

Using the EViews file EViews2.wf1 answer all the following questions:

1. Estimate the following GARCH(1,1) in-mean level model:

Run a regression of i) growth (growthgerm) on: a constant, lagged growth, the third lag of inflation(inflationgerm1), and the conditional variance of growth,
ii) A GARCH(1,1) model, and include lagged growth as a regressor in the variance equation.

A) Explain how in the above model you can test (at the same time) for a) the Black hypothesis, b) the Friedman hypothesis and c) whether growth has a negative effect on growth uncertainty?

B) In the above regression model apply various misspecification tests in the standardised residuals. Is the fit of the regression good?

2. Estimate the following GARCH(1,1) in-mean-level model:

Run a regression of i) inflation(inflationgerm1) on: a constant, lagged inflation, and the conditional variance of inflation
ii) A GARCH(1,1) model, and include lagged inflation as a regressor in the variance equation.

A) Explain how in the above model you can test (at the same time) for a) the Cukierman and Meltzer hypothesis, and b) the first leg of the Friedman hypothesis

B) In the above regression model apply various misspecification tests in the standardised residuals. Is the fit of the regression good?

C) In the above regression model save the conditional variance of inflation as a series (garchinflation)

3. Run a regression of i) growth (growthgerm) on: a constant, lagged growth, the first lag of the conditional variance of inflation(garchinflation), and the conditional variance of growth,

ii) A GARCH(1,1) model, and include lagged growth as a regressor in the variance equation.

A) Explain how in the above model you can test (at the same time) for a) the Black hypothesis, and b) the second leg of the Friedman hypothesis

B) In the above regression model apply various misspecification tests in the standardised residuals. Is the fit of the regression good?

C) Compare the regression models in parts 1 and 3.