

## Dynamic Factor Model Overview

$$y_t = \Lambda_0^f f_t + \Lambda_1^f f_{t-1} + \cdots + \Lambda_{q^*}^f f_{t-q^*} + e_t$$

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$$f_t = \Psi_1 f_{t-1} + \cdots + \Psi_s f_{t-s} + \eta_t$$

$$e_t = \delta_1 e_{t-1} + \cdots + \delta_p e_{t-p} + u_t$$

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$$y_t = \Lambda_0^f f_t + \Lambda_1^f f_{t-1} + \delta_1 e_{t-1} + u_t$$

$\leftarrow f_t = \psi_1 f_{t-1} + \psi_2 f_{t-2} + \psi_3 f_{t-3} + \eta_t$   
 $\leftarrow f_{t-1} = \psi_1 f_{t-2} + \psi_2 f_{t-3} + \psi_3 f_{t-4} + \eta_{t-1}$   
 $\leftarrow e_{t-1} = \delta_1 e_{t-2} + u_{t-1}$   
 $\leftarrow$  white noise

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$$y_t = \Lambda_0^f f_t + \Lambda_1^f f_{t-1} + \Lambda_2^f f_{t-2} + \delta_1 e_{t-1} + \delta_2 e_{t-2} + u_t$$

$\leftarrow f_t = \Psi_1 f_{t-1} + \eta_t$   
 $\leftarrow \dots$        $\leftarrow \dots$        $\leftarrow e_{t-1} = \delta_1 e_{t-2} + \dots$   
 $\leftarrow \dots$        $\leftarrow \dots$        $\leftarrow \dots$        $\leftarrow \text{white noise}$

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