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Skewness in the conditional distribution of daily equity returns

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Abstract

The conditional distribution of asset returns is important for a number of applications in

finance, including financial risk management, asset pricing and option valuation. In the

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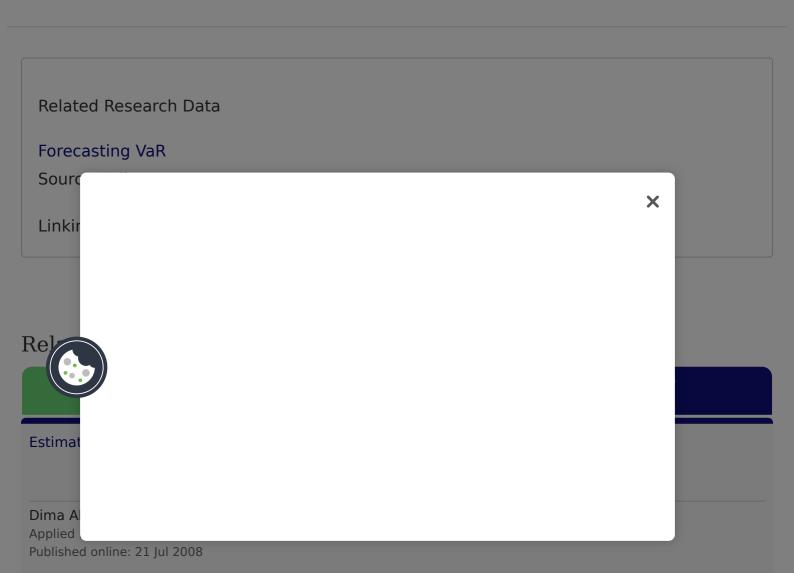
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specification, the conditional distribution is negatively skewed for all six series.

However, for three of these series – namely the US, Japan and the World index – this skewness can be explained by leverage effects, which are captured by the EGARCH model. For the remaining three series – the UK, Canada and Germany – the skewness in the conditional distribution of returns remains even after allowing for leverage effects.

Notes

- 1 See also Liu and Brorsen (1995), Mittnik et al. (1997, 1998a,b) and Mittnik and Rachev (2000).
- ² The focus of Hansen (<u>1994</u>) is modelling time variation in the kurtosis and skewness of returns, but he also estimates models that have constant skewness and kurtosis.
- ³ To facilitate statistical inference, the table reports the transformed skewness parameter and its standard error. The true skewness parameter can be retrieved by inverting Equation 10.



Modeling Conditional Skewness in Stock Returns > Markku Lanne et al. The European Journal of Finance Published online: 27 Nov 2007 Tests for Skewness, Kurtosis, and Normality for Time Series Data > Jushan Bai et al. Journal of Business & Economic Statistics Published online: 1 Jan 2012 View more



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