Exercise 1

In part a we assume there are no seasonal fluctuations that have a cycle greater than 5 months.

In part b we assume the older our data is the more important it is to predict the next month.

In part c we assume our time series data is made up of a mean and an error of alpha. We assume there is no trend or seasonality.

Exercise 2

This problem illustrates that it’s important that you take time to understand how you are going about modeling your predictions and why it’s important to understand what changes to your model and different models will do.