

Assignment 2

The file `usa.dat` contains quarterly data on american real gdp, inflation rate, federal funds rate and 3-year bond rate.

1. Plot the data in levels and in first differences. Compare the patterns and comment on the presence / absence of the trend
2. Compare the mean of the series from the first and second subsample
3. Test the series in levels and first differences for unit roots using the Dickey-Fuller and Augmented DF procedures. Comment on the outcomes and the order of integration (number of unit roots) in the US macro data.
4. Rerregress the 3-year bond rate on the fed funds rate and test the residuals for cointegration. Interpret the outcomes, using the tables provided in the handout.