1a.

This is an AR(1) model where the stationary condition () is not met as . Therefore it is not covariance stationary.

1b.

This is an ARMA(1,1) model where . This model is covariance stationary if

In this case so this model is covariance stationary.

1c.

The first axiom of if something is covariance stationary is that E() is constant however in this case E() = and is therefore time dependant and not constant. Thus it is not covariance stationary.

2.

is an AR(1) model and the stationary condition is met, therefore it is covariance stationary.

The expected value is calculated as follows.

E() = E() + = =

We can see that this pattern will repeat infinitely and therefore,

E() = = =

Thus statement B is the only true statement.

3a.

The conditional mean of is the mean of given its previous terms. The previous terms are irrelevant however as E( ) = and thus the conditional mean, E( ) = 0.

3b.

4a.

To find the existence of a unit root we can use the Dicky Fuller test. When looking at an AR(1)

A unit root is present if

Using this test we can put and in the form of an AR(1) and look at the value.

=

By substitution we get that

Thus so has a unit root.

By substitution we get that

Thus so has a unit root.

4b.

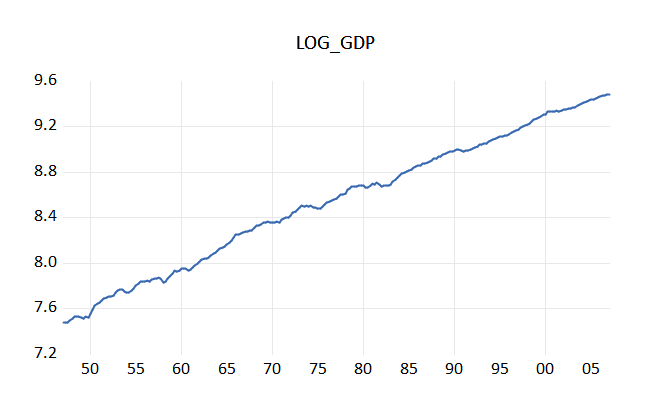
Cointegration is the process of looking at a combination of non-stationary variables to see if it yields something stationary, this must be linear combination.

For and we can see that which is covariance stationary so the cointegrating factors are 1 and -2.

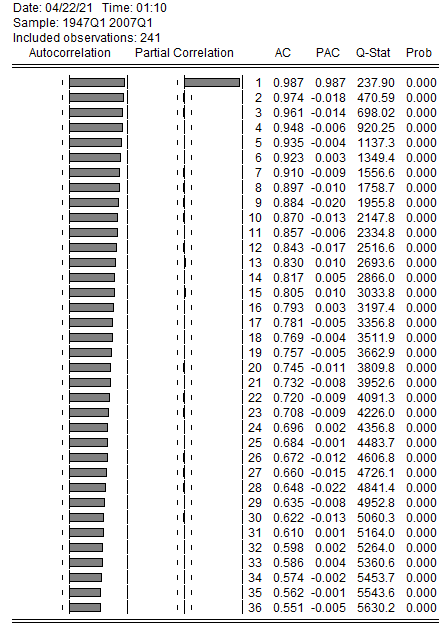
For and we can see that which is also covariance stationary with cointegrating factors of 1 and -2.

4c.

5a.



5b.



It is an AR(1) model where

5c.

6a.

6b.

6c.