

**Analysis and evaluation of econometric time series models:
Dynamic transfer function approach**

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This paper illustrates how to apply a set of response variables and a set of explanatory variables by using systems of equations of regression models as well as the same set of variables model led by Dynamic Transfer Function (DTF) model, in order to compare degrees of accuracy and inter-relation between such variables. A macro econometric forecasting system employed by the Accounting and Statistics of Annul Bulletin published by the Central Bank of Sri Lanka was studied. We shall use this study to illustrate the problems with the inclusion of contemporaneous input variables in the identification of a transfer function model and their effects on the forecasting performance of the model. The methods used in this study have been developed by the author. The data from the period 1991-2004 have been used in this study.

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