

Exercise for Lecture 2

Reduced Form VARs

- (i) Read Illustration 2.1 in the Del Negro 2011 Handbook chapter on “Bayesian Macroeconometrics.”
- (ii) You can download replication programs in either GAUSS or MATLAB from my website: <http://sites.sas.upenn.edu/schorf>. Just look under “Publications.”
- (iii) Try to replicate the entries in Table 1 of the Handbook chapter.
- (iv) Use the output of the posterior simulator to compute means and 90% credible sets for the intercept coefficients of the VAR.
- (v) Use the output of the posterior simulator to obtain the mean and a 90% credible set for the largest eigenvalue associated with the companion form version of the VAR.
- (vi) Write a program that generates multi-step (one to twelve quarters) point and interval forecasts using the last observation in the sample, 2006:Q4, as the forecast origin. You can either graph or tabulate your forecasts.