Faculti Summary

The speaker reflects on a paper they wrote 40 years ago while still a student, which is associated with their master's thesis. The paper gained notoriety for addressing non-stationary time series modeling, revealing a correct approach that gained attention in the research community—building upon prior, less recognized work. The paper primarily focused on modeling economic relationships between consumption, income, and other variables.

A key contribution was the concept of cointegration, originally popularized by Clive Granger, which allows non-stationary variables to be analyzed by transforming them into stationary combinations. The speaker's study compared various methodologies and highlighted discrepancies in results among different research approaches, particularly emphasizing the importance of using both levels and differences of non-stationary variables in modeling.

The paper suggested using growth rates and included economic theory, particularly the savings ratio, in its regression analysis. While initially seen as ad hoc, the approach ultimately showed robust predictive power over the years, maintaining relevance even as new data emerged.

The speaker notes that while their original understanding was limited, subsequent developments in macroeconomic research significantly expanded the framework of cointegration, leading to its acceptance as a crucial tool for analyzing economic data.

In summary, the discussion emphasizes the evolution of thinking about time series data in economics, the enduring impact of the speaker's research, and the broader implications for macroeconomic modeling techniques in light of the rational expectations revolution.