

Essays on Random Effects Models and GARCH

Jimmy Skoglund

- ^ STOCKHOLM SCHOOL OF ECONOMICS
- ^ EFI, THE ECONOMIC RESEARCH INSTITUTE

Contents

Preface	v
Introduction and summary	vii
I Random Effects Models	1
1 Maximum likelihood based inference in the two-way random effects model with serially correlated time effects	3
1.1 Introduction	3
1.2 The maximum likelihood estimator	4
1.3 Specification tests	6
1.3.1 Testing for autocorrelation in β_t	6
1.3.2 Testing AR(1) vs. MA(1)	7
1.4 Monte-Carlo study	9
1.4.1 Design	9
1.4.2 Parameter estimates	9
1.4.3 Hypothesis tests	10
1.4.4 Model selection	19
1.5 Conclusions	22
A Score and Information	25
A.I The score vector	25
A.2 The information matrix	27
B The LM-test against ARM A (1,1)	31
C Proof of theorem 1	35

2 Asymptotic properties of the maximum likelihood estimator of random effects models with serial correlation	39
2.1 Introduction	39
2.2 The comprehensive specification	41
2.3 Asymptotic properties	42
2.3.1 Assumptions	42
2.3.2 Consistency	45
2.3.3 Asymptotic normality	47
2.3.4 Misspecification	54
2.4 Final remarks	55
A Score and Information	57
A.I The score vector ...'	57
A.2 The information matrix	59
B Proofs	63
3 Specification and estimation of random effects models with serial correlation of general form	89
3.1 Introduction	89
3.2 The model	90
3.3 Estimation and model specification	92
3.3.1 Likelihood	92
3.3.2 Model selection	95
3.4 Application	100
3.4.1 The model and data	100
3.4.2 Specification of the error components	101
3.4.3 Elasticities and returns to scale	102
3.4.4 Technical change	105
3.5 Conclusions	107
A Proof of property 1	109
II GARCH	117
4 A simple efficient GMM estimator of GARCH models	119
4.1 Introduction	119
4.2 A GARCH(1,1) conditional variance process	120
4.2.1 The efficient GMM estimator	120
4.2.2 Asymptotic properties	122

4.2.3	Finite-sample properties	124
4.3	Extension to models with a conditional mean	127
4.3.1	The GARCH(1,1)-M regression model	127
4.3.2	Asymptotic efficiency comparison	128
4.3.3	Specification tests	130
4.4	Empirical illustration	131
4.5	Final remarks	135
A	Proofs	137