**Autocorrelation example**

Suppose you are interested in predicting consumption based on various variables in the excel file Aurocorrelation\_BG consumption.xls.

The definition of the variables of interest is presented in the table below:

|  |  |
| --- | --- |
| **Variable** | **Definition / Unit** |
| lnconsump | Natural logarithm of consumption |
| interest | Interest rate |
| lnwealth | Natural logarithm of wealth |
| lndpi | Natural logarithm of disposable income |

As a starting point, consider the following linear regression model:

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1. Estimate the model and comment on the results
2. To test for first order autocorrelation, we are going to conduct the following statistical tests:
3. Durbin Watson test
4. Breusch Godfrey test