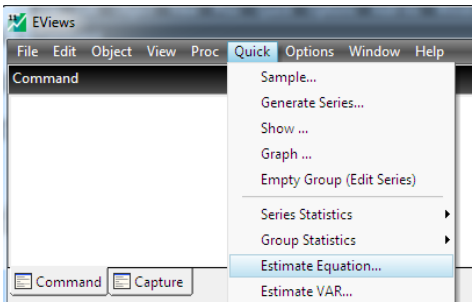
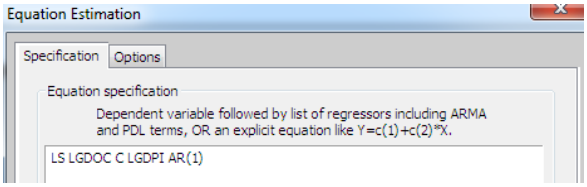
Home assignment 8. Autocorrelated Disturbance Term.
Hints to practical part.

While preparing HA8 for the checking and marking, we noticedt that in different versions of Eviews the autoregressive transformation is performed using different algorithms with several options, and choosing the wrong option does not give the desired result. Therefore, for those who have not yet figured this out on their own, we provide detailed instructions on how to complete this part of the homework. All instructions refer to the execution of points 3.2-3.3 of the homework 8.

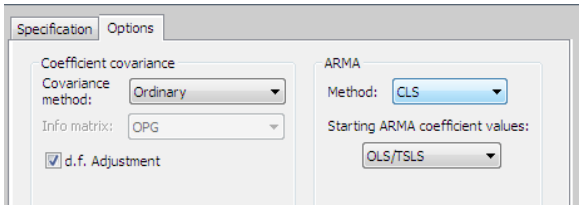
1. All regression calculations involving AR(1) should be done using CLS (Conditional Least Squares) method. Let us show how to do this with the example of **LS LGDOC C LGDPI AR(1)**.
Select Quick - Estimate Equation with the mouse



Insert the required equation into the window



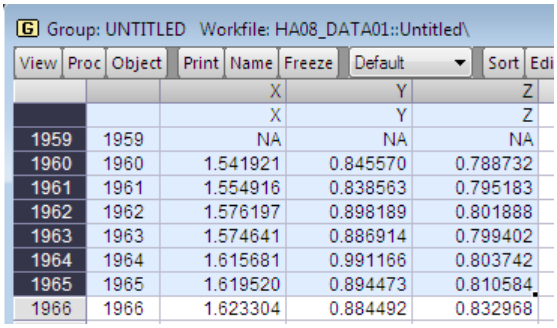
and select CLS method



Alternatively one can use just one command in command line
LS(ARMA=CLS, OPTMETHOD=OPG) LGDOC C LGDPI AR(1)

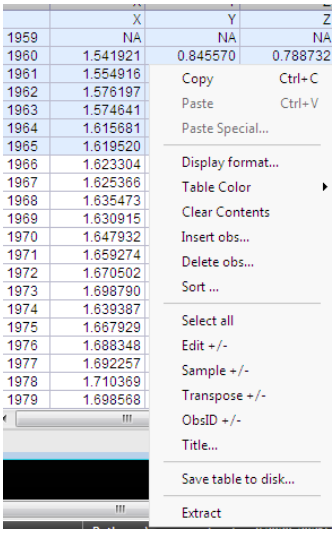
2. Since applying **AR(1)** is equivalent to computing an ADL(1,1) model, then testing for autocorrelation after such a transformation should be done by any test that allows using lagged depentent variables (and hence DW is excluded). Unless otherwise specified, it is perfectly acceptable to use the Breusch-Godfrey AUTO(1) test.

3. In point 3.3 you will need to provide a part of the tables with data. Simply copying part of the table will produce uncomfortably unformatted data. To make the work look neat, you will need to use the formatted data. This can be done as follows: Display the desired group of rows of data and use the mouse to highlight a small part of the table.



		X	Y	Z
		X	Y	Z
1959	1959	NA	NA	NA
1960	1960	1.541921	0.845570	0.788732
1961	1961	1.554916	0.838563	0.795183
1962	1962	1.576197	0.898189	0.801888
1963	1963	1.574641	0.886914	0.799402
1964	1964	1.615681	0.991166	0.803742
1965	1965	1.619520	0.894473	0.810584
1966	1966	1.623304	0.884492	0.832968

Right-click on the coloured part of the table and select **Extract** at the bottom



This copies the highlighted part of the table in a formatted form and you can paste the table with the data into your work.

Enjoy your work and do not hesitate to ask us in case of difficulties.

Your econometrics team