

Introduction to Econometrics

Summer Term 2017 - In-Class Exercise, Lecture 8

We want to be able to forecast output using data on output, inflation and interest rate. We will use data from <https://fred.stlouisfed.org/>.

(i) Download data for output (GDPC1), interest rate (TB3MS) and consumer price index (CPIAUCSL). Plot the original data. Pay attention to the frequencies of each variable.

(ii) Do plots of quarterly GDP growth, annualized inflation and interest rate. **(iii)** Regress output on (1) annualized inflation and interest rate, (2) annualized inflation, interest rate and output value of past two quarters and (3) annualized inflation, interest rate and output, inflation and interest rates of past two quarters. Compare the R^2 values of these regressions.