Kruttli, Patton and Ramadorai (2015)

Analysis Method

1. One month ahead simple OLS regression

Rho is the variable of interest. The author also runs this regression with several other competitor variables.

Newy-West standard error adjusted (lag = T1/3 )

Assess in-sample significance

2. One month ahead multiple OLS regression

X is the competitor predictors.

Assess the extra explanatory power

Cross-sectional variation in predictive power

3. Long forecasting horizon prediction

Let h represents the forecasting horizon.

4. Placebo Test

The mechanism is related to liquidty, then in highly liquid asset, it should not have much impact. (e.g. regulation 🡪 finance, not on agriculture, then it should not impact those)

5. Out-of-Sample Test

Single parameter regression (rolling 60 months)