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# Are implied volatilities more informative? The Brazilian real exchange rate case

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## Notes

<sup>1</sup> Jorion ([1995](#)), Xu and Taylor ([1995](#)), Taylor and Xu ([1997](#)), Christensen and Prabhala ([1998](#)), Fleming ([1998](#)) and Blair et al. ([2001](#)).

<sup>2</sup> However, their results depend on the symmetry hypothesis of the loss function used to evaluate forecasts.

<sup>3</sup> There was a major change of regime in January 1999, when Brazil moved from a quasi-fixed to a floating exchange rate. Before February 1999, the dollar-real options market was very illiquid and restricted to deep out-of-the-money calls.

<sup>4</sup> To the best of our knowledge the only paper that addresses this issue for the Brazilian exchange rate is Andrade and Tabak ([2001](#)). However, the authors only evaluate two years of data and do not take into account the nature of the options expiration cycle.

<sup>5</sup> The closer the strike price is nearer to the spot rate, the more the options prices would be affected by the volatility of the underlying asset.

<sup>6</sup> We emphasize that the options market is not a complete market. The prices would not be simultaneously determined. The results are the same.

<sup>7</sup> Xu and Taylor (1995) use 15 calendar days to calculate the implied volatility. More than 3 business days are used in this paper.

<sup>8</sup> We also use 15 calendar days to calculate the implied volatility. More than 3 business days are used in this paper. The results are the same.



<sup>9</sup> This approach is also taken by Canina and Figlewski ([1993](#)), Jorion ([1995](#)), Amin and Ng ([1997](#)), Campa and Chang ([1998](#)), Christensen and Prabhala ([1998](#)) and Blair et al . ([2001](#)).

<sup>10</sup> Unit roots tests were done for all series and no evidence of nonstationarity was found for volatility measures.

<sup>11</sup> The  $R^2$  provides a direct assessment of the variability in realized volatility that is explained by the estimates. It is considered a simple gauge of the degree of predictability in the volatility process and hence of the potential economic significance of the volatility forecasts.

<sup>12</sup> This approach of comparing multiple forecasts, often called ‘encompassing regression’, is discussed in Jorion ([1995](#)), Christensen and Prabhala ([1998](#)) and Campa and Chang ([1998](#)).

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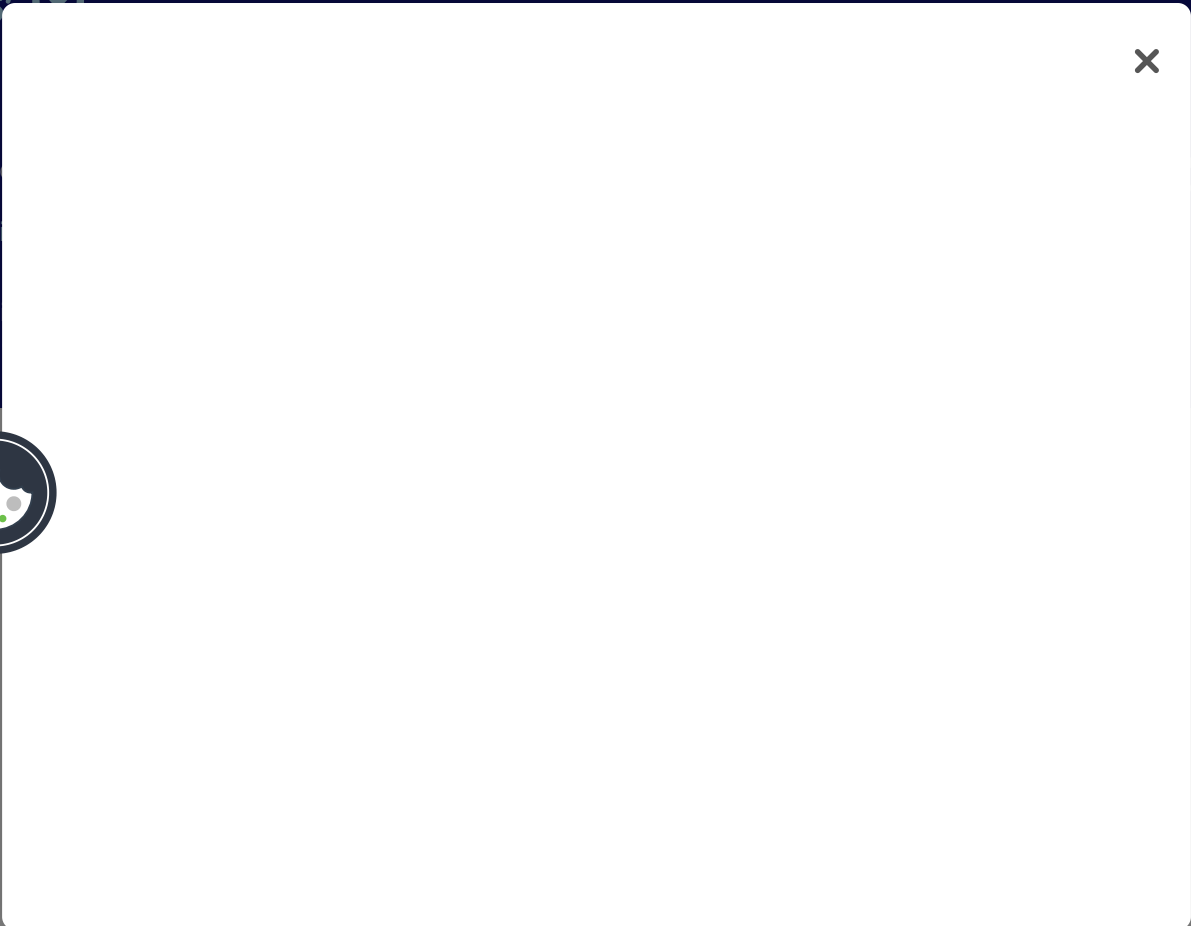
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