Dataset - Master thesis

FX interest rates of interest: Japan, USD, German Bund, British Pound

Time frame: 1974 – 1984

Data needed: GDP, Monetary base, CPI, short term interest rate, cumulated trade balances

**The use of seasonally adjusted data is especially likely to**

**distort structural parameter estimates when the variables are not all adjusted**

**by the same method. 🡪 do not use seasonally adjusted parameters.**

**6Since current account data is available only on a quarterly basis, the monthly version of**

**Hooper and Morton's empirical model uses the trade balance as a proxy. Cumulative deviations**

**from trend balances (current accounts) enter Hooper and Morton's equation since they assume**

**that deviations from trend balances are unanticipated.**

**Consider if you want to remove periodicity via FFT.**

**A possible problem with all the techniques listed thus far is that they**

**minimize criteria based on squared deviations. These type of criteria are**

**inappropriate if, for example, exchange rates follow non-normal stable-**

**Paretian distributions with infinite variance, as suggested by Westerfield**

**(1977). Therefore, our final time series technique is based on minimizing**

**absolute deviations. This 'MAD' estimator is more robust to fat-tailed**

**distributions, and less sensitive to outlier observations.**

**Granger and Newbold's technique for optimally combining forecasts involves regressing the**

**realized exchange rate against the forecasts of different models, with the weights constrained to**

**sum to one, but not constrained to be positive. Even a bad predictor can sometimes be**

**profitably combined with a good predictor; the forecasting gain depends on their covadation.**

**An estimated combination of all seven forecasts never improves upon the random walk model**

**alone, but estimated linear combinations of the different forecasts taken two at a time do**

**sometimes outperform the random walk model. 🡪 interesting technique to combine different estimation techniques.**

**It is well known that imposing a**

**coefficient restriction which is approximately correct tends to improve**

**forecast accuracy.**