Cointegration

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Q: when two time-series are correlated,

Can we extract the correlation?
(estimate)

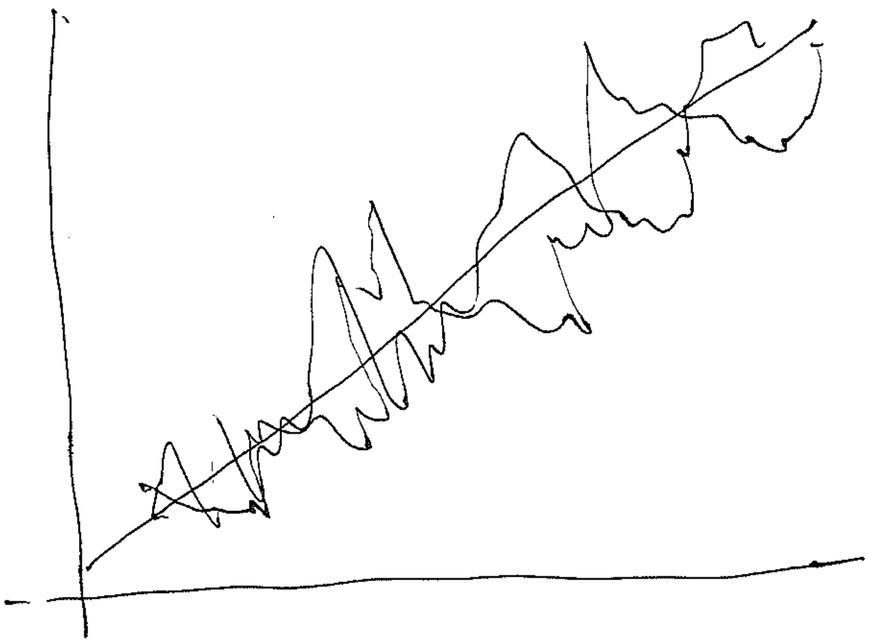
A: If they are stationary, Yes

1. when two t-s are <u>not</u> correlated.

2. when two t-s <u>are</u> correlated.

When TS are not stationary

with linear trend.



Q: are they correlated?

A: Yes, because of the shared linear trend

Q: Are they correlated more than their linear trend?

→ Have to remove the trend and see.

3a uncorrelated ts with linear trend.

3b fit line to remove trend. (uncorrelated)

3c difference to remove trend (uncorrelated)

4a Correlated t-s with linear trend.

4b fit line to remove trend.

4c difference to remove trend.