

# ETF5200 Applied time series econometrics

## Project 2

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## Part I

Personal capita consumption and income data are more likely to be inter-dependent dynamically, therefore vector autoregressive model (VAR) will be used to study their behavior in this project.

### Question 1

First we want to estimate the intercept vector and the coefficient matrices for the VAR(2) model. The time plots of these two series are shown in figure 1. We can see the increasing time trend clearly.

	Consumption.l1	Income.l1
Consumption	1.1360223	0.0933692
Income	0.7996653	1.1131855

	Consumption.l2	Income.l2
Consumption	-0.1383776	-0.1020669
Income	-0.7390285	-0.1850136

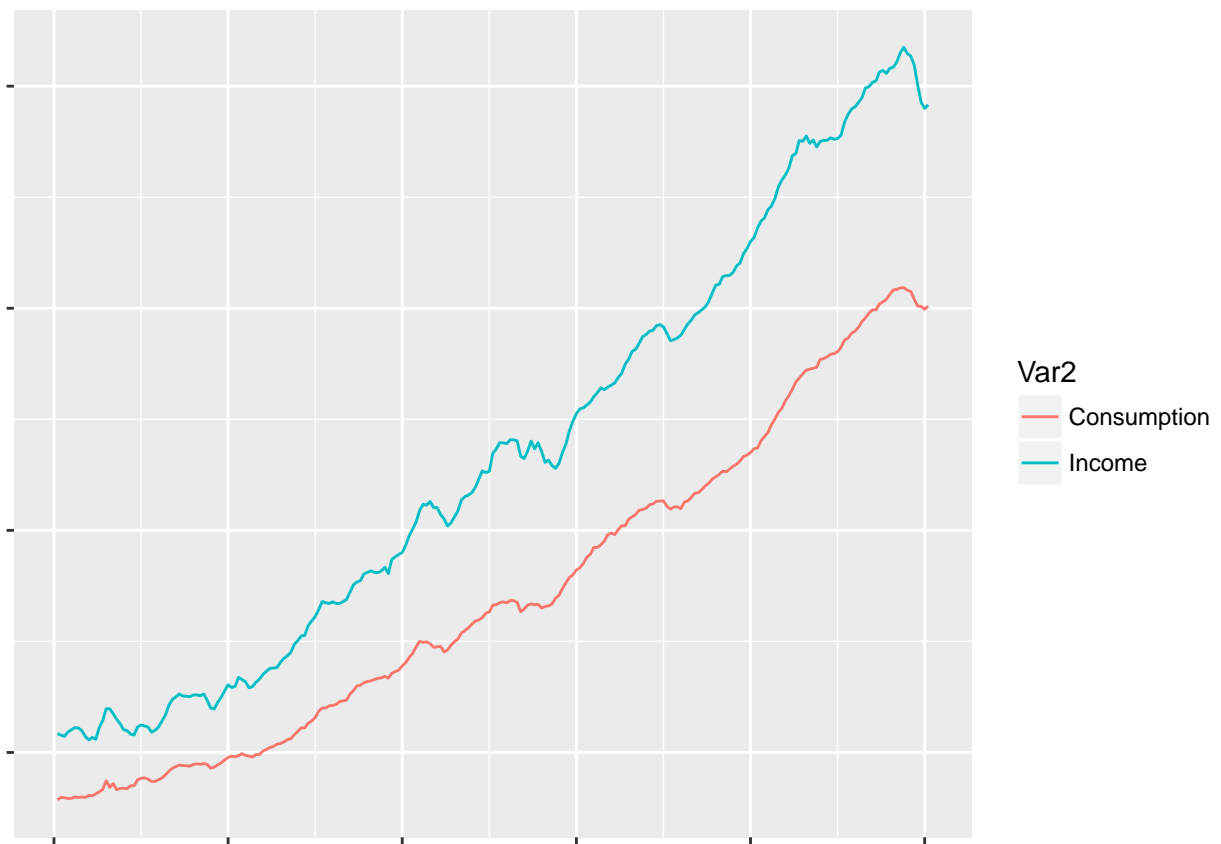


Figure 1: Time plots of personal capita consumption and income shows clear trend.