

Homework

Econ 5243

October 18, 2006

Problems

Consider the following the models based on exercise 2.23 of Davidson and MacKinnon:

$$\Delta r_t = \beta_1 + \beta_2 \pi_{t-1} + \beta_3 y_{t-1} + \beta_4 \Delta r_{t-1} + \beta_5 \Delta r_{t-2} + u_t \quad (1)$$

$$\Delta r_t = \beta_1 + \beta_3 y_{t-1} + \beta_4 \Delta r_{t-1} + \beta_5 \Delta r_{t-2} + u_t \quad (2)$$

$$\Delta r_t = \beta_1 + \beta_3 y_{t-1} + \beta_4 \Delta r_{t-1} + u_t \quad (3)$$

using the `tbrate.dat` data and the model selection rules \bar{R}^2 , *cp*, *aic*, and *sc*, choose the “best” model using each criterion. What warnings would you give someone based on the outcome of your model selection derby?