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Linear predictive regression framework

By Lukasz Prochownik

GRIN Verlag Nov 2011, 2011. Taschenbuch. Book Condition: Neu. 210x148x2 mm. This item is printed on demand - Print on Demand Neuware - Master's Thesis from the year 2011 in the subject Economics - Macro-economics, general, printed single-sided, grade: 81 %, University of Southampton, course: Econometrics, language: English, abstract: The concept of predictive regressions has been studied for over the past 20 years and its application is particularly present in applied economics, finance and econometrics. The basic set-up in the predictive regression framework associates the noisy explained variable with the lagged persistent regressor, which can be characterized as a process close to the unit root process. In my work I describe the relevance and implications of an adoption of the linear predictive regressions in forecasting the volatile stock return using the lagged variable, dividend-price ratio, which is highly persistent. Subsequently, I aim to answer questions whether the excess stock returns are predictable using dividend yields and whether the predictability is stable over time. The analysis I conduct, based on financial data, aim to detect the hypothetical presence of structural breaks in the model. In order to search for the structural instability of coefficients I construct a Wald test for each...

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