11.3: Estimating the Regression Model with Autocorrelated Errors and Using it to Make Predictions

Read Section 14.3 of your textbook. As you read, take notes on the following.

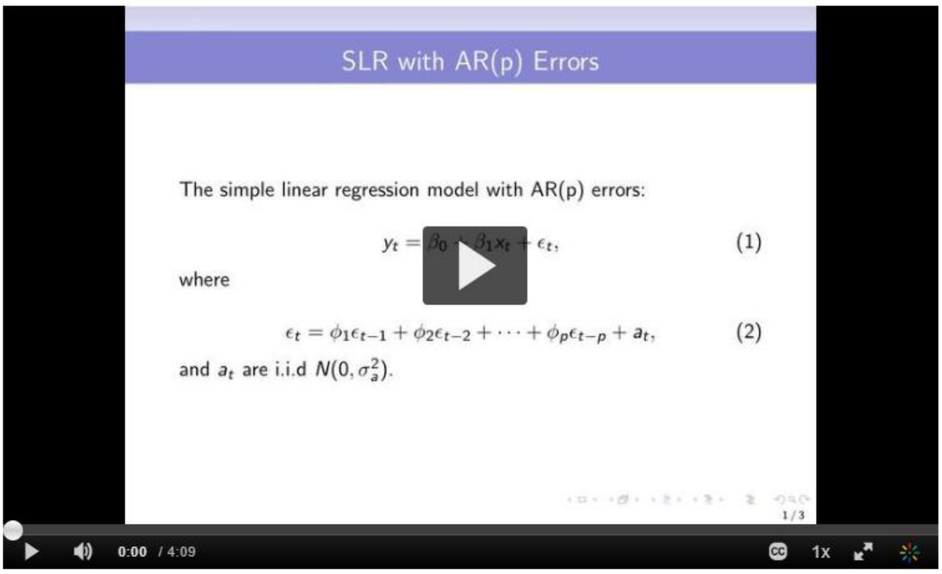
Note: There is a mistake in last line of equation (14.7) in textbook. ε_t should be a_t.

1. Using your own words, describe the steps you would take to fit a simple linear regression model with first-order autocorrelated errors using the Cochrane-Orcutt method.

2. What is the forecast at time period $T+1$ based on the end of the current time period T?

3. What is the one-step ahead forecast error?

Watch this video for an example on how to implement the Cochrane-Orcutt method to fit a regression model with AR errors.



module11_method.pdf
Slides to accompany the "Cochrane-Orcutt Method" video