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

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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 augmented Dickey–Fuller test is applied to check for the stochastic structure of the beta series. All GARCH estimated beta series are found to have zero unit roots. Some of the beta estimated by means of the Kalman filter approach may contain one unit root. As pointed out by one of the referees this result is not surprising since this is almost true by the style of construction of the Kalman filter and the GARCH. These results are also available on request.



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