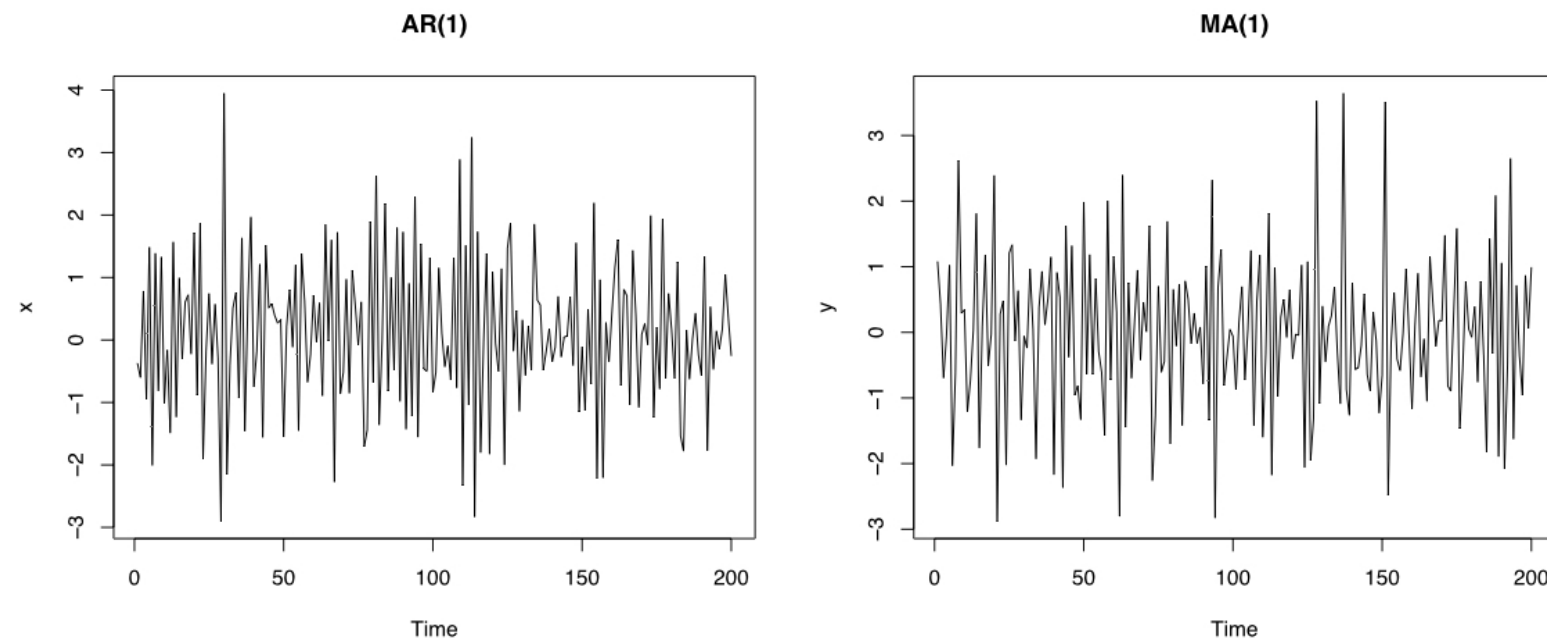# AR and MA models

ARIMA MODELS IN R

David Stoffer

Professor of Statistics at the University of Pittsburgh

AR and MA Models

```r
x <- arima.sim(list(order = c(1, 0, 0), ar = -.7), n = 200)
y <- arima.sim(list(order = c(0, 0, 1), ma = -.7), n = 200)
par(mfrow = c(1, 2))
plot(x, main = "AR(1)")
plot(y, main = "MA(1)")
```
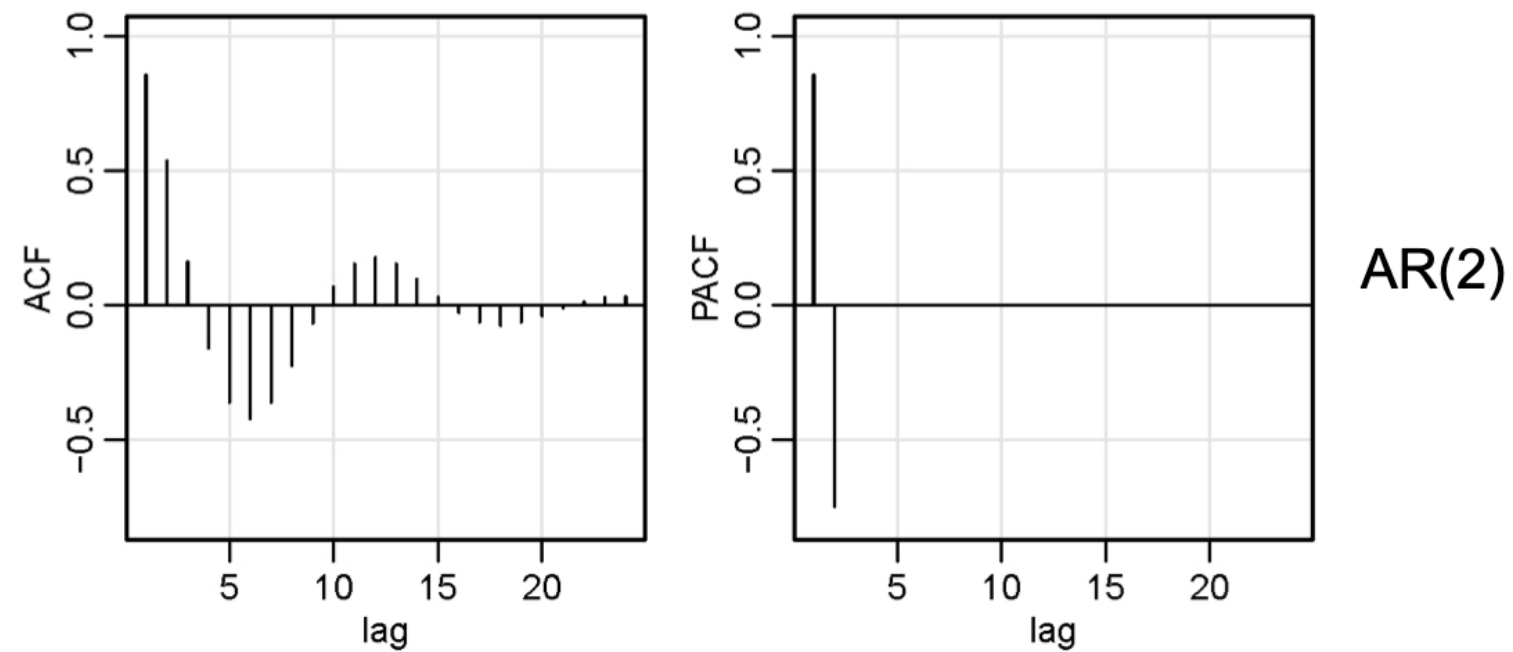
ACF and PACF

	AR(p)	MA(q)	ARMA(p, q)
ACF	Tails off	Cuts off lag q	Tails off
PACF	Cuts off lag p	Tails off	Tails off

ACF and PACF

	AR(p)	MA(q)	ARMA(p, q)
ACF	Tails off	Cuts off lag q	Tails off
PACF	Cuts off lag p	Tails off	Tails off

AR(2)

ACF and PACF

	AR(p)	MA(q)	ARMA(p, q)
ACF	Tails off	Cuts off lag q	Tails off
PACF	Cuts off lag p	Tails off	Tails off

ACF and PACF

	AR(p)	MA(q)	ARMA(p, q)
ACF	Tails off	Cuts off lag q	Tails off
PACF	Cuts off lag p	Tails off	Tails off

MA(1)

Estimation

- Estimation for time series is similar to using least squares for regression

- Estimates are obtained numerically using ideas of Gauss and Newton
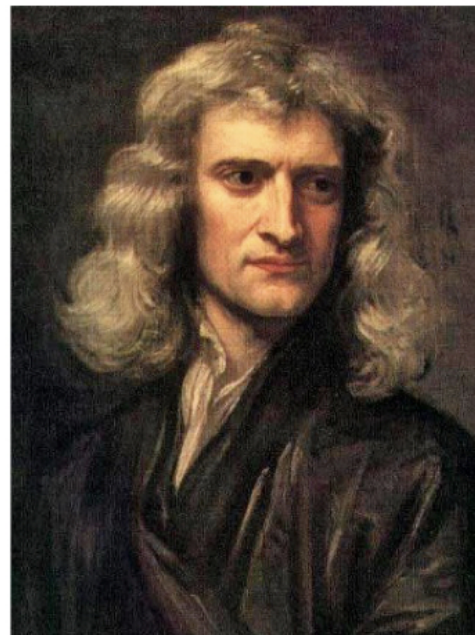
Estimation with astsa

- AR(2) with mean 50:

$$W_t = 50 + 1.5(X_{t-1} - 50) - .75(X_{t-2} - 50) + W_t$$

```
x <- arima.sim(list(order = c(2, 0, 0),
                    ar = c(1.5, -.75)),
                n = 200) + 50
x_fit <- sarima(x, p = 2, d = 0, q = 0)
x_fit$ttable
```

```
        Estimate     SE   t.value p.value
ar1       1.5429  0.0435   35.4417       0
ar2      -0.7752  0.0434  -17.8650       0
xmean    49.6984  0.3057  162.5788       0
```

Estimation with astsa

- MA(1) with mean 0:

$$X_t = W_t - .7W_{t-1}$$

```r
y <- arima.sim(list(order = c(0, 0, 1), ma = -.7), n = 200)
y_fit <- sarima(y, p = 0, d = 0, q = 1)
y_fit$ttable
```

	Estimate	SE	t.value	p.value
ma1	-0.7459	0.0513	-14.5470	0.0000
xmean	0.0324	0.0191	1.6946	0.0917

Let's practice!

ARIMA MODELS IN R

AR and MA together

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AR and MA Together: ARMA

$$X_t = \phi X_{t-1} + W_t + \theta W_{t-1}$$
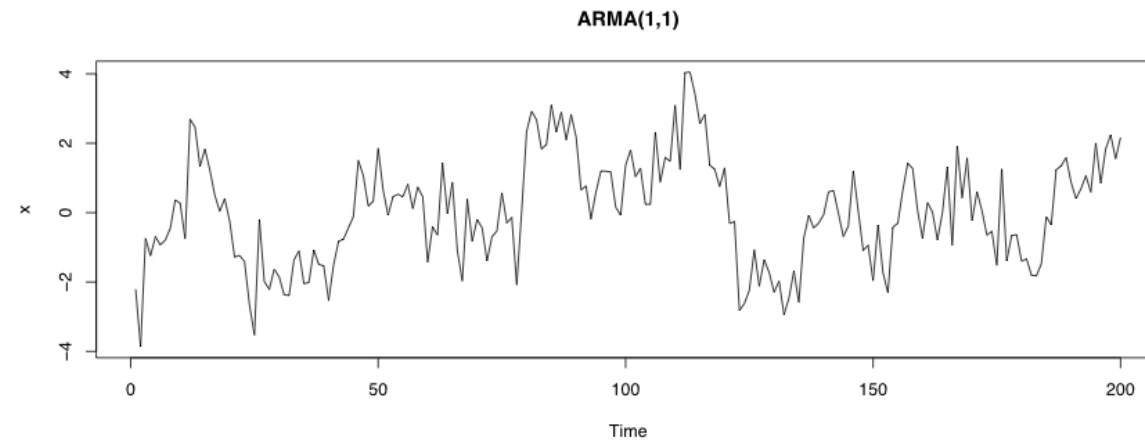
AR and MA Together: ARMA

$$X_t = \phi X_{t-1} + W_t + \theta W_{t-1}$$

auto-regression with correlated errors

AR and MA Together: ARMA

$$X_t = \phi X_{t-1} + W_t + \theta W_{t-1}$$

auto-regression with correlated errors

ARMA(1,1)

```r
x <- arima.sim(list(order = c(1, 0, 1),
                    ar = .9,
                    ma = -.4),
                    n = 200)
plot(x,  main = "ARMA(1, 1)")
```
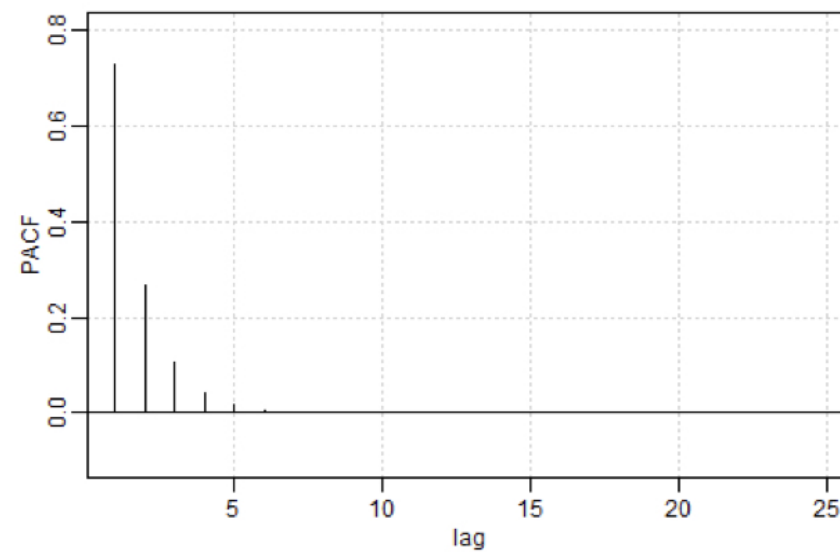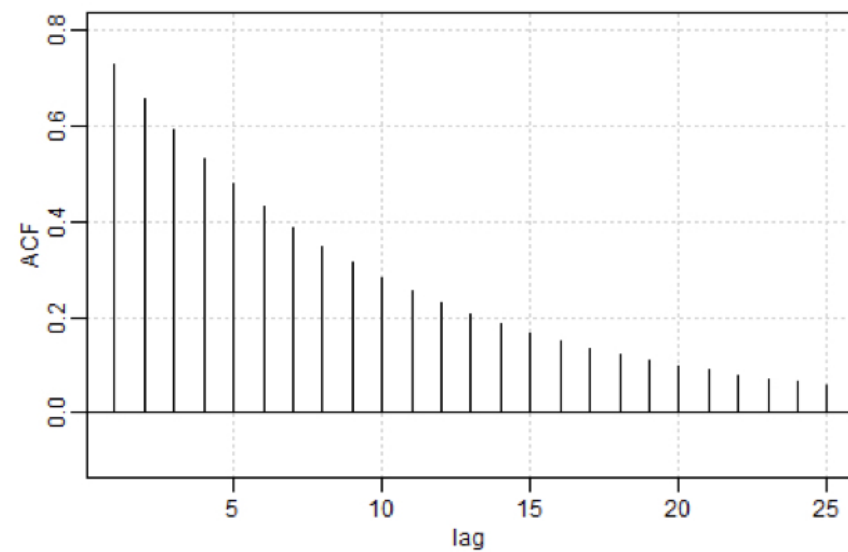
ACF and PACF of ARMA Models

	AR(p)	MA(q)	ARMA(p, q)
ACF	Tails off	Cuts off lag q	Tails off
PACF	Cuts off lag p	Tails off	Tails off

ACF and PACF of ARMA Models

	AR(p)	MA(q)	ARMA(p, q)
ACF	Tails off	Cuts off lag q	Tails off
PACF	Cuts off lag p	Tails off	Tails off

$$X_t = .9X_{t-1} + W_t - .4W_{t-1}$$

Estimation

$$X_t = .9X_{t-1} + W_t - .4W_{t-1}$$

```
x <- arima.sim(list(order = c(1, 0, 1),
                    ar = .9,
                    ma = -.4),
                n = 200)
x_fit <- sarima(x, p = 1, d = 0, q = 1)
x_fit$ttable
```

```
       Estimate      SE  t.value p.value
ar1      0.9083 0.0424  21.4036       0
ma1     -0.4458 0.0879  -5.0716       0
xmean   49.5647 0.4079 121.5026       0
```

Let's practice!

datacamp

Model choice and residual analysis

ARIMA MODELS IN R

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AIC and BIC

<div align="center">

Error   Number of Parameters

$$average(observed - predicted)^2 \quad + \quad k(p + q)$$

$\downarrow$ $\uparrow$

</div>

- AIC and BIC measure the error and penalize (differently) for adding parameters

- For example, AIC has $k = 2$ and BIC has $k = log(n)$

- Goal: find the model with the smallest AIC or BIC

Model Choice: AR(1) vs. MA(2)

```r
gnpgr <- diff(log(gnp))
sarima(gnpgr, p = 1, d = 0, q = 0)
```

$AIC	$BIC
-8.294403	-9.263748

```r
sarima(gnpgr, p = 0, d = 0, q = 2)
```

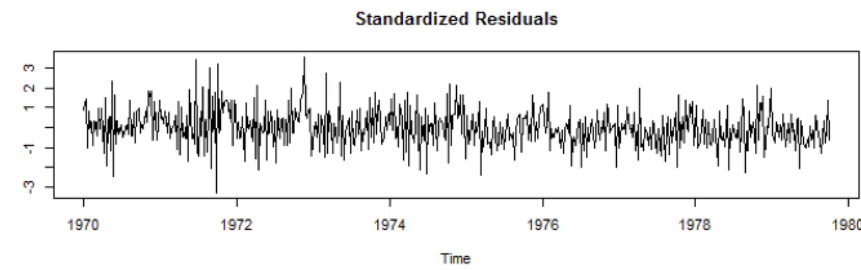| $AIC	$BIC
-8.297695	-9.251712
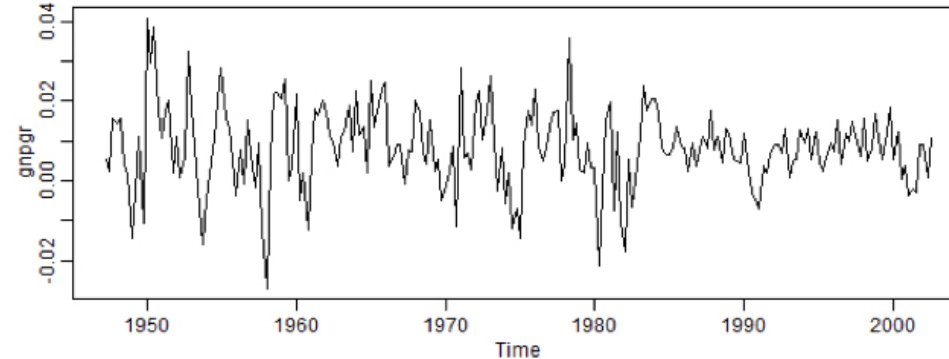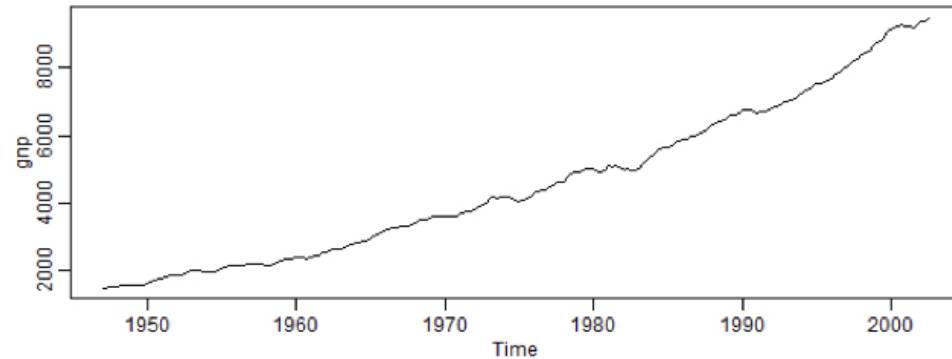
Residual Analysis

`sarima()` includes residual analysis graphic showing:

1. Standardized residuals

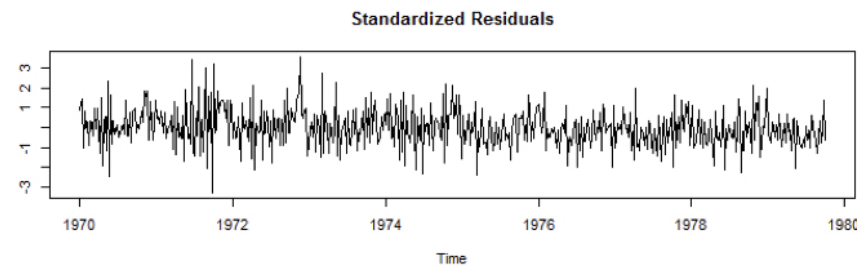2. Sample ACF of residuals

3. Normal Q-Q plot

4. Q-statistic p-values
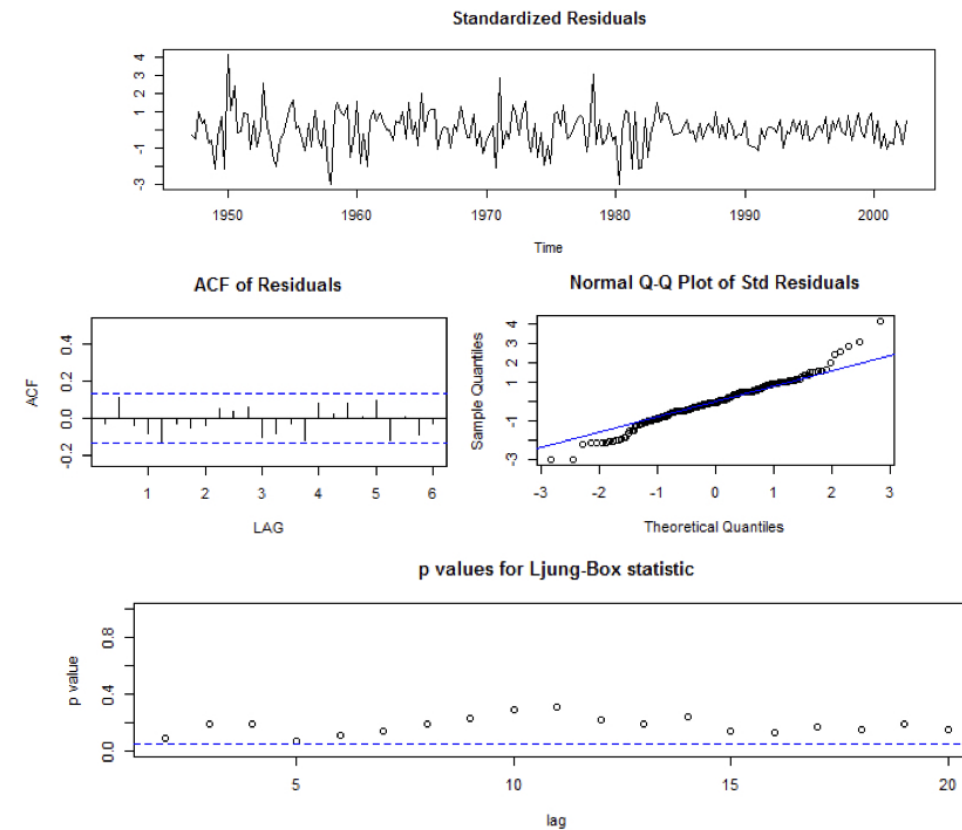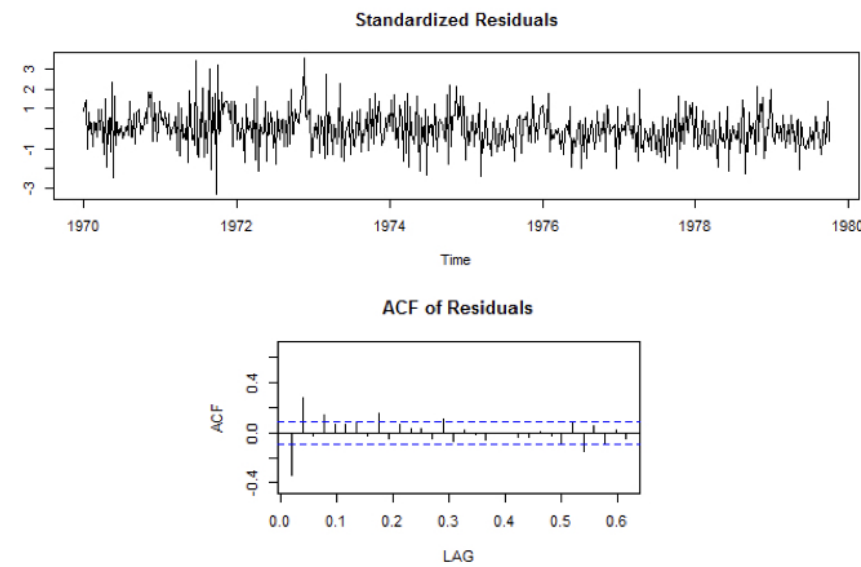
Bad Residuals

- Pattern in the residuals

Standardized Residuals
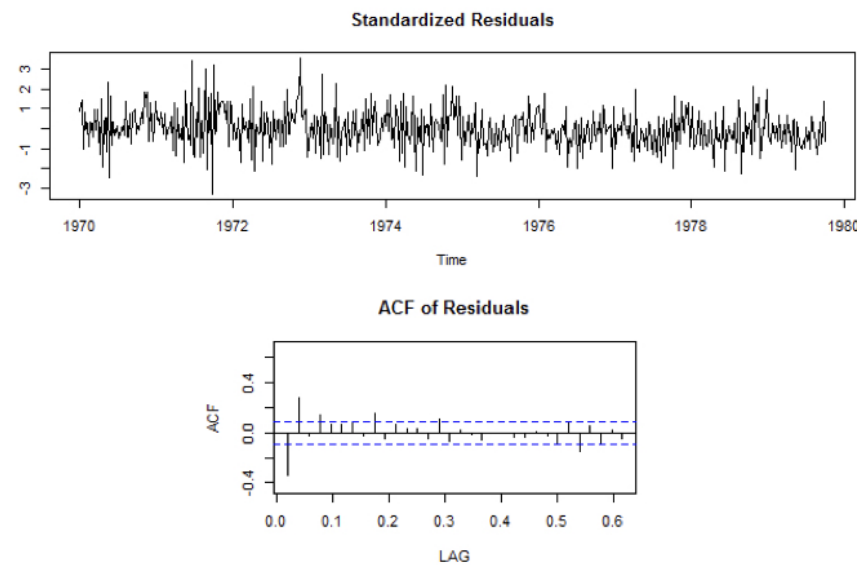
Bad Residuals

✗ Pattern in the residuals

Standardized Residuals

Bad Residuals

✗ Pattern in the residuals

• ACF has large values

Bad Residuals

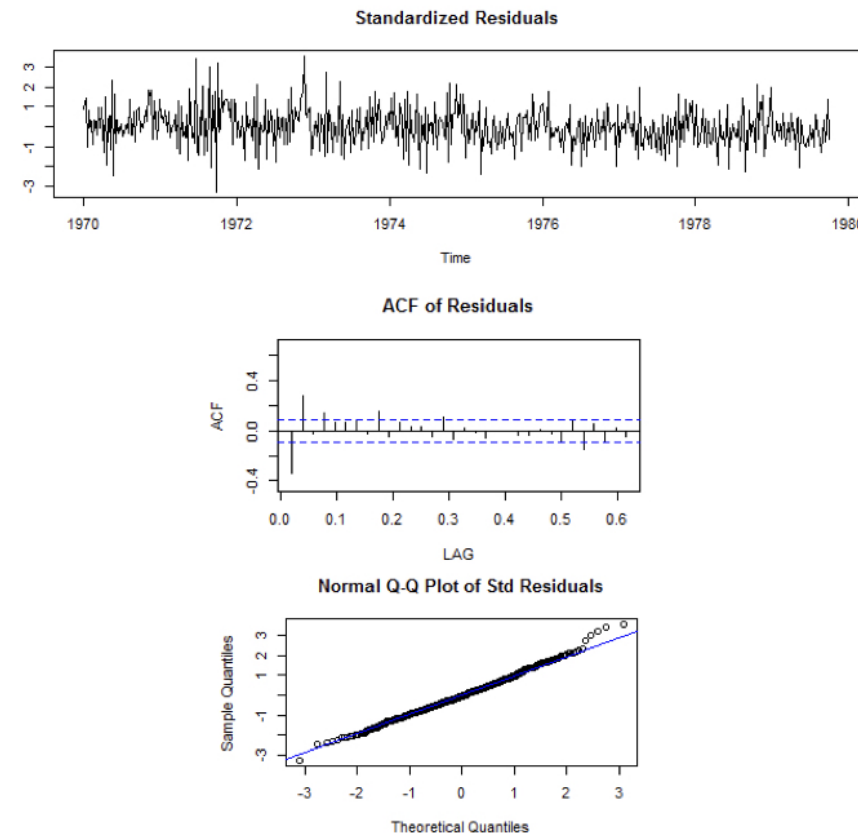✗ Pattern in the residuals

✗ ACF has large values

Bad Residuals

✗ Pattern in the residuals

✗ ACF has large values
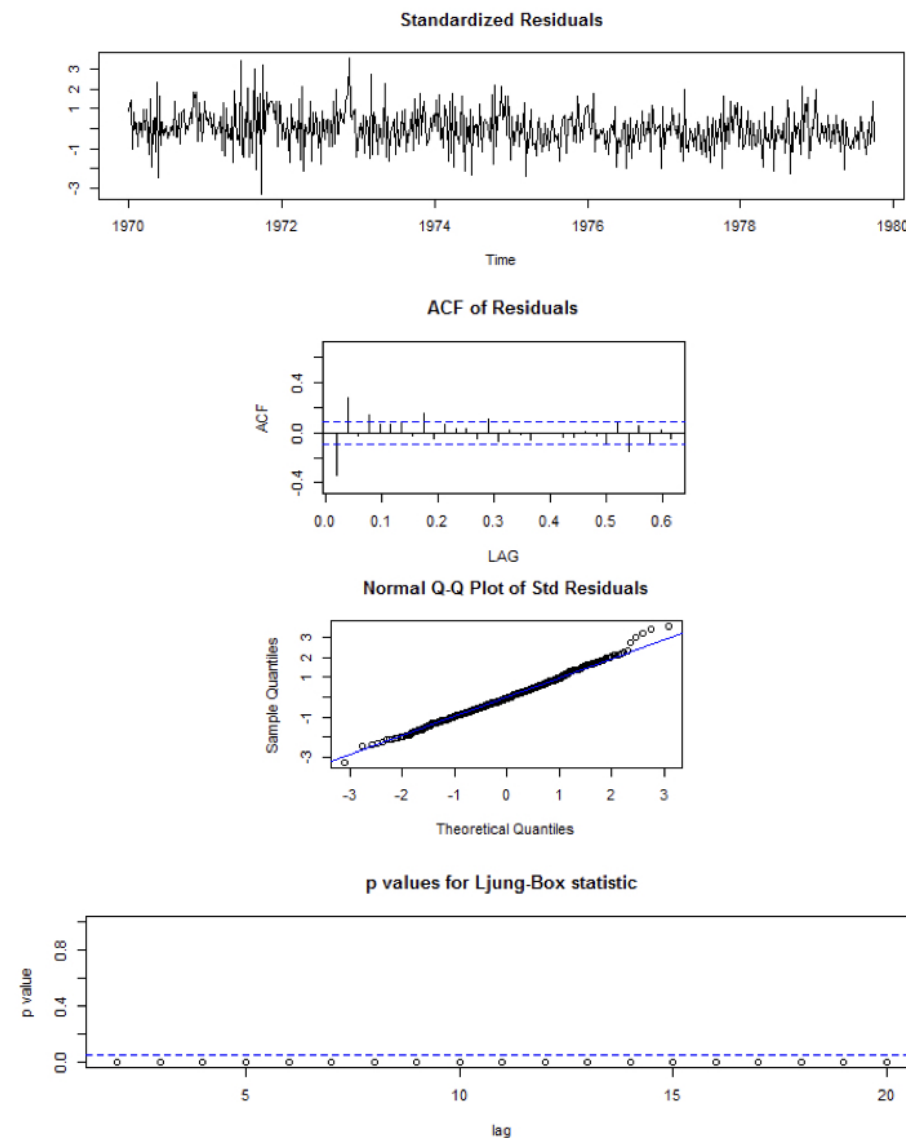
· Q-Q plot suggests normality

Bad Residuals

❌ Pattern in the residuals

❌ ACF has large values

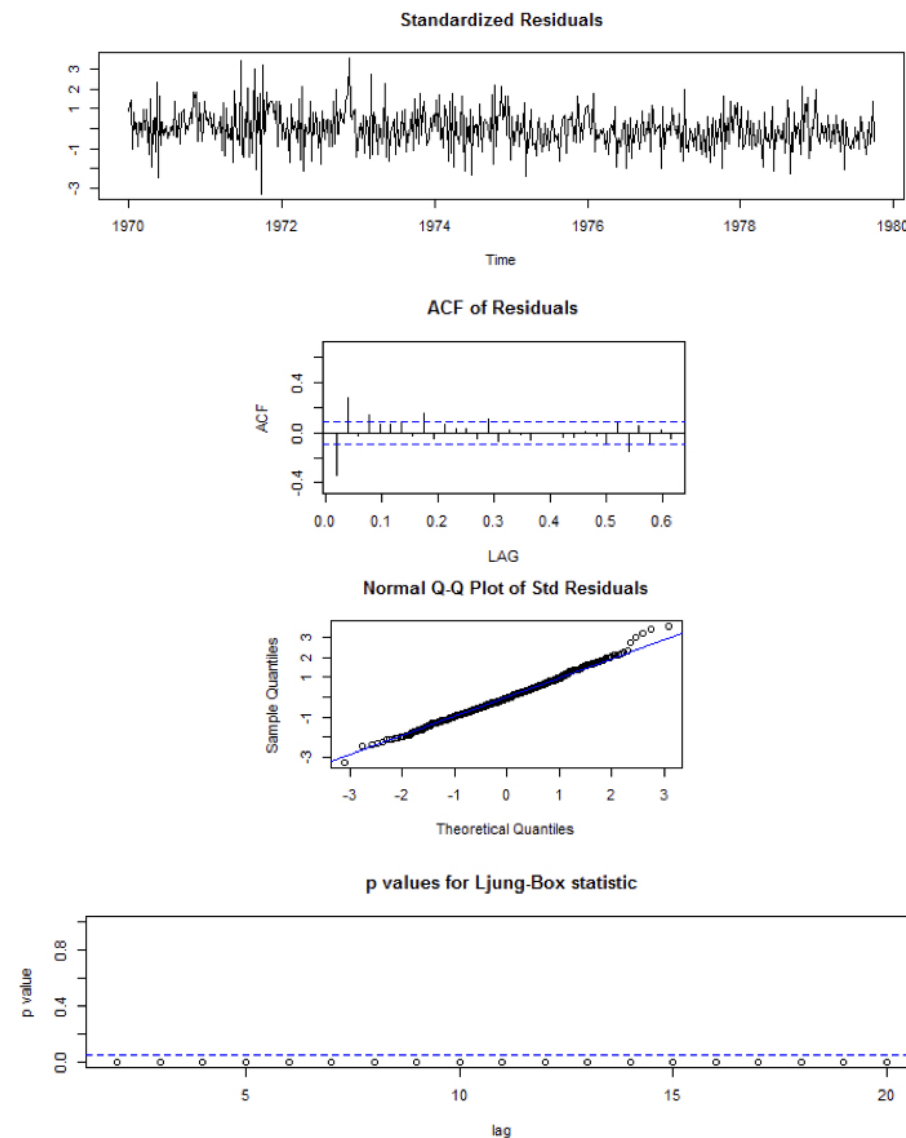- Q-Q plot suggests normality

- Q-statistic - all points below line

Bad Residuals

❌ Pattern in the residuals

❌ ACF has large values

• Q-Q plot suggests normality

❌ Q-statistic - all points below line

Let's practice!

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