

vargranger — Perform pairwise Granger causality tests after var or svar

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Description

`vargranger` performs a set of Granger causality tests for each equation in a VAR, providing a convenient alternative to `test`; see [\[R\] test](#).

Quick start

Perform a Granger causality test after `var` or `svar`

```
vargranger
```

Perform a Granger causality test on vector autoregression estimation results stored as `myest`

```
vargranger, estimates(myest)
```

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Syntax

```
vargranger [ , estimates(estname) separator(#) ]
```

`vargranger` can be used only after `var` or `svar`; see [TS] `var` and [TS] `var svar`.

Options

`estimates`(*estname*) requests that `vargranger` use the previously obtained set of `var` or `svar` estimates stored as *estname*. By default, `vargranger` uses the active results. See [R] `estimates` for information on manipulating estimation results.

`separator`(#) specifies how often separator lines should be drawn between rows. By default, separator lines appear every K lines, where K is the number of equations in the VAR under analysis. For example, `separator`(1) would draw a line between each row, `separator`(2) between every other row, and so on. `separator`(0) specifies that lines not appear in the table.

Remarks and examples

[stata.com](http://www.stata.com)

After fitting a VAR, we may want to know whether one variable “Granger-causes” another (Granger 1969). A variable x is said to Granger-cause a variable y if, given the past values of y , past values of x are useful for predicting y . A common method for testing Granger causality is to regress y on its own lagged values and on lagged values of x and test the null hypothesis that the estimated coefficients on the lagged values of x are jointly zero. Failure to reject the null hypothesis is equivalent to failing to reject the hypothesis that x does not Granger-cause y .

For each equation and each endogenous variable that is not the dependent variable in that equation, `vargranger` computes and reports Wald tests that the coefficients on all the lags of an endogenous variable are jointly zero. For each equation in a VAR, `vargranger` tests the hypotheses that each of the other endogenous variables does not Granger-cause the dependent variable in that equation.

Because it may be interesting to investigate these types of hypotheses by using the VAR that underlies an SVAR, `vargranger` can also produce these tests by using the `e()` results from an `svar`. When `vargranger` uses `svar e()` results, the hypotheses concern the underlying `var` estimates.

See [TS] `var` and [TS] `var svar` for information about fitting VARs and SVARs in Stata. See Lütkepohl (2005), Hamilton (1994), and Amisano and Giannini (1997) for information about Granger causality and on VARs and SVARs in general.

▷ Example 1: After var

Here we refit the model with German data described in [TS] var and then perform Granger causality tests with vargranger.

```
. use http://www.stata-press.com/data/r14/lutkepohl2
(Quarterly SA West German macro data, Bil DM, from Lutkepohl 1993 Table E.1)
. var dln_inv dln_inc dln_consump if qtr<=tq(1978q4), dfk small
(output omitted)
. vargranger
```

Granger causality Wald tests

Equation	Excluded	F	df	df_r	Prob > F
dln_inv	dln_inc	.04847	2	66	0.9527
dln_inv	dln_consump	1.5004	2	66	0.2306
dln_inv	ALL	1.5917	4	66	0.1869
dln_inc	dln_inv	1.7683	2	66	0.1786
dln_inc	dln_consump	1.7184	2	66	0.1873
dln_inc	ALL	1.9466	4	66	0.1130
dln_consump	dln_inv	.97147	2	66	0.3839
dln_consump	dln_inc	6.1465	2	66	0.0036
dln_consump	ALL	3.7746	4	66	0.0080

Because the estimates() option was not specified, vargranger used the active e() results. Consider the results of the three tests for the first equation. The first is a Wald test that the coefficients on the two lags of dln_inc that appear in the equation for dln_inv are jointly zero. The null hypothesis that dln_inc does not Granger-cause dln_inv cannot be rejected. Similarly, we cannot reject the null hypothesis that the coefficients on the two lags of dln_consump in the equation for dln_inv are jointly zero, so we cannot reject the hypothesis that dln_consump does not Granger-cause dln_inv. The third test is with respect to the null hypothesis that the coefficients on the two lags of all the other endogenous variables are jointly zero. Because this cannot be rejected, we cannot reject the null hypothesis that dln_inc and dln_consump, jointly, do not Granger-cause dln_inv.

Because we failed to reject most of these null hypotheses, we might be interested in imposing some constraints on the coefficients. See [TS] var for more on fitting VAR models with constraints on the coefficients.



▷ Example 2: Using test instead of vargranger

We could have used `test` to compute these Wald tests, but `vargranger` saves a great deal of typing. Still, seeing how to use `test` to obtain the results reported by `vargranger` is useful.

```
. test [dln_inv]L.dln_inc [dln_inv]L2.dln_inc
( 1) [dln_inv]L.dln_inc = 0
( 2) [dln_inv]L2.dln_inc = 0
      F( 2, 66) = 0.05
      Prob > F = 0.9527

. test [dln_inv]L.dln_consump [dln_inv]L2.dln_consump, accumulate
( 1) [dln_inv]L.dln_inc = 0
( 2) [dln_inv]L2.dln_inc = 0
( 3) [dln_inv]L.dln_consump = 0
( 4) [dln_inv]L2.dln_consump = 0
      F( 4, 66) = 1.59
      Prob > F = 0.1869

. test [dln_inv]L.dln_inv [dln_inv]L2.dln_inv, accumulate
( 1) [dln_inv]L.dln_inc = 0
( 2) [dln_inv]L2.dln_inc = 0
( 3) [dln_inv]L.dln_consump = 0
( 4) [dln_inv]L2.dln_consump = 0
( 5) [dln_inv]L.dln_inv = 0
( 6) [dln_inv]L2.dln_inv = 0
      F( 6, 66) = 1.62
      Prob > F = 0.1547
```

The first two calls to `test` show how `vargranger` obtains its results. The first test reproduces the first test reported for the `dln_inv` equation. The second test reproduces the ALL entry for the first equation. The third test reproduces the standard F statistic for the `dln_inv` equation, reported in the header of the `var` output in the previous example. The standard F statistic also includes the lags of the dependent variable, as well as any exogenous variables in the equation. This illustrates that the test performed by `vargranger` of the null hypothesis that the coefficients on all the lags of all the other endogenous variables are jointly zero for a particular equation; that is, the ALL test is not the same as the standard F statistic for that equation.

◀

▷ Example 3: After svar

When `vargranger` is run on `svar` estimates, the null hypotheses are with respect to the underlying `var` estimates. We run `vargranger` after using `svar` to fit an SVAR that has the same underlying VAR as our model in [example 1](#).

```
. matrix A = (., 0,0 \ ., ., 0\ .,.,.)
. matrix B = I(3)
. svar dln_inv dln_inc dln_consump if qtr<=tq(1978q4), dfk small aeq(A) beq(B)
(output omitted)
. vargranger
Granger causality Wald tests
```

Equation	Excluded	F	df	df_r	Prob > F
dln_inv	dln_inc	.04847	2	66	0.9527
dln_inv	dln_consump	1.5004	2	66	0.2306
dln_inv	ALL	1.5917	4	66	0.1869
dln_inc	dln_inv	1.7683	2	66	0.1786
dln_inc	dln_consump	1.7184	2	66	0.1873
dln_inc	ALL	1.9466	4	66	0.1130
dln_consump	dln_inv	.97147	2	66	0.3839
dln_consump	dln_inc	6.1465	2	66	0.0036
dln_consump	ALL	3.7746	4	66	0.0080

As we expected, the `vargranger` results are identical to those in the first example.



Stored results

`vargranger` stores the following in `r()`:

Matrices

```
r(gstats)     $\chi^2$ , df, and  $p$ -values (if e(small)="")
r(gstats)     $F$ , df,  $df_r$ , and  $p$ -values (if e(small)!=")
```

Methods and formulas

`vargranger` uses `test` to obtain Wald statistics of the hypothesis that all coefficients on the lags of variable x are jointly zero in the equation for variable y . `vargranger` uses the `e()` results stored by `var` or `svar` to determine whether to calculate and report small-sample F statistics or large-sample χ^2 statistics.

Clive William John Granger (1934–2009) was born in Swansea, Wales, and earned degrees at the University of Nottingham in mathematics and statistics. Joining the staff there, he also worked at Princeton on the spectral analysis of economic time series, before moving in 1973 to the University of California, San Diego. He was awarded the 2003 Nobel Prize in Economics for methods of analyzing economic time series with common trends (cointegration). He was knighted in 2005, thus becoming Sir Clive Granger.

References

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Also see

- [TS] **var** — Vector autoregressive models
- [TS] **var svar** — Structural vector autoregressive models
- [TS] **varbasic** — Fit a simple VAR and graph IRFs or FEVDs
- [TS] **var intro** — Introduction to vector autoregressive models