Contents

List of figures *page* ix
Acknowledgement x
Preface xi
Notation and conventions xiv
List of abbreviations xv

1 Introduction 1

1.1 The nature of time series 1
1.2 Explanatory variables and intervention analysis 4
1.3 Multivariate models 7
1.4 Statistical treatment 10
1.5 Modelling methodology 11
1.6 Forecasting 14
1.7 Computer software 15

2 Univariate time series models 17

2.1 Introduction 18
2.2 *Ad hoc* forecasting procedures 23
2.3 The structure of time series models 31
2.4 Stochastic properties 49
2.5 ARIMA models and the reduced form 65
2.6 ARIMA modelling 75
2.7 Applications 81
Exercises 99

3 State space models and the Kalman filter 100

3.1 The state space form 100
3.2 The Kalman filter 104
3.3 Properties of time-invariant models 113
3.4 Maximum likelihood estimation and the prediction error decomposition 125

3.5 Prediction 147
3.6 Smoothing 149
3.7 Non-linearity and non-normality 155
Appendix. Properties of the multivariate normal distribution 165
Exercises 166

4 Estimation, prediction and smoothing for univariate structural time series models 168
4.1 Application of the Kalman filter 168
4.2 Estimation in the time domain 180
4.3 Estimation in the frequency domain 191
4.4 Identifiability 205
4.5 Properties of estimators 209
4.6 Prediction 222
4.7 Estimation of components 226
Exercises 232

5 Testing and model selection 234
5.1 Principles of testing 234
5.2 Lagrange multiplier tests 239
5.3 Tests of specification for structural models 248
5.4 Diagnostics 256
5.5 Goodness of fit 263
5.6 Post-sample predictive testing and model evaluation 270
5.7 Strategy for model selection 273
Exercises 281

6 Extensions of the univariate model 283
6.1 Trends, detrending and unit roots 283
6.2 Seasonality and seasonal adjustment 300
6.3 Different timing intervals for the model and observations 309
6.4 Data irregularities 326
6.5 Time-varying and non-linear models 341
6.6 Non-normality, count data and qualitative observations 348
Exercises 362

7 Explanatory variables 365
7.1 Introduction 365
7.2 Estimation in the frequency domain 376

7.3 Estimation of models with explanatory variables and structural time series components 381
7.4 Tests and measures of goodness of fit 385
7.5 Model selection strategy and applications 390
7.6 Intervention analysis 397
7.7 Time-varying parameters 408
7.8 Instrumental variables 411
7.9 Count data 418
Exercises 422

8 Multivariate models 423

8.1 Stochastic properties of multivariate models 423
8.2 Seemingly unrelated time series equations 429
8.3 Homogeneous systems 435
8.4 Testing and model selection 442
8.5 Dynamic factor analysis 449
8.6 Intervention analysis with control groups 456
8.7 Missing observations, delayed observations and contemporaneous aggregation 463
8.8 Vector autoregressive models 468
8.9 Simultaneous equation models 474
Exercises 477

9 Continuous time 479

9.1 Introduction 480
9.2 Stock variables 486
9.3 Flow variables 492
9.4 Multivariate models 501

Appendix 1 Principal structural time series components and models 510

Appendix 2 Data sets 512
A. Energy demand of Other Final Users 512
B. US Real Gross National Product 515
C. Purses snatched in Hyde Park area of Chicago 516
D. Rainfall in Fortaleza, north-east Brazil 517
E. International airline passengers 518
F. Deaths and serious injuries in road accidents, Great Britain 519
G. Tractors in Spain 523
H. Goals scored by England against Scotland in international football matches 524