

Time Series Analysis

Basics

Sample Autocorrelations

$$\gamma_0 = \frac{1}{N} \sum_{t=1}^N (x_t - \bar{x})$$
$$\gamma_k = \frac{1}{N} \sum_{t=1}^{N-k} (x_t - \bar{x})(x_{t+k} - \bar{x})$$
$$\rho_0 = 1$$
$$\rho_k = \frac{\gamma_k}{\gamma_0}$$

Autoregressive Models

AR(1) Models

$$X_t - \phi X_{t-1} = a_t$$
$$(1 - \phi z) = 0$$

AR(1) Properties

- Positive ϕ
 - Realizations appear to be wandering (aperiodic)
 - Autocorrelations are damped exponentials.
 - Spectral densities have peaks at zero
- Negative ϕ
 - Realizations appear to be oscillating
 - Autocorrelations are damped oscillating exponentials
 - Spectral densities have peaks at $f = 0.5$

AR(2) Models

$$X_t - \phi_1 X_{t-1} - \phi_2 X_{t-2} = a_t$$
$$(1 - \phi_1 z - \phi_2 z^2) = 0$$

AR(2) Properties

- Two Real Roots - Both Pos
 - The realization will appear to be wandering
 - The autocorrelations will be exponentially damped
 - There will be a peak at 0
- Two Real Roots - Both Neg
 - The realization will appear to be oscillating
 - The autocorrelations will be damped oscillating exponentials
 - There will be a peak at 0.5
- Two Real Roots - One Each

- The realization will appear to be wandering and an oscillation will run on the realization
- The autocorrelations will be exponentially damped with a hint of oscillation
- There will be peaks at 0 and 0.5 in the spectral density
- One Complex
 - The realization will appear to have a pseudo-cyclic behavior with a cycle length of $\frac{1}{f_0}$
 - The autocorrelations will be damped exponentials oscillating in a sinusoid envelope with a frequency of f_0
 - There will be a peak at f_0 (between 0 and 0.5)

$$f_0 = \frac{1}{2\pi} \cos^{-1} \left(\frac{\phi_1}{2\sqrt{-\phi_2}} \right)$$

AR(p) Models

$$X_t - \beta + \phi_1 X_{t-1} + \phi_2 X_{t-2} + \dots + \phi_p X_{t-p} = a_t$$
$$x_t - \phi_1 B X_t - \phi_2 B^2 X_t - \dots - \phi_p B^p X_t = a_t$$

Key Concepts

- An AR(p) model is stationary if and only if all the roots of the characteristic equation are outside the unit circle.
- Any AR(p) characteristic equation can be numerically factored into 1st and 2nd order elements.
- These factors are interpreted as contributing AR(1) and AR(2) behaviors to the total behavior of the AR(p) model.

Factor Contributions

AR(p) models reflect a contribution of AR(1) and AR(2) contributions. Roots that are close to the unit circle will be the dominate behavior.

- First order factors $(1 - \phi_1 B)$
 - Associated with real roots
 - Contribute AR(1)-type behavior to the AR(p) model
 - Associated with a system frequency of 0 if ϕ_1 is positive or 0.5 if ϕ_1 is negative
- Second order factors $(1 - \phi_1 B - \phi_2 B^2)$
 - Associated with complex roots
 - Contribute cyclic AR(2) behavior to the AR(p) model
 - Associated with a system frequency of f_0

Moving Average Models

MA(1) Models

$$X_t = a_t - \theta a_{t-1}$$
$$(1 - \theta_1 z) = 0$$
$$\rho_0 = 0$$
$$\rho_1 = \frac{-\theta_1}{1 + \theta_1^2}$$
$$\rho_k = 0 |_{k>1}$$

MA(2) Models

$$X_t = a_t - \theta_1 a_{t-1} - \theta_2 a_{t-2}$$
$$(1 - \theta_1 z - \theta_2 z^2) = 0$$
$$\rho_0 = 0$$
$$\rho_1 = \frac{-\theta_1 + \theta_1 \theta_2}{1 + \theta_1^2 + \theta_2^2}$$
$$\rho_k = 0 |_{k>2}$$

MA(q) Models

$$X_t = a_t - \theta_1 a_{t-1} - \dots - \theta_q a_{t-q}$$
$$x_t = a_t - \theta_1 B a_t - \dots - \theta_q B^q X_t$$

Key Concepts

- MA models are a finite GLP
- MA models are always stationary
- MA models are invertable iff all the roots are outside of the unit circle.

ARMA(p,q) Models

$$X_t = \beta + \phi_1 X_{t-1} + \dots + \phi_p X_{t-p} = a_t - \theta_1 a_{t-1} - \dots - \theta_q a_{t-q}$$
$$x_t - \phi_1 B X_t - \dots - \phi_p B^p X_t = a_t - \theta_1 B a_t - \dots - \theta_q B^q X_t$$

Key Concepts

- Valid when the model is stationary and invertable
 - Stationary: roots of $\phi(z)$ are outside the unit circle
 - Invertable: roots of $\theta(z)$ are outside the unit circle
- $\phi(z)$ and $\theta(z)$ have no common factors (check)

General Linear Processes

General Form

Use `psi.weights.wge` to calculate ψ s

$$X_t - \mu = \sum_{j=0}^{\infty} \psi_j a_{t-j}$$

MA GLP

This is a finite GLP

$$X_t - \mu = \sum_{j=0}^{\infty} \psi_j a_{t-j}$$
$$\psi_0 = 1$$

AR GLP

This is an infinite GLP

$$X_t - \mu = \sum_{j=0}^{\infty} \psi_j a_{t-j}$$
$$\psi_0 = 1$$

Filtering

Filters transform time series.

$$Z_t \rightarrow H(B) \rightarrow X_t$$

$$X(t) = Z(t)H(B)$$

There are four basic types of filters.

- High pass - filters out low frequencies
- Low pass - filters out high frequencies
- Band pass - filters out frequencies outside the band
- Band stop - filters out frequencies inside the band

Difference Filter

The first order difference is expressed by the following

$$X_t = Z_t - Z_{t-1}$$

$$H(B) = B^0 - B$$

This is a high pass filter.

Moving Average Filter

A 5-point moving average filter can be expressed as

$$X_t = \frac{Z_{t+2} + Z_{t+1} + Z_t + Z_{t-1} + Z_{t-2}}{5}$$
$$H(B) = \frac{B^{-2} + B^{-1} + B^0 + B + B^2}{5}$$

This is a low pass filter.

Band-Type Filter

High pass and low pass filters can be combined to produce band pass and band stop filters.