APPLICATIONS OF ENHANCED HP FILTER

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ABSTRACT

The thesis is centered around hodrick prescott filter. The HP filter is used to separate the trend and the cyclical component of the time series. The aim of the filter is to preserve the long-term trend of the series and identify the recurrent events that affect the trend of time series,that is cyclicity. HP filter is widely used by macroeconomists for analyzing times series like GDP and inflation. Despite its widespread application, there are many limitations to the HP filter. This thesis suggests two ways of improving the existing HP filter and comparing its performance with the traditional HP filter by studying the trends and cycles of both filters and finding reasons as to why there are possible differences due to economic events and the impact of these events on the time series.