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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 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

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


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