

## Contents

1	Introduction	1
2	The strict factor model	2
3	Approximate factor models	4
4	Specifying the number of factors	5
5	Dynamic factor models	6
6	Overview of existing applications	8
7	An empirical example	10
8	Conclusion	13
	 Bibliography	 13

## **Tables and Figures**

Table 1	Criteria for selecting the number of factors	17
Table 2	Variance shares explained by the common factors	17
Figure 1	Euro-area business cycle estimates	18