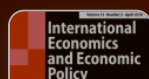


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Forecasting exchange rate volatility: GARCH models versus implied volatility forecasts

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Notes

1. A symmetric model means that when a shock occurs, we will have a symmetric response of volatility to both positive and negative shocks. Asymmetric models on the other hand, allow for an asymmetric response with empirical results show that negative shocks will lead to higher volatility than a positive shock.
2. Over fitting happens when the statistical model describes a random error or noise instead of the underlying relationship, causing biasedness in parameter estimates.

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8. Bollerslev et al. (2001) argue that this type of volatility is an unbiased and very efficient estimator of return volatility.
9. It should be noted that the parameters ($\alpha + \beta$) were less but close to unity, suggesting that the shocks are highly persistent and die out only gradually.
10. It should be noted that the parameters are “forced” to be positive since we are measuring the natural log of returns. In theory, the “EGARCH benchmark model” has an AR(1) mean equation, but in our case the parameters proved to be more significant using a constant mean equation.

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