Homework 3. Due Monday October 21.

1. Starting from you solution to Homework 2, test if your variables are co-integrated. The best solution uses the Johansen estimator, a less ambitious uses the Engle-Granger test (see, e.g., Hamilton) and the least ambitious impose a coefficient of say unity (depends on your data) and check if the residual has a unit root.

2. Try and regress on series on the other (you like want to use logs) and also take differences and regress them on each other. Are the t-stats (that should test the same thing) similar?