

EMPIRICAL FINANCE 3.2

– GROUP ASSIGNMENT 2 –

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General Instructions

Availability

Each week's coding assignment is available from Friday 00:00.

Deadline

The deadline to submit is the following week's Monday 23:59, no exceptions!

Tutorials

Each Friday at 13:30, the tutorial session is dedicated to the assignment. Justus will walk you through the assignment. You will receive useful coding tips. You can ask questions and get troubleshooting support.

Canvas Submission Requirements

Each group submission must include:

1. A PDF with written answers that includes: (a) a cover page with group number, member names and student ids, (b) answers to questions Q1 and Q2 below, and (c) an Appendix with the printed replication code.
2. A replication code file that is fully self-contained and allows to reproduce all results in R-Studio.

Important

If the code does not replicate the provided answers, the assignment will receive 0 points. Clear cases of fraud will be reported to the exam commission.

Groups

You will work in groups of four. No extensions will be granted. Plan ahead and make it work. Document your workload division via e-mail or Canvas group page to insure against slacking.

Weighting

Each assignment counts for 5% of the final grade (total of 30% across all six assignments).

Grading Each assignment can earn a maximum of 10 points (see grading rubric below) and the grade is equivalent to the points earned. Any questions about the grading must be asked within 48h of publishing the grade on Canvas.

Table 1: Grading Rubric

Q1(a) - Output	1 point
Q1(a) - Analysis	1 point
Q1(b) - Output	1 point
Q1(b) - Analysis	1 point
Q2(a) - Output	1 point
Q2(a) - Analysis	1 point
Q2(b) - Output	1 point
Q2(b) - Analysis	1 point
Layout and Writing	1 point
Best Coding Practices	1 point

Preparations

Navigate to the excel file 'Group Assignment Stocks' and identify the stock associated with your group number. For your assigned stock, independently obtain the stock ticker. For the indicated date range, import the stock prices using the tidyquant package. Load the stock prices into R and calculate the log-returns for the indicated years.

Comment: If you struggle with downloading the data, you may request a csv file with returns from Justus against a 2 point deduction.

Questions

Q1. Stock Prices, Returns, and Characteristics

- (a) For the final five years of the data, plot the autocorrelation function (acf) of the returns and the squared returns. Both plots should include confidence bands. Export the plots into your pdf. Shortly analyze the plots. What conclusions can you draw?

- (b) Formally test whether significant joint autocorrelation is present in the two series. Report clearly on the choices you are making. Put the results in a table and interpret the statistics.

Q2. Return distributions

- (a) For the last five years in your sample, obtain the MA volatility time series using a suitable estimation window W . Furthermore, obtain the EWMA volatility time series using a suitable decay parameter. Report clearly on the choices you are making. Plot the two fitted time series together. Analyze the plot and explain which model (specification) you prefer.
- (b) Using residual analysis, formally test whether the models capture the return characteristics as intended. Export the results into your pdf and briefly and clearly state your conclusions.