

**Hints.**

- Estimation of VAR model: estimate a VAR model (`varm` command) for  $\Delta y_t, \pi_t, \text{Tspread}_t$ . In this case the command `forecast` produces forecast for the first difference of log-GDP (in column 1, if variables are ordered as above). To get a forecast for the log-GDP use the fact that:

$$\Delta \hat{y}_{T+1|T} = \hat{y}_{T+1|T} - y_t \leftrightarrow \hat{y}_{T+1|T} = y_t + \Delta \hat{y}_{T+1|T}$$

- Selected Root mean Squared Errors:

Random Walk	AR (4)	VAR (4)
_____	_____	_____
120.06	80.49	93.35