Part III

Structural and Conditional Models

In Parts I and II, we have assumed that the time series of interest are generated by stationary or cointegrated reduced form VAR processes. In this part, structural models and systems with unmodelled, exogenous variables are discussed. In Chapter 9, structural VARs and VECMs are considered and, in Chapter 10, conditional or partial models are treated, where we condition on some variables whose generation process is not part of the model. These systems may be stationary if the unmodelled variables are generated by stationary processes. Alternatively, some or all of the unmodelled variables may be nonstochastic fixed quantities. In that case, the mean vectors of the time series variables of interest may be time varying and, hence, the series may not be stationary. They may still be stationary when the deterministic terms are removed, however. Generally, some of the endogenous and unmodelled stochastic variables may be integrated and have stochastic trends. Suitable models for this case will also be considered in Chapter 10.