Assignment 6

Econ M524 (Fall, 2022)

November 16, 2022

Deadline: Nov. 27, 2022, Sunday

1. Use the data in the last assignment. The dependent variable is the excess return, and the predictor is the first principal component of 14 macro variables. Compute the MSEs of the forecast at horizon $h = 1$ and $h = 3$, using two methods: historical mean and predictive regression using the first principal component. Report the out-of-sample R^2 at $h = 1$ and $h = 3$. Use the initial estimation sample fraction to be 0.5.