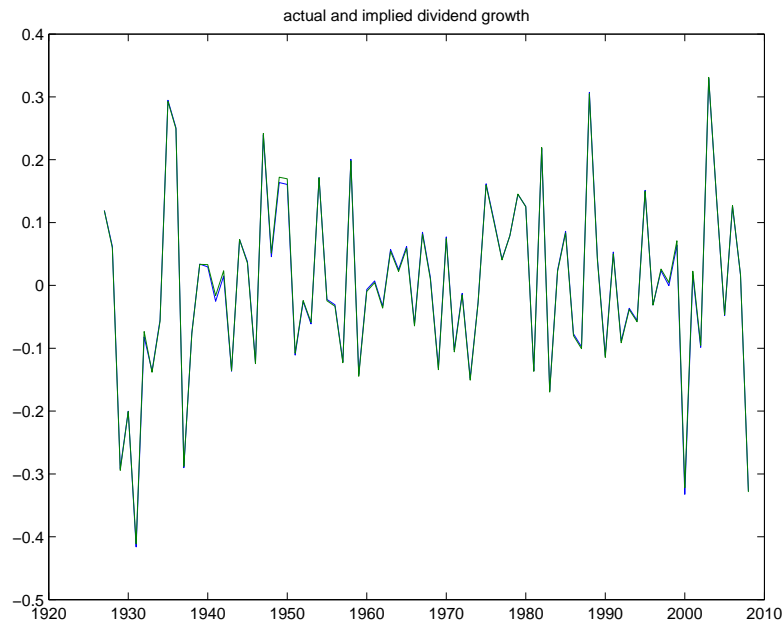


## Problem Set 2 answers

1. Actual and implied dividend growth. It looks pretty good. Note, the two series have different means, so I demeaned both. To do it really right, you should include the constant term as well. However, just because  $\Delta d_t$  looks good does not mean that  $\sum \rho^{j-1} \Delta d_{t+j}$  looks the same! Small low-frequency errors can pile up to big price differences!

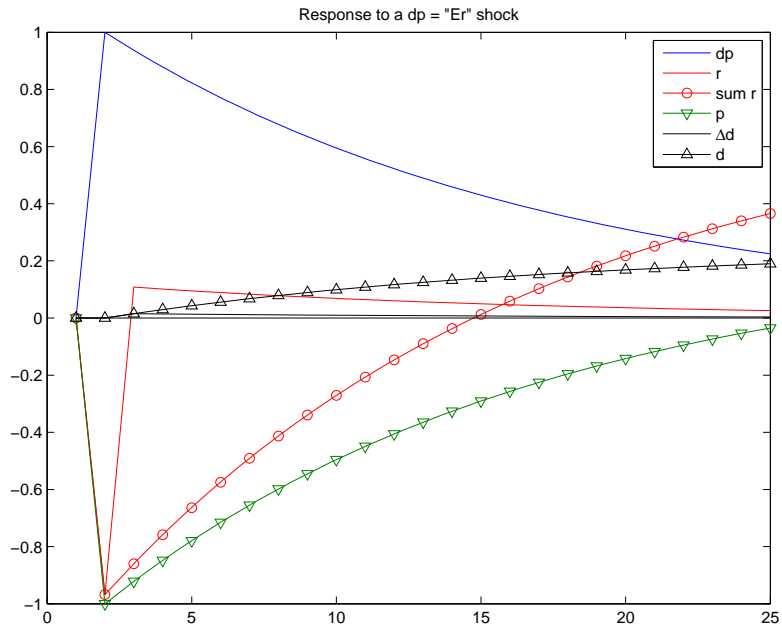
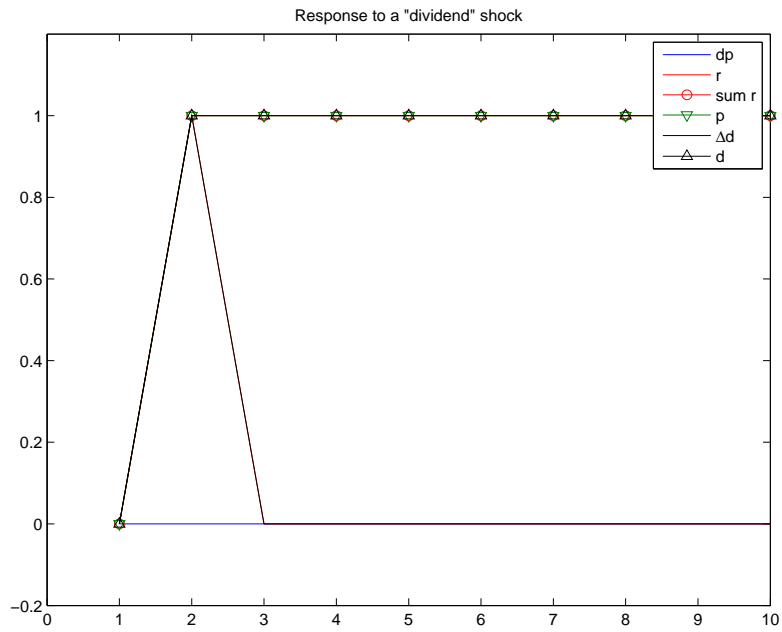


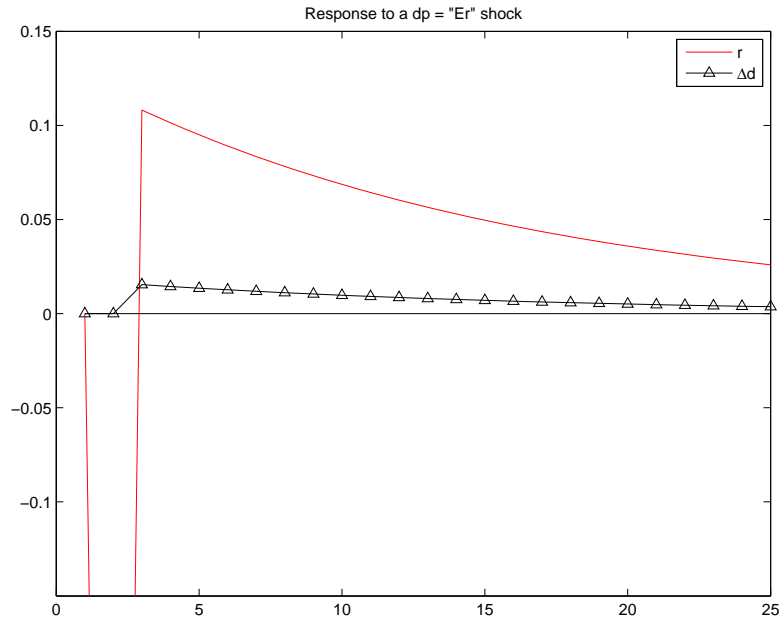
2.

| VAR coefficients | dp_t-1 | s.e     |
|------------------|--------|---------|
| r                | 0.108  | (0.050) |
| dd               | 0.015  | (0.040) |
| ddi              | 0.015  | (0.041) |
| dp               | 0.937  | (0.042) |

| correlation / std dev matrix |        |       |       |        |
|------------------------------|--------|-------|-------|--------|
|                              | r      | ddi   | dd    | dp     |
| r                            | 1.000  | 0.673 | 0.677 | -0.692 |
| ddi                          | 0.673  | 1.000 | 1.000 | 0.068  |
| dd                           | 0.677  | 1.000 | 1.000 | 0.062  |
| dp                           | -0.692 | 0.068 | 0.062 | 1.000  |

3.





We'll talk about these extensively in lecture. Remember to distinguish conceptually the “impact” effects at time 1 from the “changes in expectations of the future” effects in times 2 on.