Errors in the Fourth Edition June 15, 2020

I would like to thank a number of people who pointed out errors in the text.

Page 10

In equation (1.18) in page 10, the term a_i^i should be a_1^i

Page 45

Questions 6a and 6b should read:

$y_t = 1 + 0.7y_{t-1} - 0.1y_{t-2} + \varepsilon_t$ (second subscript $_{t-1}$ should be $_{t-2}$)

$y_t = 1 - 0.3y_{t-1} + 0.1y_{t-2} + \varepsilon_t$ (second subscript $_{t-1}$ should be $_{t-2}$)

Page 94

s_2000:3 is .04, not .40

The statistics for e1 and e2 are actually for the forecasts not the errors. For e1, the mean is .014 and std error is .431. For e2, the mean is .009 and std error is .411.

Page 109

the variance of the composite forecast is 50% of the variances of either forecast:

$\text{var}(e_{ct}) = 0.5\text{var}(e_{1t}) = 0.5\text{var}(e_{2t})$.

Page 111

As with page 94, the statistics are on the forecasts, not the errors

Page 134

The diagnostics on the standardized residuals are wrong although the squared residuals are correct.

Page 280

5.14/5.15 are the model in "ARDL" form, but the ARMA part is actually not applied directly to the *y*, but is in the noise term. As a result, the response to shocks to *z* are just -.0030 in period 2 and -.0040 in period 3 with the rest zero.

Page 288

There is a typo in the 3rd paragraph. The text should read:

In order to get another perspective on the stability condition, use lag operators to rewrite the VAR model of (5.20) and (5.21) as

$$y_t = a_{10} + a_{11}Ly_t + a_{12}Lz_t + e_{1t}$$
$$z_t = a_{20} + a_{21}Ly_t + a_{22}Lz_t + e_{2t}$$

or

$$(1 - a_{11}L)y_t = a_{10} + a_{12}Lz_t + e_{1t}$$

THIS SHOULD BE Ly_t

$$(1 - a_{22}L)z_t = a_{20} + a_{21}Ly_t + e_{2t}$$

Page 396

There are some technical conditions that are required for weak exogeneity. In a personal correspondence, Neil Ericsson informed me that $c_{21} = 0$ is not necessary for exogeneity. He writes:

> Actually, c_{21} can take on any acceptable value for a covariance because $E(v_t^* \Delta z_t) = E(v_t^* e_{2t}) = 0$, by construction. Factorizing the joint distribution of Δy_t and Δz_t (in equations (6.63) and (6.64) into the conditional-marginal factorization given by equation (6.66) and (6.64) ensures that orthogonality. So, weak exogeneity doesn't require the condition that $c_{21} = 0$.
>
> That said, there are other conditions that are needed for weak exogeneity: (a) the conditional-marginal factorization operates a sequential cut between the parameter space of the conditional distribution and the parameter space of the marginal distribution, and (b) the parameters of interest are those in the cointegrating vector. While these might be regarded as purely "technical" conditions, there are some commonplace situations where they are violated. There's some discussion of this in my 1992 paper in the Journal of Policy Modeling, reprinted in the introduction to John Irons's and my 1994 OUP edited volume "Testing Exogeneity".
>
> Ericsson, N. R. (1992) "Cointegration, Exogeneity, and Policy Analysis: An Overview", Journal of Policy Modeling, 14, 3, 251-280.
>
> Ericsson, N. R., and J. S. Irons (eds.) (1994) Testing Exogeneity, Oxford University Press, Oxford.

Page 397

> The analysis uses the 5-year, not 10-year bonds. The results are correct for the 5-year bond.