

Assignment 5

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1 Discretization

I will consider an AR(1) process with $\rho = 0.95$ and $\sigma = 0.2$. In this section I will report the first four moments for four simulated Markov Chain. They differ in the method used to discretize and in the grid size.

Method	Grid Size	Mean	SD	Autocorrelation Coefficient
Tauchen	5	-0.0435	0.837	0.987
Tauchen	15	0.0216	0.680	0.948
Rouwenhorst	5	0.0477	0.645	0.951
Rouwenhorst	15	0.003	0.664	0.952