Is the European Bank Handling the Stress

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Abstract

This rapport aims to investigate the European Central Bank's way of using mathematical statistical processes to affect the European economy. In order to accomplish this, we explain what methods are being used, how they are working, and what purpose they serve the European Central Bank. The models of concern are the Vector Autoregressive Model and other time series models. We use these models to simulate forecasts, using data from two time series; these being unemployment rate and house price index. We will further compare our results with official European Central Bank statistics, where we will see that the Vector Autoregressive Model could be a suitable method when fine-tuned. Additionally, we will see that the Vector Autoregressive Model has good use for the European Central Bank when they are conducting their macroeconomic scenarios, we will attempt to explain why in this rapport.

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