Exercise 1. November 28th, 2016

We want to analyze the price transmission of a particular sector of the economy. To that end, the file ej1.wf1 contains information about:

P1t: price index at the biggest central market

P2t: price index of the product in a secondary market

P3t: final price index.

The sample covers the period 1991:1-2015:4. With this information, you should reply to the following questions.

1. Test for the unit root null hypothesis for P1t and P2t
2. Determine the most appropriate ARIMA model for these two variables
3. Predict the future values of these variables for the 2016:1 period
4. Estimate the long-run relationship between the three prices. Interpret this model
5. Predict the future value of P3t according to the available information
6. Estimate the Error correction mechanism. Interpret this model