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

Taufiq Choudhry & Hao Wu

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Abstract

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The augmented Dickey-Fuller (ADF) test is used to test the presence of a unit root in the beta series. The null hypothesis is that the beta series has a unit root. The ADF test statistic is calculated as follows:

$$ADF = \frac{\sum_{t=1}^T \hat{\epsilon}_t \Delta \beta_t}{\sqrt{\sum_{t=1}^T \hat{\epsilon}_t^2}}$$

As pointed out by the ADF test, the beta series is almost stationary.





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