







Home ▶ All Journals ▶ The European Journal of Finance ▶ List of Issues ▶ Volume 15, Issue 4 ▶ Forecasting the weekly time-varying beta ....

The European Journal of Finance > Volume 15, 2009 - Issue 4

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# Forecasting the weekly time-varying beta of UK firms: GARCH models *vs*. Kalman filter method

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### **Abstract**

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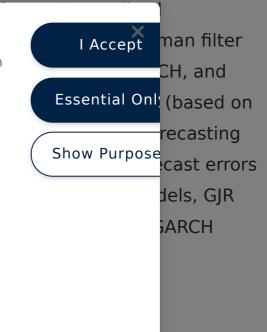
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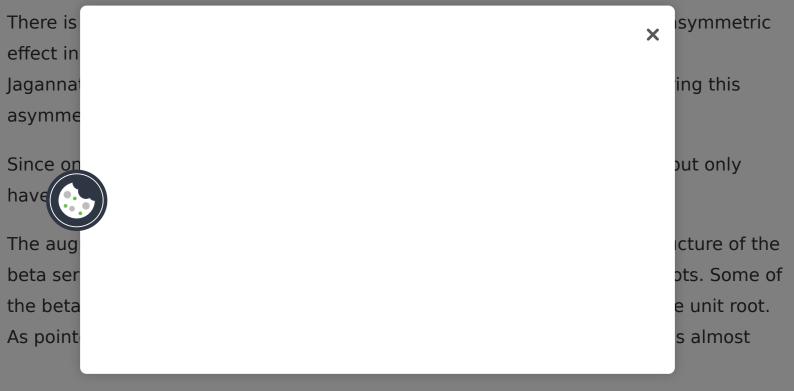
# Acknowledgements

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## Notes

Brooks, Faff, and McKenzie (1998) provide several citations of papers that apply these different methods to estimate the time-varying beta.

The leverage effect is due to the reduction in the equity value, which would raise the debt-to-equity ratio, hence raising the riskiness of the firm as a result of an increase in future volatility. Glosten, Jagannathan, and Runkle (1993) provide an alternative explanation for the negative effect; if most of the fluctuations in stock prices are caused by fluctuations in expected future cash flows, and the riskiness of future cash flows does not change proportionally when investors revise their expectations, the unanticipated changes in stock prices and returns will be negatively related to unanticipated changes in future volatility.



true by the style of construction of the Kalman filter and the GARCH. These results are also available on request.

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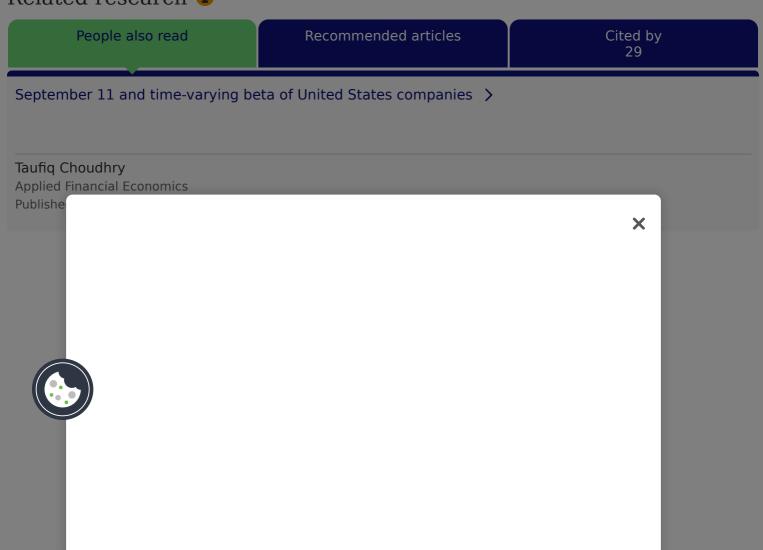
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