t-12}, etc.

This matters both for interpreting OLS output (in a few slides), and for understanding our data (helpful for identifying any seasonality).

Autocorrelation

For example:

- Today's temperature is **positively** correlated with yesterday's temperature: $cor(y_t, y_{t-1}) > 0$

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- Today's temperature is **positively** correlated with yesterday's temperature: $cor(y_t, y_{t-1}) > 0$
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Autocorrelation

For example:

- Today's temperature is **positively** correlated with yesterday's temperature: $cor(y_t, y_{t-1}) > 0$
- Today's temperature is **negatively** correlated with temperatures 6 months ago: $cor(y_t, y_{t-182}) < 0$
- Today's temperature may have **no correlation** with temperatures 7 days ago: $cor(y_t, y_{t-7}) = 0$

Autocorrelation

We can describe autocorrelation using an **autocorrelation function** or ACF.

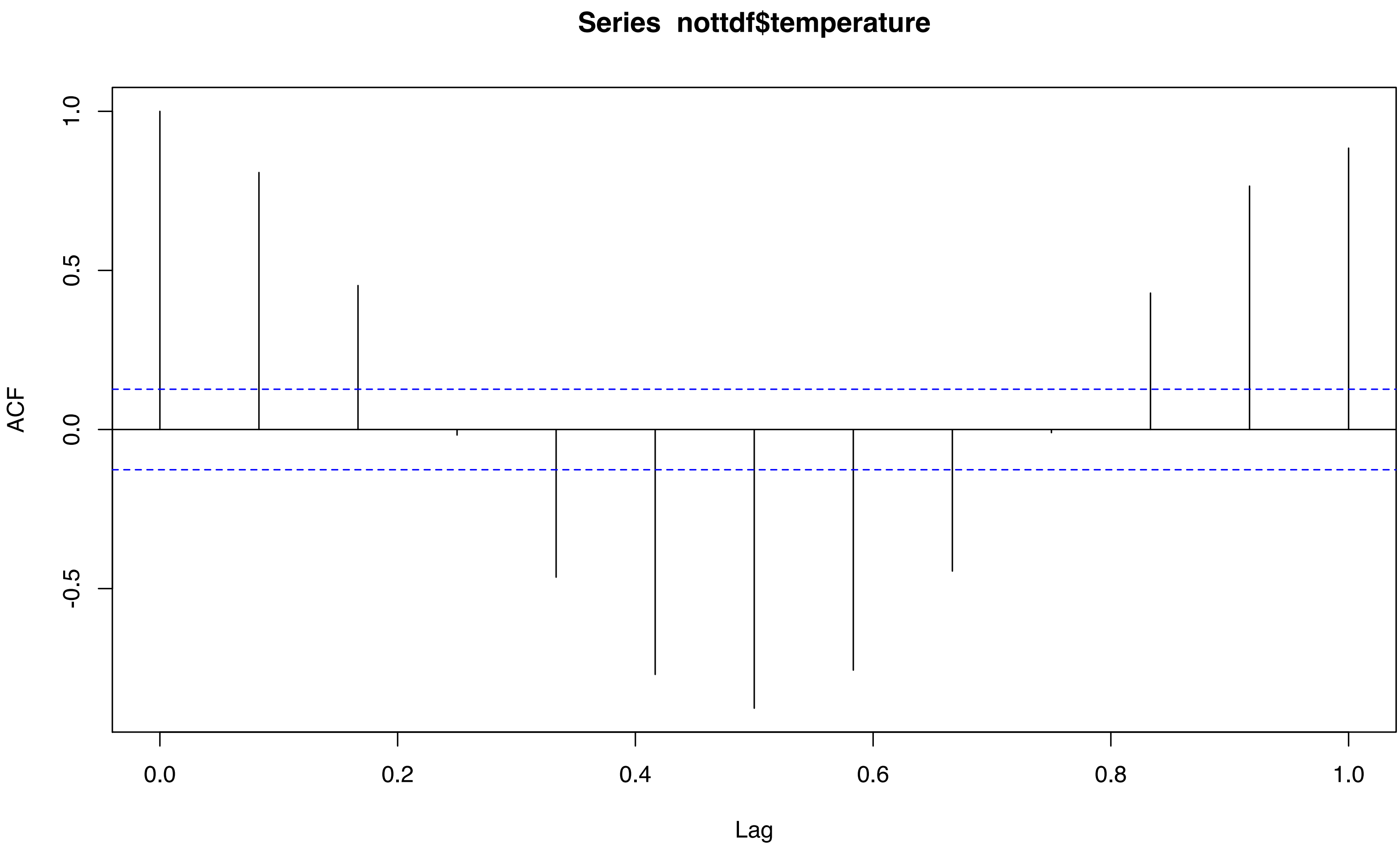
Autocorrelation

We can describe autocorrelation using an **autocorrelation function** or ACF.

Consider a **monthly** temperature time series for Nottingham Castle

Autocorrelation Function (ACF)

```
acf(nottdf$temperature, lag.max=12)
```



Autocorrelation Function (ACF)

> `acf()` plots an ACF for you!

- The height of each line indicates the correlation between temperature today and temperature l days ago
- Confidence intervals are shown in blue by default -- indicate if $cor(y_t, y_{t-l})$ is statistically distinguishable from zero (or not)
- Helps to identify periodicity of seasonality

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- Helps to identify periodicity of seasonality

> Definition: **white noise** is a random time series in which there is no correlation across time periods (rare in the real world!). Here, the ACF would look noisy and correlations would largely fall within the blue confidence interval.

Time series and OLS

Intro to time series and OLS

Our model now looks something like

$$\mathbf{Births}_t = \beta_0 + \beta_1 \mathbf{Income}_t + u_t$$

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$$\text{Births}_t = \beta_0 + \beta_1 \text{Income}_t + u_t$$

or perhaps

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maybe even

$$\text{Births}_t = \beta_0 + \beta_1 \text{Income}_t + \beta_3 \text{Income}_{t-1} + \beta_4 \text{Births}_{t-1} + u_t$$

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maybe even

$$\text{Births}_t = \beta_0 + \beta_1 \text{Income}_t + \beta_3 \text{Income}_{t-1} + \beta_4 \text{Births}_{t-1} + u_t$$

where $t - 1$ denotes the time period prior to t (*lagged* income or births).

Time-series models

Assumptions

1. **New: Weakly persistent outcomes**—essentially, x_{t+k} in the distant period $t+k$ is weakly correlated with period x_t (when k is "big").

2. y_t is a **linear function** of its parameters and disturbance.

3. There is **some variation** in our explanatory variables

4. **Harder to satisfy:** The u_t have conditional mean of zero (**exogeneity**), $\boldsymbol{E}[u_t|X] = 0$.

5. **Harder to satisfy:** The u_t are **normally distributed** and **homoskedastic** with **zero correlation** between u_t and u_s, *i.e.*, $u_t \overset{\text{iid}}{\sim} N\left(0,\, \sigma^2\right)$, $\text{Var}(u_t|X) = \text{Var}(u_t) = \sigma^2$, and $\text{Cor}(u_t,\, u_s|X) = 0$.

Time-series models

Model options

Time-series modeling boils down to two classes of models.

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    - Models with **lagged explanatory** variables
    - **Autoregressive, distributed-lag** (ADL) models

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Can be a very restrictive way to consider time-series data.

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Option 2: Dynamic models

Dynamic models allow the outcome to depend upon other periods.

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Option 2a: Dynamic models with lagged explanatory variables

These models allow the outcome to depend upon the explanatory variable(s) in other periods.

$$\begin{aligned} \text{Births}_t =& \beta_0 + \beta_1 \text{Income}_t + \beta_2 \text{Income}_{t-1} + \\ & \beta_3 \text{Income}_{t-2} + \beta_4 \text{Income}_{t-3} + u_t \end{aligned}$$

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Note: We still assume current births don't affect future births.

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Option 2b: Autoregressive distributed-lag (ADL) models

These models allow the outcome to depend upon the explanatory variable(s) and/or the outcome variable in prior periods.

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Here, current income affects affects **current** births and **future** births.

In addition, current births affect future births—we're allowing lags of the outcome variable.

Autoregressive distributed-lag models

Numbers of lags

ADL models are often specified as $\mathbf{ADL}(p, q)$, where

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$$\begin{aligned} \text{Births}_t = &\beta_0 + \beta_1 \text{Income}_t + \beta_2 \text{Income}_{t-1} + \beta_3 \text{Income}_{t-2} \\ &+ \beta_4 \text{Births}_{t-1} + \beta_5 \text{Births}_{t-2} + u_t \end{aligned}$$

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$$\text{Births}_{t-1} = \beta_0 + \beta_1 \text{Income}_{t-1} + \beta_2 \text{Births}_{t-2} + u_{t-1}$$

which we can substitute in for Births_{t-1} in the first equation, *i.e.*,

$$\begin{aligned}\text{Births}_t =& \beta_0 + \beta_1 \text{Income}_t + \\ & \beta_2 \underbrace{\left(\beta_0 + \beta_1 \text{Income}_{t-1} + \beta_2 \text{Births}_{t-2} + u_{t-1}\right)}_{\text{Births}_{t-1}} + u_t\end{aligned}$$

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We could then substitute in the equation for Births_{t-2}, Births_{t-3}, ...

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Eventually we arrive at

$$\begin{aligned}\text{Births}_t =&\beta_0\left(1+\beta_2+\beta_2^2+\beta_2^3+\cdots\right)+\\&\beta_1\left(\text{Income}_t+\beta_2\text{Income}_{t-1}+\beta_2^2\text{Income}_{t-2}+\cdots\right)+\\&u_t+\beta_2 u_{t-1}+\beta_2^2 u_{t-2}+\cdots\end{aligned}$$

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The point?

By including just **one lag of the dependent variable**—as in a ADL(1, 0)—we implicitly include for *many lags* of the explanatory variables and disturbances.[†]

† These lags enter into the equation in a very specific way—not the most flexible specification.

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As before, the unbiased-ness of OLS is going to depend upon our exogeneity assumption, *i.e.*, $\boldsymbol{E}[u_t|X] = \mathbf{0}$.

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I.e., to guarantee the numerator equals zero, we need $\boldsymbol{E}[u_t|X] = \mathbf{0}$—for both $\boldsymbol{E}[u_t|X_t] = 0$ *and* $\boldsymbol{E}[u_t|X_s] = 0$ $(s \neq t)$.

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Thus, **OLS is biased for dynamic models with lagged outcome variables**.

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To see why dynamic models with lagged outcome variables violate our exogeneity assumption, consider two periods of our simple ADL(1, 0) model.

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This correlation violates the second part of our exogeneity requirement.

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With contemporaneous exogeneity, OLS estimates for the coefficients in a time series model are **consistent** (whew)

Autocorrelation in the error term

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Are we worried? In a static model with lagged explanatory variables:

- OLS is **inefficient**, i.e., no longer the lowest variance unbiased estimator
- That is, your standard errors are no longer correct
- However, violating this assumption does not introduce bias (whew!)

OLS and lagged outcome variables

Consider a model with one lag of the outcome variable—ADL(1, 0)—model with AR(1) disturbances

$$\text{Births}_t = \beta_0 + \beta_1 \text{Income}_t + \beta_2 \text{Births}_{t-1} + u_t$$

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A: It violates contemporaneous exogeneity, *i.e.*, $\text{Cov}(x_t,\, u_t) \neq 0$.

Testing for serial/autocorrelation

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  - Test whether $\hat{\theta}$ is statistically distinguishable from zero in

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    - Implement in `R` with: `dwtest()`, `bgtest()`

- Autocorrelation may arise because your model is **misspecified**. Consider adding additional lags and/or explanatory variables if errors are correlated

Summary: Time series and OLS

- Our model now has t subscripts for **time periods**.
- **Dynamic models** allow **lags** of explanatory and/or outcome variables.
- We changed our **exogeneity** assumption to **contemporaneous exogeneity**, *i.e.*, $\boldsymbol{E}[u_t|X_t] = 0$
- Including **lags of outcome variables** can lead to **biased coefficient estimates** from OLS (but fortunately they are still **consistent**)
- **Lagged explanatory variables** make **OLS inefficient** (i.e., mess up our standard errors)
- **Autocorrelation in the error + lagged dependent variables** make **OLS biased**. Watch out! Test for serial/autocorrelation, check for misspecification of your model.

Slides created via the R package **xaringan**.

Some slide components were borrowed from Ed Rubin and Allison Horst.