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Moving Average-Based Estimators of Integrated Variance

Peter R. Hansen , Jeremy Large & Asger Lunde

Pages 79-111 | Received 01 Oct 2005, Accepted 14 Aug 2006, Published online: 07 Mar 2008

 Cite this article  <https://doi.org/10.1080/07474930701853640>

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Abstract

We examine moving average (MA) filters for estimating the integrated variance (IV) of a financial asset price in a framework where high-frequency price data are contaminated with market microstructure noise. We show that the sum of squared MA residuals must be scaled to enable a suitable estimator of IV. The scaled estimator is shown to be consistent, first-order efficient, and asymptotically Gaussian distributed about the integrated variance under restrictive assumptions. Under more plausible assumptions, such as time-varying volatility, the MA model is misspecified. This motivates an extensive simulation study of the merits of the MA-based estimator under misspecification. Specifically, we consider nonconstant volatility combined with rounding errors and various forms of dependence between the noise and efficient returns. We benchmark the scaled MA-based estimator to subsample and realized

kernel estimators and find that the MA-based estimator performs well despite the misspecification.

Keywords:

Bias correction High-frequency data Integrated variance Moving average Realized variance
Realized volatility

JEL Classification:

C10 C22 C80

ACKNOWLEDGMENTS

We thank participants at the International Conference on High-Frequency Finance in Konstanz for valuable comments. We are particularly grateful to Neil Shephard, two anonymous referees, and Esfandiar Maasoumi (the editor) for their suggestions that improved this manuscript. All errors remain our responsibility. Financial support from the Danish Research Agency, grant no. 24-00-0363 is gratefully acknowledged.

Notes

¹Within TTS, Griffin and Oomen ([2008](#)) further distinguish two categories: In the first (transaction time sampling), $t_{i,m}$ is the time of a transaction; while in the second (for which they reserve the term, tick time sampling) $t_{i,m}$ is the time of a quote revision.

²Andersen et al. ([2001](#)) experiment with unfiltered and also linearly interpolated five-minute returns, finding similar dynamics in all cases. Nevertheless, sampling NYSE data at five-minute intervals, they find a median moving-average coefficient of -0.214 ($+0.214$ in the notation of this article), at which level, if the microstructure is an IID noise, the unscaled MA(1)-based estimator overstates IV by 62%.

³The main exception was which was quite similar to at the smaller variances. Graphs giving this information are available from the authors on request.

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