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Applied Economics Letters > Volume 18, 2011 - Issue 15

678 20

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**Original Articles** 

## Predicting regime switches in the VIX index with macroeconomic variables

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Pages 1415-1419 | Published online: 21 Mar 2011

**66** Cite this article https://doi.org/10.1080/13504851.2010.539532

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## **Abstract**

In this article, we investigate the role of US macroeconomic variables as leading

indicators of regime shifts in the VIX index using a regime-switching approach. We find

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## Notes

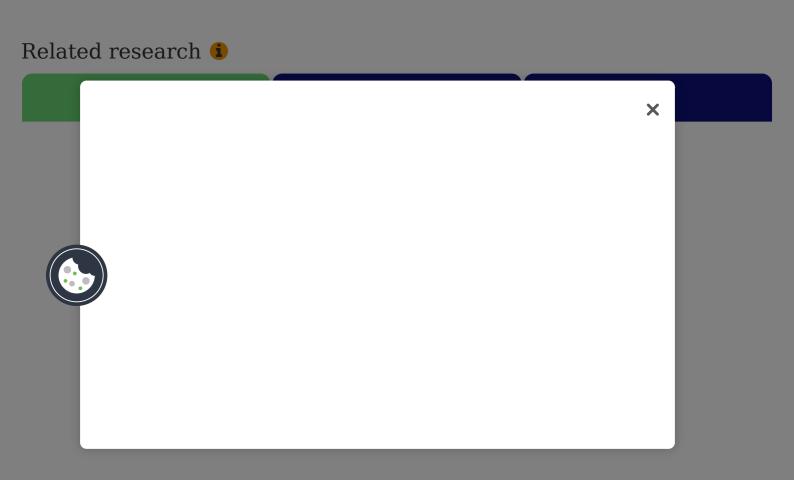
<sup>1</sup>One closely related study is of Chen and Clements (<u>2007</u>), who investigate the impact of monetary policy announcement on the VIX index, although they do not investigate regime switches.

<sup>2</sup>The structural breaks are detected by minimizing the sum of squared errors of each partitioned period.

<sup>3</sup>Bussiere and Fratzscher (2006) suggest the usefulness of a regime-switching approach in the early warning system model because it can determine the timing and the length of different regimes endogenously.

<sup>4</sup>For a robustness check, we also estimated three-regime-switching model without this restriction. We conducted likelihood ratio test and found that the model without the restriction did not significantly outperform the model with the restriction at the 5% level.

<sup>5</sup>All the macroeconomic variables are obtained from Bloomberg.



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