

## Empirical Exercise 17.2

(a) The estimated model is

$$\widehat{\Delta Y}_t = 1.55 + 0.304\Delta Y_{t-1} + 0.200\Delta Y_{t-2}$$

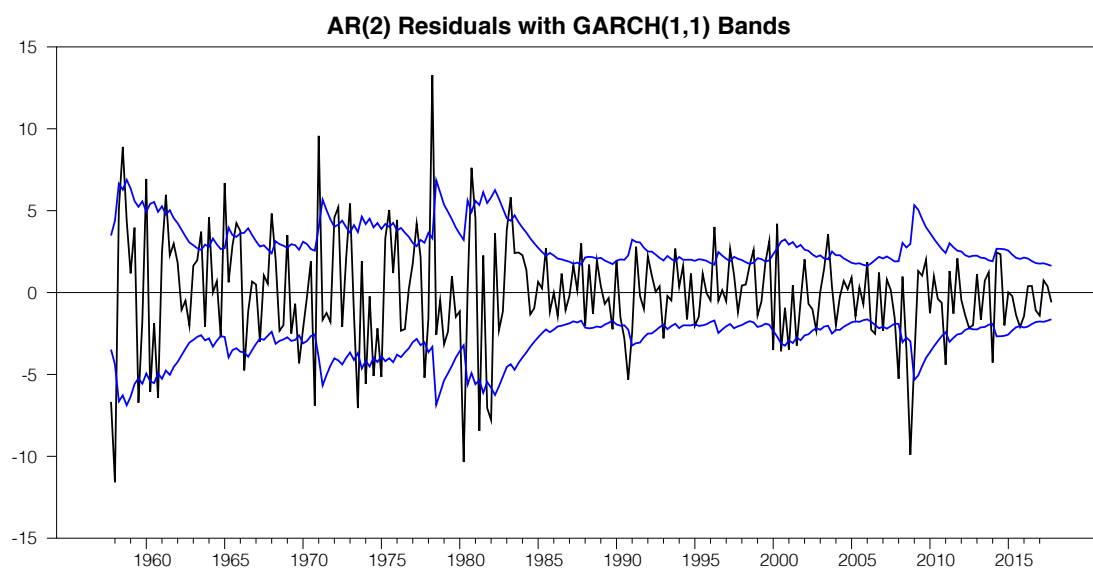
(0.33) (0.07) (0.07)

$$\widehat{\sigma}_t^2 = 0.41 + 0.22u_{t-1}^2 + 0.76\sigma_{t-1}^2$$

(0.22) (0.05) (0.05)

(Note: your estimates may differ slightly from those presented above depending on the software you used to estimate the model.)

(b)



(c) The GARCH standard deviations bands narrow considerably in the early 1980s, providing evidence of a decrease in volatility.