

CSC425 Time Series Analysis and Forecasting 2010/11 winter quarter

Instructor

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Office Hours: Wednesday at 3:30-5:00pm

Course Web page: <http://col.cdm.depaul.edu>

Summary of Course

The course presents statistical methods for time series analysis and forecasting with a focus on financial data analysis. The course will place great emphasis on applications. The course topics include linear time series analysis, stationarity and autocorrelation functions, autoregressive and moving average models, and their generalizations, conditional heteroschedastic (ARCH/GARCH) models to describe markets volatility. Alternative models for financial markets volatility will be discussed. If time permits, we'll discuss non-linear models, and non-parametric tests to address non-linearity problems in financial time series. Throughout the course, students will use the statistical package SAS for the analysis and modeling of time series.

Prerequisites

CSC423 or consent of instructor.

Grading Policy

The final grade has the following components:

Homework and Programming assignments (40%). There will be five assignments. Assignments will be posted on Thursday and be due a week later on Friday at midnight. Late assignments will not be accepted later than three days from the due date (typically by the following Monday). Notice that a 10% point penalty will be applied for each overdue day. Extensions may only be granted for exceptional reasons. **Requests for extensions must be received BY EMAIL before the due date.**

Group project (30%). Final project due at the end of the quarter. Details will be provided later in class. In-class project presentations will be scheduled on Wednesday March 17th (Finals week) - only for in-class students.

Midterm (30%) In class - tentatively scheduled on Wednesday February 10th (week 6). The exam will be closed book - students will be allowed to have a single-sided page of notes and a calculator.

Students receiving more than 90% of possible points are guaranteed at least an A-, more than 80% at least a B-, more than 70% at least a C-, and more than 60% at least a D.

Textbooks and Printed Resources

Required Text: Text Analysis of Financial Time Series, 3rd ed., by Ruey S. Tsay. John Wiley & Sons (2010), ISBN: 0-470-414359 (Or earlier editions)

Optional Text: *SAS for forecasting time series*, 2nd ed., by John C. Brocklebank and David A. Dickey. SAS Institute Inc. & John Wiley & Sons (2005). ISBN: 0-471-39566-8

Introductory notes on SAS will be posted on the course website.

Statistical software:

Students have the option to use either SAS or R. R is recommended only for students with a strong programming background.

The statistical package used in this course is SAS9.2 and is available in all DePaul labs. You can also request a copy of SAS 9.2 to install on your home computer by sending me an email at rsettimi@cdm.depaul.edu. Two lab sessions (to be recorded for online students) will be scheduled during the quarter.

The statistical software R is free. Installation instructions are posted on the course website.

Information for all students

Students are encouraged to contact the instructor for any question related to the course. You can see me in my office (room 716 of CDM building) during contact hours, or by appointment at other times.

The best way to contact me is through email at rsettimi@cdm.depaul.edu. Most emails will be answered within 24 hours. You can also call me at 312 3625556.

All students are expected:

- To read this document in full!
- To attend all classes (online students are expected to watch each lecture). If you miss a class, it is your responsibility to watch the lecture recording and to get copies of the notes or documents handed out in class. All lecture recordings are available at <https://col.cdm.depaul.edu>
- To participate actively to class discussions and activities and to work on the in-class problems and exercises that are designed to improve students' understanding of the class topics.
- To be familiar with all the course documents and notes posted at the course website.
- To read all the sections in the textbook relevant to the lecture before coming to class. The reading assignments are listed in the schedule included in this syllabus. Lecture notes are meant to complement the course textbook NOT TO REPLACE IT.
- To strictly adhere to the University Academic Integrity Policy, that is published in the Student Handbook or at the Academic Integrity site at DePaul University (<http://academicintegrity.depaul.edu>).

Violations of the University Academic Integrity Policy include (but are not limited to): (a) using or providing unauthorized assistance or materials on course assignments; (b) possessing unauthorized materials during an examination; (c) submitting as one's own any material that is copied from published or unpublished sources such as the Internet, print, computer files without proper acknowledgement that it is someone else's; (d) submitting as one's own work a report, examination, paper, computer file, lab report or other assignment which has been prepared by someone else. If you are unsure about what constitutes unauthorized help on an exam or assignment, or what information requires citation and/or attribution, please ask your instructor. If proven, violations may result in the failure of the assignment, failure of the course, and/or additional disciplinary actions.

Tutors: Unfortunately there aren't tutors for this course. The tutors' schedule is at:

<http://www.cdm.depaul.edu/advising/Pages/TutoringProgram.aspx>

Remember that I am your "best tutor", and you should not hesitate to contact me and to come and see me for any question regarding the assignments.

For online students

Recordings of each lecture will be available a few hours after the "live" class, and can be found at the course website <https://col.cdm.depaul.edu>. Online students are expected to watch the lectures every week and to keep up with the course information posted on the course website.

Students are encouraged to contact the instructor through email at rsettimi@cdm.depaul.edu, phone (312 3625556) or skype (skype id is raffasw). Most emails will be answered within 24 hours.

Online students will receive a copy of SAS 9.2 to install on their home computer. If they live in Chicago, they pick up a copy of the software from either the Loop or LPC campus. If that's not possible, I will make alternative arrangements. This is explained in the SAS instructions posted online.

Online students must **schedule their midterm exam** at the course website (<https://col.cdm.depaul.edu>) during the time frame specified by your instructor. Students living within the Chicago land area are considered *local* and will be expected to take their exams at a DePaul University campus. Time slots vary by campus and day. They can also take the exam with the other in-class students at the official exam time. Online students living outside the Chicago land area (*remote*) will have their exams administered by a qualified proctor. You will need to find an acceptable proctor in your area before you register for your exam. Detailed information about online exams is at <http://blogs.cti.depaul.edu/colwiki/Wiki%20Pages/How%20Do%20I%20Take%20My%20Exams.aspx>

Tentative schedule and reading assignments

The following schedule is tentative. The reading assignments are from the course textbook “Analysis of Financial Time Series” by R. Tsay.

Week	Topic	Reading assignment
1	Review of some statistical concepts: exploratory data analysis, correlation and regression analysis. Introduction to financial time series and their properties, distribution of returns. Introduction to SAS and R.	Chapter 1: Sections 1.1, 1.2
2	Distribution of returns and empirical properties. Stationarity, correlation and autocorrelation function. White noise series and introduction to linear time series. <i>Lab session</i>	Chapter 1: Section 1.2. Chapter 2: Sections 2.1, 2.2, 2.3.
3	Linear Time series: Simple autoregressive models and moving average models	Chapter 2: sections 2.4, 2.5
4	Simple ARMA models. Estimation and identification of correct ARMA model. Seasonal models.	Chapter 2: sections 2.6, 2.8
5	Discussion on model adequacy, including goodness of fit, residual analysis, forecasting accuracy and outlier detection.	Chapter 2: sections 2.4, 2.5, 2.6, 2.7.
6	Midterm exam. Regression models with time series errors.	Chapter 2: section 2.9.
7	Conditional heteroschedastic models. Characteristics of volatility and ARCH effects	Chapter 3: sections 3.1, 3.2, 3.3, 3.4
8	The GARCH model, Integrated GARCH, GARCH-M and E-GARCH models to analyze market volatility	Chapter 3.5, 3.6, 3.7, 3.8
9	Non linear models and their applications. Non-linearity tests.	Chapter 4: sections 4.1, 4.2
10	Analysis of High-frequency data. Discussion of challenges and solutions.	Chapter 5
11	Final project presentation	