

CONTENTS

PART I

FOUNDATIONS OF FORECASTING

1 Planning and Forecasting 3

Introduction 4

 Purpose of This Book 4

 Information Revolution 4

The Importance of Forecasting 4

 Financial and Strategic Importance of Forecasting 5

 The Pursuit of Knowledge 6

The Commonality of Forecasting 6

The Management Decision Hierarchy 7

Why Forecast? 9

 Forecasts Are Necessary Because of Implementation Lead Times 9

What Is a Forecast? 9

 A Forecast Should Be a Point, Range, and Probability Estimate 9

What Should Be Forecast? 11

 Dependent versus Independent Demands 11

 Forecasting Hierarchy—The Process of Aggregation/Disaggregation 11

Common Time Series Patterns 13

 Time Series versus Cross-Sectional Analysis 13

 Random Patterns 13

 Trend Patterns 13

 Seasonal Patterns 14

 Cyclical Patterns 16

 Autocorrelated Patterns 16

 Outliers 19

 Interventions—Unplanned and Planned Events 19

 Modeling Combinations of Patterns 20

Overview of Forecasting Methods 21

 Time Series (Univariate) Forecasting Methods 21

 Causal (Multivariate) Forecasting Methods 21

Qualitative Forecasting Methods	22
The Art of Forecasting—Management Intuition and Involvement	23
Model Summary	23
Parts of This Book	25
Forecasting Method Selection—A Preview	26
The Forecasting Process	26
Summary	30
Key Terms	31
Key Formulas	31
Problems	32
Minicases	33
References	34

2 Statistical Fundamentals for Forecasting 36

The Importance of Pattern	37
Descriptive Statistics	37
Descriptive and Graphical Tools	38
Probabilities	38
Probability Distributions in Forecasting	39
Univariate Summary Statistics	41
Predicting Values Using Mean, Median, or Mode	41
Comparisons of Measures	42
Properties of Central Values	42
Mean Forecast Error	43
Measuring Errors—Standard Deviation and MAD	43
Normal Distribution	45
Characteristics of the Normal Distribution	45
Describing All Normal Distributions	47
Prediction Intervals	48
MAD—An Easily Calculated Measure of Scatter	48
A Forecasting Example Using Sales of Product A	49
Frequency Distribution Solution	50
Fitting versus Forecasting	51
Absolute Error Measures	52
Relative Measures of Error	54
Cautions in Using Percentages	56
Other Error Measures	56
Statistical Significance Test for Bias	56
Correlation Measures	58
Correlations and Covariances	59
Correlation—A Relative Measure of Association	60
Correlation Coefficient—Big City Bookstore	61
Statistical Significance of the Correlation Coefficient	62
Cause and Effect	66
Correlation Coefficients Measure Linear Association	66
Autocorrelations and ACF (k)	67
ACFs of Random Series	70
Random Series and White Noise	70
ACFs of Random Walk Series	71

ACFs of Trending Series	71
ACFs of Seasonal Series	72
Which Measure of Correlation?	73
Summary	76
Key Terms	76
Key Formulas	77
Review Problems Using Your Software	79
Problems	79
Minicases	82
References	84
Appendix 2–A Expected Values, White Noise, and Correlations	84
Appendix 2–B Q -Statistic for White Noise ACF(k)s	88

3 Simple Linear Regression Analysis 92

Introduction	93
Dependent and Independent Variables	93
Scatter Plots	93
Purposes of Regression Analysis	96
Method of Least Squared Deviations	96
Fitted Residual and Forecasted Error	99
Regression Output	100
Standard Error of Estimate (S_{yx})	102
Adjusted Coefficient of Determination, (\bar{R}^2)	104
Testing the Significance of Regression Coefficients	106
Analysis of Variance in Regression Analysis	107
Total, Explained, and Unexplained Variance	107
The F -Test of ANOVA	108
F -Test and t^2	110
Regression Assumptions	110
Assumption 1: The Fitted Relationship Is of the Correct Form	110
Assumption 2: Homoscedasticity of Errors	111
Assumption 3: No Serial Correlation in the True Errors (v 's)	112
Assumption 4: The Distribution of Errors about the Regression Line Is Approximately Normally Distributed	112
Assumption 5: The Relationship Includes All Important Variables	114
Assumption 6: No Problems from Highly Correlated X s	114
Serial and Autocorrelation Problems	114
Durbin-Watson Statistic	115
Sampling and Regression Analysis	117
Confidence and Prediction Intervals	118
Standard Error of the Regression Line (S_r)	118
Standard Error of Forecast (S_f)	119
Review of Regression Analysis Steps	120
Cause and Effect	120
Nonlinear Models Using Linear Regression	121
Cautions in Using Nonlinear Relationships	122
Regression Advantages and Disadvantages	125
Summary	126
Key Terms	126

Key Formulas	126
Review Problems Using Your Software	129
Problems	129
Minicases	132
References	132
Appendix 3–A Cross-Correlation Coefficients	132

PART II

UNIVARIATE METHODS

4 Simple Smoothing Methods 147

Moving Averages	148
Simple Moving Averages (SMA)	148
Choosing the Best Forecasting Model	150
Optimal Number of Periods in a Moving Average	150
When to Use Simple Moving Averages	151
Weighted Moving Averages (WMA)	151
Limitations of the SMA and the WMA	153
Exponential Smoothing	153
Single Exponential Smoothing (SES)	154
The Smoothing Constant	155
Estimating Alpha	156
Alpha Based on Autocorrelations	156
Alpha Based on Desired Simple Moving Average	156
Alpha Based on Minimum RSE	157
Derivation of Exponential Weights for Past Actuals	157
Seasonal SES—Forecasting U.S. Marriages	159
Adaptive Response-Rate Exponential Smoothing (ARRES)	162
TST and Erratic Series	164
Accuracy of ARRES	165
Forecasting Low-Value or Erratic Series	165
Patterns in Low-Value Series	166
Low-Values and Erratic Series	166
Group Patterns in Low-Value or Erratic Series	166
Extremely Low Values	166
Summary	166
Key Terms	167
Key Formulas	167
Review Problems Using Your Software	168
Problems	168
Minicases	171
References	172

5 Decomposition Methods and Seasonal Indexes 174

Classical Decomposition Method	175
Multiplicative versus Additive Models	177

- Interpreting Seasonal Indexes 180
- Deseasonalizing Values to Identify Trend-Cycle 181
- Using Simple Linear Regression to Forecast Trend 181
- Steps in Classical Multiplicative Decomposition 182
- Additive Decomposition Method 185
- Decomposition of Monthly Data 186
- Census Method II X-11 190
- Decomposition Using Regression Analysis 192
 - Additive Seasonal Regression Models 193
 - Multiplicative Seasonal Regression Models 194
- Testing the Significance of Seasonal Indexes 195
- Advantages 196
- Disadvantages 196
- Summary 197
- Key Terms 197
- Key Formulas 197
- Review Problems Using Your Software 198
- Problems 199
- Minicases 202
- References 202

6 Trend-Seasonal and Holt-Winters Smoothing 204

- Estimating Trends with Differences 205
 - Forecasting with Differences 207
 - Statistical Significance Test for Trend 207
 - Advantages and Disadvantages of Forecasting with Differences 210
 - Nonlinear Trends and Second Differences 210
 - Logarithms 212
 - Seasonal Differences to Model Seasonality and Trends 212
- Double Moving Averages 215
 - Advantages 217
 - Disadvantages 217
- Brown's Double Exponential Smoothing 218
 - Starting Values of S'_t and S''_t 219
 - Optimal Smoothing Constant 220
 - Advantages 220
 - Disadvantages 221
- Holt's Two-Parameter Trend Model 221
 - Advantages 224
 - Disadvantages 224
- Winters' Three-Parameter Exponential Smoothing 224
 - Initialization of Starting Values 228
 - Ongoing Use of the Model 229
 - Additive and Multiplicative Factors 229
 - Data Requirements 230
 - Advantages 230
 - Disadvantages 231
- Trend Dampening 231
- Summary 232

Key Formulas	232
Review Problems Using Your Software	234
Problems	235
Minicases	238
References	239
Appendix 6–A Fourier Series Analysis	240

PART III

UNIVARIATE ARIMA METHODS

7 Univariate ARIMA Models: Introduction 267

ARIMA Overview	268
Process (Population) versus Realization (Sample)	268
ARIMA Model Building Steps	269
ARIMA Model Assumptions	269
ARIMA Notation	270
ARIMA Processes	270
Autoregressive Process—ARIMA(1,0,0)	270
Moving Average Process—ARIMA(0,0,1)	271
Integrated Processes—ARIMA(0,1,0)	273
Deterministic Trend Process—ARIMA(0,1,0) ¹	274
ARIMA Model Identification	275
Random Walk and Trend: ACFs and PACFs	276
Autoregressive (1,0,0) ACFs and PACFs	276
Moving Average (0,0,1) ACFs and PACFs	278
White Noise	278
(0,0,0) ACFs and PACFs	278
The Q -Statistic and White Noise Diagnosis	280
Characteristics of a Good Model	280
Time Series Examples	280
White Noise Time Series	281
Daily Stock Prices (STOCKA.DAT)	281
An Autoregressive Time Series (DAIRY.DAT)	284
A Moving Average Time Series (FAD.DAT)	286
Variance Stationarity	290
U.S. Stock Index (1,1,0) ¹ , ¹ Model	292
The Backshift Operator	298
Integrated Stochastic Process (0,1,0)	299
Autoregressive Processes: ARIMA(p ,0,0) Models	300
Model Relationships: AR(p), I(d), and MA(q)	301
ARIMA (1,0,0) Software Output	302
Moving Average Processes: ARIMA(0,0, q) Models	303
General Moving Average Process: ARIMA(0,0, q)	304
AR(2), MA(2), ARMA(1,1), and Seasonal Processes	305
ARIMA (p , d , q) Models	310
Parameter Redundancy: Mixed Models	310

Summary	314
Key Terms	314
Key Formulas	314
Review Problems Using Your Software	316
Problems	317
Minicases	319
References	320
Appendix 7–A	Useful Statistical Definitions Used in Derivations 321
Appendix 7–B	White Noise and Stationarity 322
Appendix 7–C	Theoretical ACFs for an ARIMA(1,0,0) Process 322
Appendix 7–D	Theoretical ACFs for an ARIMA(0,0,1) Process 323
Appendix 7–E	Bounds of Invertibility and Stationarity 324
Appendix 7–F	Example ARIMA Data Sets 325
Appendix 7–G	PACFs and the Yule–Walker Equations 326

8 ARIMA Applications 330

The ARIMA Model-Building Process	331
SERIESB.DAT: Common Stock Prices	333
Identification	333
Estimation	334
Diagnosis	334
Forecasting	338
Seasonal Time Series	339
Demand for an Animal Pharmaceutical (PHARMDEM.DAT)	340
Identification	340
Estimation	340
Diagnosis	341
Forecasting	343
California Utility Electricity Demand (MWHRS.DAT)	343
Identification	343
Estimation	348
Diagnosis	348
Transforming Logs to Original Values	351
Trends Using Logs	351
Japan Stock Index	352
Identification (JAPAN.DAT)	352
Estimation	352
Diagnosis 1	352
Diagnosis 2	355
Interpretation: ARIMA(1,1,0)1, Trend	356
Interpretation: ARIMA(1,1,0), No Trend	359
Comparison	359
Summary: Fit and Forecast, Japan Index	361
Summary and Conclusions	361
Identification	362
Estimation	362
Diagnosis	363
Forecasting	363
A Fresh Perspective	363
The Best Model	364

Key Terms 364
Key Formulas 364
Review Problems Using Your Software 365
Problems 366
Minicases 367
References 367

9 ARIMA Forecast Intervals 369

Conditional and Unconditional ARIMA Forecasts 370
 Unconditional Forecasts 370
 Conditional Forecast 372
 Unconditional Forecast 372
Forecast Mean Squared Error (FMSE) and Standard Error (FSE) 373
 General ARIMA Models: Psi Weights ψ 374
 EMSE(m) and EFSE(m) Calculations 376
 Two-Period-Ahead Prediction Intervals 377
 Three-Period-Ahead Prediction Intervals 378
General EFSE(m) Value 378
ARIMA Prediction Intervals 379
 White Noise Prediction Intervals 379
 Autoregressive Prediction Intervals 380
 Nonstationary Prediction Intervals 382
 Moving Average Prediction Intervals 384
 Season Nonstationary Prediction Intervals 385
 Other Prediction Intervals 388
Summary 392
Key Terms 392
Key Formulas 392
Review Problems Using Your Software 394
Problems 393
Minicases 396
References 396

PART IV

MULTIVARIATE/CAUSAL METHODS

10 Multiple Regression of Time Series 401

Linear Multiple Regression Models 402
 General Multiple Regression Model 402
 Specific Multiple Regression Model 402
 Adjusted Coefficient of Determination \bar{R}^2 405
 Partial(Net) Regression Coefficients 405
 Regression Plane 407
Multiple Regression Modeling Process 409
Multicollinearity 409

- Multicollinearity Solutions 412
- Example Multicollinearity Problem (MULT.DAT) 413
- Partial *F*-Test for Determining Inclusion of Variables 414
- Serial Correlation Problems 416
 - Forecasting 420
 - Cochrane-Orcutt Iterative Least Squares (COILS) 420
 - Cochrane-Orcutt Example #2 421
 - Stock Index Analysis Using COILS 422
 - First-Order Differences 424
- Elasticities and Logarithmic Relationships 425
- Heteroscedasticity 426
 - Incorrect Functional Form 426
 - Goldfeld-Quandt Test 428
 - Weighted Least Squares 430
- Generalized Least Squares 433
- Beta Coefficients 434
- Dichotomous (Dummy) Variables 434
 - Event Influence 435
 - Changes in the Constant 435
 - Changes in the Slopes 436
- Prediction and Confidence Intervals 437
- Parsimony and Data Requirements 438
 - Nonrepresentative Samples 439
 - Representative Samples 439
 - Maximizing \bar{R}^2 441
- Automated Regression Modeling 441
- Summary and Conclusions 441
- Key Terms 442
- Key Formulas 442
- Review Problems Using Your Software 444
- Problems 444
- Minicases 448
- References 449
- Appendix 10–A** Deriving Normal Equations and Regression Coefficients 450

11 Econometric Methods 452

- Biased Single-Equation Relationships 453
- Recursive versus Nonrecursive Methods 454
- Recursive System of Structural Equations 454
 - A Simple Recursive System 454
 - Endogenous, Exogenous, and Intervening Variables 455
- Path Coefficients 456
 - Total, Direct, and Indirect Influences 457
- General Assumptions of Structural Equations 460
 - Weak Causal Order 460
 - Causal Closure: No Specification Errors 460
 - Partial Correlation Coefficients 461

Causal Order and Closure	462
Specification Errors	463
Specification Errors, Randomization, and Sample Size Effects	464
Small Sample, Incorrect Specification	465
Large Sample, Incorrect Specification, Hopes of Randomization	465
Small Sample, Correct Specification	467
Large Sample, Correct Specification	467
Granger Causality	469
Granger Causality Test	470
Example of Granger Causality Test	470
Limitations of Granger Causality	472
Simultaneous Equations—Nonrecursive Structural Equations	472
Simultaneity Problems	473
Identification Requirements	473
Two-Stage Least Squares, (2SLS)	474
Reduced-Form Equations	474
Building Materials Example of 2SLS (BMS.DAT)	475
Quantity Demanded and Supplied—Equilibrium Simultaneity	477
Identification	478
Other Simultaneous Equation Methods	478
Indirect Least Squares (ILS)	478
Serially Correlated Errors and Lagged Dependent Variables	478
Seemingly Unrelated Regression (SUR) Model	478
Three-Stage Least Squares (3SLS)	479
Testing for Simultaneity	479
Summary	480
Key Terms	481
Key Formulas	481
Review Problems Using Your Software	484
Problems	484
Minicases	487
References	487

12 ARIMA Intervention Analysis 490

Common Intervention Types	492
Zero-Order Intervention Functions	492
Pulse, Abrupt Temporary Impact	492
Abrupt, Temporary Impact	493
Abrupt, Permanent Impact	494
Abrupt, Temporary Impact	494
First-Order Intervention Functions	494
Gradual, Permanent Impact	494
Gradual, Temporary Impact	497
Other Examples	498
General Intervention Functions	498
The Noise Model	498
Nonstationary Series	499
Abrupt, Permanent Interventions for Nonstationary Series	500

- Intervention Modeling 502
- Steps of Intervention Analysis 502
- Zero-Order Intervention Model—Demand at a Community Blood Bank (BLOOD.DAT) 504
 - Noise Model Identification 505
- Univariate Analysis of Intervention Series 508
- Zero-Order Intervention Model—Nonstationary Demand for Bottled Water (WATER.DAT) 508
- Modeling the Stock Market Crash of 1987 (SP500I.DAT) 515
 - First-Order Model of Stock Market Crash 518
 - Interpretation of Natural Log Intervention Models 518
- First-Order Intervention Function—Advertising Impact on Airline Passengers 522
 - Intervention Effect 522
- Bounds of Stability for First-Order Intervention Functions 527
- Summary 527
- Key Terms 528
- Key Formulas 528
- Review Problems Using Your Software 530
- Problems 530
- Minicases 531
- References 531

13 Multivariate ARIMA Transfer Functions 533

- Transfer Functions 535
 - Zero-Order Transfer Functions (TFs) 535
 - First-Order Transfer Functions 537
 - Pulses and Shifts 540
- Steps of MARIMA Modeling 541
 - Identification Using Cross Correlation Functions (CCF(k)) 543
 - Two Hypothetical Applications 543
 - Achieving Stationarity of Input and Output 544
 - Prewhitening the Input Series 545
 - Pretreating the Output Series 545
 - Calculating CCFs to Identify r , s , and b 546
 - Using Residuals of the TF to Identify TF Problems 546
 - Diagnostics 546
 - Using Residuals of the TF to Identify N_t 547
 - New York and London IBM Stock Prices (IBMNYLN.DAT) 548
 - Identification of $NY_t = f(LN_{t-k})$ 548
 - Cross Correlation Function 551
 - Identification of London Price = $f(\text{New York}_{t-k})$ 551
 - Identifying r , s , and b 552
 - Estimation and Diagnostics 552
 - Fit and Forecast 554
 - Cross Correlations and Identification 556
 - Several Identification Examples 556
 - Ambiguous Identifications 558

Lumber Sales = $f(\text{Advertising})$ (LUMBERAD.DAT)	558
Achieving Stationarity	558
Tentative N_t for Y_t	559
Prewhitening X_t to Identify the TF	560
Estimating and Diagnosing the TF	560
Multiple Input Transfer Functions—Automobile Market Share = $f(\text{Advertised quality, Price ratio})$	562
Feedback Systems	572
Summary	572
Key Terms	573
Key Formulas	574
Review Problems Using Your Software	575
Problems	576
Minicases	577
References	577
Appendix 13–A Estimating Impulse Response Weights and Initial Coefficients	578

PART V

CYCLICAL, QUALITATIVE, AND ARTIFICIAL INTELLIGENCE METHODS

14 Cyclical Forecasting Methods 583

Theory-Driven Analysis	584
Why Model Business Cycles?	584
Understanding Cyclical Influences	585
The Phases of Business Cycles	585
Important Economic Indicators	587
Leading, Coincident, and Lagging Indicators	587
Leading Economic Indicators	589
Cyclical Influences and Financial Markets	589
The Fed's Influence	589
Other Economic Indicators	590
Forecasting Recessions	593
Cyclical Forecasting Methods	595
Decomposition of Cyclical Indexes	596
Decomposition Forecasting	600
Cautions with Cyclical Indexes	600
Paired Indicators and Change Analysis	601
Change Measurements	601
Paired Indicators	601
Percentage Ratios	602
Ratio Behavior Explained	604
Ratio of U.S. Composite Coincident and Lagging Indexes	605
Cautions with Indicators and Ratios	607
Other Leading Indicators	608
Pressure Cycles (PC)	608
Steps of Pressure Cycle (PC) Analysis	608

Diffusion Indexes 611
 Summary 612
 Key Terms 613
 Key Formulas 613
 Review Problems Using Your Software 614
 Problems 614
 Minicases 616
 References 617
Appendix 14–A Some General Theories about Cycles 619

15 Technological and Qualitative Forecasting Methods: Long-Term Forecasting 624

Subjective Forecasting Methods 627
 Jury of Executive Opinion 629
 Sales Force Composite Methods 630
 Marketing Research and Survey Methods 631
 Exploratory Forecasting Methods 632
 Scenario Analysis 633
 Delphi Method 636
 Cross Impact Analysis 638
 Analogy Methods 638
 Trend Analysis 639
 Nominal Group Process 639
 Case Study Method 639
 Analytic Hierarchy Process 641
 Normative Forecasting Methods 641
 Relevance Trees (RT) 642
 Systems Dynamics 643
 S-Curves of Growth 643
 Technological Life Cycles 643
 Substitution Curves 645
 Modeling Growth Curves 645
 Gompertz Curves 646
 Logistics (Pearl) Curve 649
 Comparing Logistics (Pearl) and Gompertz Curves 651
 Stability of Growth Curves 653
 Summary 653
 Key Terms 654
 Key Formulas 655
 Review Problems Using Your Software 655
 Problems 656
 References 658

16 Artificial Neural Networks, Expert Systems, and Genetic Algorithms 662

Practical Implications of ESs, ANNs, and GAs 663
 Forecast Accuracy and Model Complexity 663

Artificial Intelligence (AI)/Expert Systems (ES)	664
Conventional Program Systems versus Expert Systems	664
Purpose of an Expert System	664
Parts of an Expert System	665
Advantages of Expert Systems	665
Disadvantages of Expert Systems	666
Expert System Applications in Forecasting	666
I. Data Entry and Validation Expert System	666
II. Model Selection and Forecasting Expert System	668
III. System Control and Maintenance Expert System	669
Artificial Neural Networks (ANNs)	670
Architecture of ANNs	672
Neurodes	673
ANN Applications	673
Steps in Developing an ANN	674
1. Determine the Structure of the ANN	678
2. Divide the Data into Training and Validation Sets	679
3. Scale All Input Variables	679
4. Set Initial Weights and Start a Training Epoch	680
5. Input Scaled Variables	681
6. Distribute the Scaled Inputs	681
7. Weight and Sum Outputs at Receiving Nodes	681
8. Transform Hidden Inputs to Outputs	681
9. Weight and Sum Hidden Node Outputs at the Output Nodes	682
10. Transform Inputs at the ANN Output Nodes	682
11. Calculate Output Error	682
12. Backpropagate Errors to Adjust Weights	682
13. Continue the Epoch	682
14. Calculate the Epoch RMS	682
15. Judge Out-of-Sample Validity	683
16. Use the Model in Forecasting	683
Understanding the Transfer Function	683
The Function of Bias	684
Other Transfer Functions	685
Describing Rates of Change in ANNs	685
Forecasting Quarterly U.S. Marriages	686
Scaling Input Variables	687
Choosing the Target RMS	688
The Results of Training	689
Forecasting the S&P 500	691
Sales with an Interaction Effect (INTERACT.DAT)	691
Backpropagation and Training ANNs	693
The Generalized Delta Rule	694
ANN Summary	696
Comparing ANNs and ESs	697
Genetic Algorithms (GA)	698
What Is a Genetic Code?	698
Evolutionary GA Processes	699
A Simple Crossover Example	700
Benefits and Applications of GAs	701

Summary	701
Key Terms	702
Key Formulas	702
Review Problems Using Your Software or Enclosed Spreadsheets	704
Problems	704
Minicases	706
References	706
Appendix 16–A Mathematics of a Backpropagation Neural Network	708

PART VI

COMBINING, VALIDATION, AND MANAGERIAL ISSUES

17 Control, Validation, and Combining Methods 713

Tracking Signal Control Methods	714
Tracking Signals: Detecting Cumulative (Biased) Errors	714
CUSUM _t Tracking Signal	715
Tracking Signal: CUSUM _t /MAD _t	716
Trigg Tracking Signal: SAD _t /MAD _t	717
An Example Application of TSM _t and TST _t	717
Autocorrelation Tracking Signal, r_t	719
Backward CUSUM V-Mask Tracking Signal	720
Choosing a Simple Tracking Signal	722
Reasonableness Tests	723
Combining Forecast Methods	723
Simple Average Combinations	724
Using Weighted Averages	725
Weights Inverse to the Sum of Squared Errors	725
Weights Determined by Regression Analysis	726
Past Research	727
Using Combinations of Forecasts	727
Consistent Forecasts: The One-Number Principle	728
Achieving Consistent Forecasts	729
Item versus Cumulative Forecast Accuracy	729
Group Forecasts	729
Assumption of Independence	730
Using Groups in Forecasting Systems	731
Pyramidal Forecasting Systems	731
Validation Methods: Occam's Razor and Parsimony	733
Model Complexity versus Forecast Accuracy	734
Akaike and Schwarz Bayesian Criteria	734
Split Sample and Out-of-Sample Validation	736
Extreme Value Behavior	736
Jackknife	737
Bootstrap	738
Summary	738
Key Terms	739
Key Formulas	739

Review Problems Using Your Software 741
Problems 741
Minicases 745
References 745

18 Method Characteristics, Accuracy, and Data Sources 748

Characteristics of Forecasting Methods 749
Horizon Length (a) 749
Accuracy at Each Horizon (b) 749
Cost of Development (c) 752
Data Period Used (d) 753
Frequency of Revision (e) 755
Type of Application (f) 755
Automation Potential (g) 755
External and Subjective Data (h) 756
Pattern Recognition Capability (i) 756
Number of Observations Required (j) 756
In Summary 757
Forecast Accuracy 758
Accuracy of Time Series Methods 758
Summary 762
Key Terms 763
Problems 764
Minicases 764
References 765

Appendix A Forecasting Data Sources 766
Appendix B Outlier Detection and Adjustment Procedures 774
Appendix C Student *t*-Distribution 780
Appendix D Areas of the Standard Normal Distribution 781
Appendix E Critical Values of Chi-Square 781
Appendix F The *F*-Distribution for $\alpha = .05$ and $\alpha = .01$ (Bold) for Many Possible Degrees of Freedom 783
Appendix G Critical Values of the Durbin-Watson Test Statistic for $\alpha = .05$ 785
Index 787