Joint analysis end estimation of stock prices and trading volume in Barndorff-Nielsen and Shephard stochastic volatility models

Petra Posedel
Department of Mathematics, University of Zagreb, Croatia

Joint work with Friedrich Hubalek, Technische Universität Vienna

Workshop on Statistical Inference for Lévy Processes
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1 Barndorff-Nielsen Shepard (BNS) stochastic volatility models
   - Discretely observed continuous time model

2 The simple explicit estimator
   - Estimating functions
   - The explicit solution
   - Consistency and asymptotic normality
   - Numerical illustrations

3 Application of the results to real data

4 Future work
Inference for BNS stochastic volatility models

Outline of the talk – part 1

- In the discretely observed Barndorff-Nielsen Shepard (BNS) setting we explore the joint distribution of spot prices $X$ and the instantaneous trading volume $\tau$ since both quantities are observable.

- Inference by the **martingale estimating function approach** leads to an explicit estimator.

- We show the strong law of large numbers for $(\tau_i^p, i \geq 0)$ and $(\tau_{i-1}^r X_i^p \tau_i^q, i \geq 1)$ without ergodicity arguments.
Outline of the talk – part 2

- **consistency** and **asymptotic normality** of the simple explicit estimator
- we evaluate the performance of our estimator in a simulation study for a concrete specification, the Γ-OU
- application of the results to *daily* data
- further issues: superposition of OU-processes; comparison with the GMM estimation procedure
The model

Continuous time model

\[ dX(t) = (\mu + \beta \tau(t^-))dt + \sigma \sqrt{\tau(t^-)}dW(t) + \rho dZ_{\lambda}(t), \quad X(0) = 0. \]

and

\[ d\tau(t) = -\lambda \tau(t^-)dt + dZ_{\lambda}(t), \quad \tau(0) = \tau_0, \]

where \( \mu, \beta, \rho, \lambda \in \mathbb{R} \) with \( \lambda > 0 \). \( Z = (Z_t) \) is the BDLP \( Z_{\lambda}(t) = Z(\lambda t) \).
\( \tau_0 \) has a self-decomposable distribution corresponding to the BDLP s. t. the process \( \tau \) is strictly stationary and

\[
E[\tau_0] = \zeta, \quad \text{Var}[\tau_0] = \eta.
\]

**Assumptions:** \( E[\tau_0^n] < \infty, \forall n \in \mathbb{N} \).

True for \( \Gamma\text{-OU, IG-OU, . . . .} \).

For our analysis we will assume that the instantaneous variance process \( V \) is a constant time the trading volume/number of trades \( \tau \). That is,

\[
dV(t) = \sigma^2 \cdot d\tau(t),
\]

with \( \sigma > 0 \).
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3. Application of the results to real data

4. Future work
Observing $X$ and $\tau$ on a discrete grid of points in time, $0 = t_0 < t_1 < \ldots < t_n$, we obtain:

$$\tau(t_i) = \tau(t_{i-1}) e^{-\lambda(t_i-t_{i-1})} + \int_{t_{i-1}}^{t_i} e^{-\lambda(t_i-s)} dZ_{\lambda}(s)$$

and

$$X(t_i) - X(t_{i-1}) = \mu(t_i - t_{i-1}) + \beta(Y(t_i) - Y(t_{i-1})) + \sigma \int_{t_{i-1}}^{t_i} \sqrt{\tau(s-)} dW(s)$$

$$+ \rho(Z_{\lambda}(t_i) - Z_{\lambda}(t_{i-1})),$$

where $Y(t) = \int_0^t \tau(s-) ds$ is the integrated trading volume process.
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Discretely observed continuous time model

Introducing

\[ X_i = X(t_i) - X(t_{i-1}), \quad Y_i = Y(t_i) - Y(t_{i-1}), \quad Z_i = Z_\lambda(t_i) - Z_\lambda(t_{i-1}), \]

\[ W_i = \frac{1}{\sqrt{Y_i}} \int_{t_{i-1}}^{t_i} \sqrt{\tau(s-)} dW(s) \sim N(0, 1), \]

and an auxiliary quantity \( U(t) = \int_0^t e^{-\lambda(t-s)} dZ_\lambda(s), \)

using \( t_k = \Delta k, \Delta > 0 \) fixed and \( \tau_i = \tau(t_i) \) we have

\[ \tau_i = \gamma \tau_{i-1} + U_i, \quad Y_i = \epsilon \tau_{i-1} + S_i, \quad S_i = \frac{1}{\lambda} (Z_i - U_i) \]

\[ X_i = \mu \Delta + \beta Y_i + \sigma \sqrt{Y_i} W_i + \rho Z_i, \]

where \( \gamma = e^{-\lambda}, \quad U_i = U(t_i) - U(t_{i-1}), \quad (U_i, Z_i) \text{ i.i.d} \)
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Martingale estimating functions

- Suppose that $X_1, X_2, \ldots, X_n$ are observations from a model with a $d$-dimensional parameter $\theta \in \Theta$.
- An estimator $\hat{\theta}_n$ is obtained solving the equation
  \[ G_n(X_1, X_2, \ldots, X_n; \theta) = 0, \]  
  \[ (2) \]
  where $G_n(\theta)$ is a $d$-dim estimating function of the parameter $\theta \in \mathbb{R}^d$.
- Among the class of unbiased or Fisher consistent estimating functions, we will analyze those estimating functions that are *martingales*. 
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where $G_n(\theta)$ is a $d$–dim estimating function of the parameter $\theta \in \mathbb{R}^d$.

- Among the class of unbiased or Fisher consistent estimating functions, we will analyze those estimating functions that are *martingales*. 
Let \( \theta = (\nu, \alpha, \lambda, \mu, \beta, \sigma, \rho)^\top \), \( X = (X, \tau) \).

We consider the following 7 martingale estimating functions:

1. \( G_n^1(\theta) = \sum_{i=1}^{n} \left[ \tau_i - E(\tau_i|\tau_{i-1}) \right] \)
2. \( G_n^2(\theta) = \sum_{i=1}^{n} \left[ \tau_i \tau_{i-1} - \tau_{i-1} E(\tau_i|\tau_{i-1}) \right] \)
3. \( G_n^3(\theta) = \sum_{i=1}^{n} \left[ \tau_i^2 - E(\tau_i^2|\tau_{i-1}) \right] \)
4. \( G_n^4(\theta) = \sum_{i=1}^{n} \left[ X_i - E(X_i|\tau_{i-1}) \right] \)
5. \( G_n^5(\theta) = \sum_{i=1}^{n} \left[ X_i \tau_{i-1} - \tau_{i-1} E(X_i|\tau_{i-1}) \right] \)
6. \( G_n^6(\theta) = \sum_{i=1}^{n} \left[ X_i \tau_i - E(X_i \tau_i|\tau_{i-1}) \right] \)
7. \( G_n^7(\theta) = \sum_{i=1}^{n} \left[ X_i^2 - E(X_i^2|\tau_{i-1}) \right] \).
The specifications for $G^j_n$ belong to the more general class of martingale estimating functions of the form

$$G^j_n(\theta) = \sum_{i=1}^{n} \alpha^j(\tau_{i-1}; \theta) \left[ X^j_i \cdot \tau^s_i - f^j(\tau_{i-1}; \theta) \right], \quad j = 1, \ldots, d,$$

where $\alpha^j(\mathcal{V}_{\tau_{i-1}})$ is some $\mathcal{F}_{i-1}$-adapted random variable,

$$f^j(\nu, \theta) = E[X^j_1 \tau^s_1 | \tau_0 = \nu]$$

and we have

$$f^j(\nu; \theta) = \sum_{l=0}^{r_j+s_j} \phi^j_l(\theta) \cdot l^l.$$
Remark

- for the simple explicit estimator $\alpha^j(\nu) = \nu$ or $\alpha^j(\nu) = 1$ which gives explicit $G_n(\theta)$, the explicit solution of $G_n(\theta) = 0$ and the explicit $\text{Cov}(\hat{\theta}_n)$.

- in this setting the problem of finding the resulting estimator explicitly amounts to solving $d$ explicitly given equations.
Remark

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- in this setting the problem of finding the resulting estimator explicitly amounts to **solving $d$ explicitly given equations**.
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The simple estimator $\hat{\theta}_n = (\nu, \alpha, \lambda, \mu, \beta, \sigma, \rho)$ is given by

$$
\gamma_n = (\xi_n^2 - \xi_n^1 \nu_n)/(\nu_n^2 - (\nu_n^1)^2), \quad \zeta_n = \frac{\gamma_n^1 \nu_n^1 - \xi_n^1}{-1 + \gamma_n},
$$

$$
\eta_n = -\frac{(-1 + \gamma_n^2)(\nu_n^1)^2 - \gamma_n^2 \nu_n^2 + \xi_n^3}{-1 + \gamma_n^2}, \quad \lambda_n = -\log(\gamma_n)/\Delta,
$$

$$
\epsilon_n = (1 - \gamma_n)/\lambda_n, \quad \beta_n = \frac{(\xi_n^5 - \nu_n^1 \xi_n^4)}{\epsilon_n(\nu_n^2 - (\nu_n^1)^2)},
$$

$$
\rho_n = (-\beta_n \epsilon_n(-(\nu_n^1)^2 + \epsilon_n \lambda_n(\eta_n + (\nu_n^1)^2 - \nu_n^2) + \nu_n^2) - \xi_n^1 \xi_n^4 + \xi_n^6)/(2\epsilon_n \eta_n \lambda_n),
$$

$$
\mu_n = (-\Delta \lambda_n \rho_n \zeta_n - \beta_n(\Delta \zeta_n + \epsilon_n (-\zeta_n + \nu_n^1)) + \xi_n^4)/\Delta, \quad \sigma_n = \sqrt{a_n/b_n};
$$

$$
a_n = \frac{4\beta_n(-\Delta + \epsilon_n) \eta_n \lambda_n \rho_n + \beta_n^2(-2\Delta \eta_n + \epsilon_n(\eta_n(2 + \epsilon_n \lambda_n) +

+ \epsilon_n \lambda_n((\nu_n^1)^2 - \nu_n^2)))) + \lambda_n(-2\Delta \eta_n \lambda_n \rho_n^2 - (\xi_n)^2 + \xi_n^7)}{\lambda_n},
$$

$$
b_n = \Delta \zeta_n + \epsilon_n(-\zeta_n + \nu_n^1),
$$
where

\[\begin{align*}
\xi_n^1 &= \frac{1}{n} \sum_{i=1}^{n} \tau_i, \\
\xi_n^2 &= \frac{1}{n} \sum_{i=1}^{n} \tau_i \tau_{i-1}, \\
\xi_n^3 &= \frac{1}{n} \sum_{i=1}^{n} \tau_i^2, \\
\xi_n^4 &= \frac{1}{n} \sum_{i=1}^{n} X_i, \\
\xi_n^5 &= \frac{1}{n} \sum_{i=1}^{n} X_i \tau_{i-1}, \\
\xi_n^6 &= \frac{1}{n} \sum_{i=1}^{n} X_i \tau_i, \\
\xi_n^7 &= \frac{1}{n} \sum_{i=1}^{n} X_i^2, \\
\nu_n^1 &= \frac{1}{n} \sum_{i=1}^{n} \tau_{i-1}, \\
\nu_n^2 &= \frac{1}{n} \sum_{i=1}^{n} \tau_{i-1}^2.
\end{align*}\]
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Consistency

**Theorem**

\[ P(C_n) \longrightarrow 1 \text{ as } n \rightarrow \infty, \text{ where } C_n = \{ \xi_n^2 - \xi_n^1 \nu_n^1 > 0 \} \text{ and the estimator } \hat{\theta}_n = (\nu_n, \alpha_n, \lambda_n, \mu_n, \beta_n, \sigma_n, \rho_n) \text{ is consistent on } C_n, \text{ namely} \]

\[ \hat{\theta}_n \overset{a.s.}{\longrightarrow} \theta_0 \text{ on } C_n \text{ as } n \rightarrow \infty. \]
The estimator \( \hat{\theta}_n = (\nu_n, \alpha_n, \lambda_n, \mu_n, \beta_n, \sigma_n, \rho) \) is asymptotically normal, namely

\[
\sqrt{n}[\hat{\theta}_n - \theta_0] \xrightarrow{D} N(0, T) \quad \text{as} \quad n \to \infty,
\]

where

\[
T = A(\theta)^{-1} \gamma (A(\theta)^{-1})^T, \quad \gamma_{ij} = E[Cov(\Xi^i_1, \Xi^j_1|\tau_0)]
\]

\[
\Xi_k = (\tau_k, \tau_k \tau_{k-1}, \tau_k^2, X_k, X_k \tau_{k-1}, X_k \tau_k, X_k^2)^T
\]

\[
A(\theta) \xrightarrow{a.s.} \lim_{n \to \infty} \frac{1}{n} J_n(\theta), \quad J^{j,k}_n(\theta^{(1)}, \ldots, \theta^{(d)}) = \frac{\partial G^j_n(\theta^{(j)})}{\partial \theta_k}, \quad k = 1, \ldots, d.
\]
Asymptotic normality

**Theorem**

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\]

where

\[
T = A(\theta)^{-1} \Gamma (A(\theta)^{-1})^T, \quad \Gamma_{ij} = E[Cov(\Xi_i, \Xi_j | \tau_0)]
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\Xi_k = (\tau_k, \tau_k \tau_{k-1}, \tau_k^2, X_k, X_k \tau_{k-1}, X_k \tau_k, X_k^2)^T
\]

\[
A(\theta) \overset{a.s.}{=} \lim_{n \to \infty} \frac{1}{n} J_n(\theta), \quad J_n^{j,k}(\theta^{(1)}, \ldots, \theta^{(d)}) = \frac{\partial G_n^j(\theta^{(j)})}{\partial \theta_k}, \quad k = 1, \ldots, d.
\]
The estimator $\hat{\theta}_n = (\nu_n, \alpha_n, \lambda_n, \mu_n, \beta_n, \sigma_n, \rho)$ is asymptotically normal, namely

$$\sqrt{n}[\hat{\theta}_n - \theta_0] \xrightarrow{D} N(0, T) \quad \text{as} \quad n \to \infty,$$

where

- $T = A(\theta)^{-1} \Upsilon (A(\theta)^{-1})^T$, \quad $\Upsilon_{ij} = E[Cov(\Xi^i_1, \Xi^j_1 | \tau_0)]$
- $\Xi_k = (\tau_k, \tau_k \tau_{k-1}, \tau_k^2, X_k, X_k \tau_{k-1}, X_k \tau_k, X_k^2)^\top$

$$A(\theta) \overset{a.s.}{=} \lim_{n \to \infty} \frac{1}{n} J_n(\theta), \quad J_n^{i,k}(\theta^{(1)}, \ldots, \theta^{(d)}) = \frac{\partial G_n^{i}(\theta^{(j)})}{\partial \theta_k}, \quad k = 1, \ldots, d.$$
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We consider the $\Gamma$-OU model, for which the trading volume $\tau$ has a stationary $\Gamma(\nu, \alpha)$ distribution.

- The corresponding BDLP $Z$ is a compound Poisson process with intensity $\nu$ and jumps from the exponential distribution with parameter $\alpha$.
- We use as time unit one year consisting of 250 trading days.

The true parameters are:

$$\nu = 6.17, \quad \alpha = 1.42, \quad \lambda = 177.95, \quad \beta = -0.015, \quad \rho = -0.00056, \quad \mu = 0.435, \quad \sigma = 0.087.$$
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Interpretation

There are on average 4.4 jumps per day and the jumps in the BDLP and in the trading volume are exponentially distributed with mean and standard deviation 0.704.

- typically every day 4 or 5 new pieces of information arrive and make the trading volume process jump
- the stationary mean of the trading volume is 4.35, and of the variance is 0.033
- if we define instantaneous volatility to be the square root of the variance, it will fluctuate around 18% in our example
- The half-life of the autocorrelation of the variance process is about a day
- Annual log returns have (unconditional) mean −6.5% and annual volatility 18.2%.
The resulting time series: BDLP and trading volume
The resulting time series: volatility and log returns
We do not estimate the asymptotic covariance, but evaluate the explicit expression using the true parameters. Denoting the vector of asymptotic standard deviations of the estimates and the correlation matrix by \( s/\sqrt{n} \) resp. \( r \) we have

\[
s = [12.0257, 2.7878, 443.85, 9.0211, 2.5536, 0.0657, 0.007]^T
\]

\[
r = \begin{bmatrix}
1 & 0.938 & 0.578 & 0.007 & 0.051 & 0.006 & -0.003 \\
0.938 & 1 & 0.574 & 0.008 & 0.051 & 0.017 & -0.004 \\
0.578 & 0.574 & 1 & 0.011 & 0.088 & -0.0006 & -6.2 \cdot 10^{-1} \\
0.007 & 0.008 & 0.011 & 1 & -0.827 & -0.013 & 0.03 \\
0.0511 & 0.051 & 0.088 & -0.827 & 1 & 0.012 & -0.515 \\
0.006 & 0.013 & -0.0006 & -0.013 & 0.012 & 1 & -0.005 \\
-0.003 & -0.004 & -6.2 \cdot 10^{-17} & 0.03 & -0.515 & -0.005 & 1
\end{bmatrix}
\]
Finite sample performance of the estimator

We will perform the estimation procedure for two different sample sizes, namely 2500 and 8000, corresponding to 10 years and 32 years respectively, with 250 daily observation per year.

The empirical distribution of the simple estimators for the Γ-OU model is illustrated. The histograms are produced from \( m = 1000 \) replications consisting of \( n = 2500 \) observations each, corresponding to 10 years. We compare to the AN distribution.
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The distribution of the estimate: $\nu$, $\mu$
The distribution of the estimate $\alpha, \beta$
The distribution of the estimate $\lambda, \rho$

![Histograms of $\lambda$ and $\rho$](image)
The distribution of the estimate $\sigma$
Application to daily data: the IBM stock

- The BNS model will be fitted to daily log returns of the International Business Machines Corporation (IBM) stock at the New York Stock Exchange (NYSE)
- The data spans over 5 years starting in March 23, 2003 to March 23, 2008
- There were 1259 observations of daily closing prices and trading volumes. Data on trading volumes are expressed in millions
- Sample measures of skewness and kurtosis of the returns are $-0.35$ and $7.42$
The resulting time series: closing prices and trading volume
The resulting time series: log returns
Results and interpretation

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Value</th>
<th>St.dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\hat{\nu}$</td>
<td>6.17</td>
<td>0.339</td>
</tr>
<tr>
<td>$\hat{\alpha}$</td>
<td>1.42</td>
<td>0.079</td>
</tr>
<tr>
<td>$\hat{\lambda}$</td>
<td>177.95</td>
<td>12.509</td>
</tr>
<tr>
<td>$\hat{\mu}$</td>
<td>0.435</td>
<td>0.254</td>
</tr>
<tr>
<td>$\hat{\beta}$</td>
<td>-0.015</td>
<td>0.072</td>
</tr>
<tr>
<td>$\hat{\sigma}$</td>
<td>0.087</td>
<td>0.002</td>
</tr>
<tr>
<td>$\hat{\rho}$</td>
<td>-0.00056</td>
<td>0.0002</td>
</tr>
</tbody>
</table>
## Results and interpretation

<table>
<thead>
<tr>
<th>Unconditional moments</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>$E[X]$</td>
<td>-0.027%</td>
</tr>
<tr>
<td>$St.dev[X]$</td>
<td>1.15%</td>
</tr>
<tr>
<td>$E[V]$</td>
<td>3.3%</td>
</tr>
<tr>
<td>$St.dev[V]$</td>
<td>1.32%</td>
</tr>
</tbody>
</table>
Results and interpretation

- There are on average 4.4 jumps per day each with mean and standard deviation 0.704.
- Typical volatility is 0.18 with standard deviation 0.11.
- The proportionality of trading volume and the instantaneous variance is given by $\sigma^2 = 0.0076$.
- The leverage $\rho$ is very small. For instance, the mean values of daily log-returns including or not a leverage effect in the model equal $-0.027\%$, and $0.146\%$ respectively. If the trading volume process jumps by a typical size, the returns jump by 0.0004.
Estimation of the volatility
The autocorrelation function for the variance process and the estimated theoretical autocorrelation

![Graph showing autocorrelation for variance process and estimated theoretical ACF](image-url)
We performed a Ljung-Box test for squared residuals of the data set.

We test the normality of the residuals.

What are exactly the residuals in the BNS setting?
We performed a Ljung-Box test for squared residuals of the data set

We test the normality of the *residuals*

What are exactly the *residuals* in the BNS setting?
Model fit investigation

- We performed a Ljung-Box test for squared residuals of the data set.
- We test the normality of the residuals.
- What are exactly the residuals in the BNS setting?
Estimated residuals

From $X_i = \mu \Delta + \beta Y_i + \sigma \sqrt{Y_i} W_i + \rho Z_i$, it follows that

$$\hat{W}_i = \frac{(X_i - \hat{\mu} \Delta - \hat{\beta} Y_i - \hat{\rho} Z_i)}{\hat{\sigma} \sqrt{Y_i}}, \quad i \in \mathbb{N}$$

Since, $Z_i$ is usually not observable, we have to approximate it. For the integral we use simple Euler approximations

$$Y_i = \int_{t_{i-1}}^{t_i} \tau(s-)ds \approx \tau_i \Delta \quad \text{and} \quad \int_{t_{i-1}}^{t_i} \sqrt{\tau(s)}dW(s) \approx \sqrt{\tau_i} \cdot \Delta \varepsilon,$$

with $\varepsilon \sim N(0, 1)$. (3)
The residuals

\[ \hat{\epsilon}_i = \left( X_i - \hat{\mu} \Delta - \hat{\beta} \tau_i \Delta - \hat{\rho} Z_i \right) / \hat{\sigma} \sqrt{\tau_i} \cdot \Delta \]

where

\[ Z_i = (\lambda \Delta + 1) \tau_i - \tau_{i-1}. \]

The estimated mean, standard deviation, skewness and kurtosis of the residuals:

<table>
<thead>
<tr>
<th></th>
<th>mean(\hat{\epsilon})</th>
<th>std(\hat{\epsilon})</th>
<th>skew(\hat{\epsilon})</th>
<th>kurt(\hat{\epsilon})</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBM</td>
<td>-0.01568</td>
<td>1.03142</td>
<td>-0.17053</td>
<td>5.40659</td>
</tr>
</tbody>
</table>
The residuals

$$\hat{\varepsilon}_i = \left( X_i - \hat{\mu} \Delta - \hat{\beta} \tau_i \Delta - \hat{\rho} Z_i \right) / \hat{\sigma} \sqrt{\tau_i \Delta}$$

where

$$Z_i = (\lambda \Delta + 1) \tau_i - \tau_{i-1}.$$
Ljung-Box test: the test statistic used 35 lags of the corresponding empirical autocorrelation function.

- The test statistic for the IBM squared residuals was equal to 451.61, which led to a rejection of the null hypothesis, since the test had a critical value of 113.15 at the 0.05 level.

- The IBM residuals pass the Kolmogorov-Smirnov test of normality, for example, with $p$-value 0.0886.
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The empirical autocorrelation function for the residuals
The empirical autocorrelation function for the squared log returns and squared residuals for IBM
The normal probability plot of log returns and residuals for IBM

Data
Probability
Normal Probability Plot

0.001
0.003
0.01
0.02
0.05
0.10
0.25
0.50
0.75
0.90
0.95
0.98
0.99
0.997
0.999
Data
Probability
Normal Probability Plot

−3 −2 −1 0 1 2 3

0.001
0.003
0.01
0.02
0.05
0.10
0.25
0.50
0.75
0.90
0.95
0.98
0.99
0.997
0.999
Data
Probability
Normal Probability Plot

Petra Posedel

Inference for BNS stochastic volatility models
Kernel estimates of the density and log density with the theoretical one for IBM
Estimated mean, mean square error (MSE) and mean absolute error (MAE) of all the estimated parameter values, with the empirical standard deviations in brackets.

<table>
<thead>
<tr>
<th></th>
<th>$n = 2500$</th>
<th>$n = 8000$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$\nu_n$</td>
<td>$\alpha_n$</td>
</tr>
<tr>
<td>Mean</td>
<td>6.2145 (0.2552)</td>
<td>1.435 (0.0588)</td>
</tr>
<tr>
<td>MSE</td>
<td>0.0672 (0.1046)</td>
<td>0.0036 (0.0055)</td>
</tr>
<tr>
<td>MAE</td>
<td>0.2016 (0.1629)</td>
<td>0.047 (0.0369)</td>
</tr>
<tr>
<td>Mean</td>
<td>6.1642 (0.1424)</td>
<td>1.4186 (0.0329)</td>
</tr>
<tr>
<td>MSE</td>
<td>0.0203 (0.0283)</td>
<td>0.0011 (0.0016)</td>
</tr>
<tr>
<td>MAE</td>
<td>0.1135 (0.0862)</td>
<td>0.0259 (0.0203)</td>
</tr>
</tbody>
</table>
Estimated mean, mean square error (MSE) and mean absolute error (MAE) of all the estimated parameter values, with the empirical standard deviations in brackets.

<table>
<thead>
<tr>
<th>$\mu_n$</th>
<th>$\beta_n$</th>
<th>$\sigma_n$</th>
<th>$\rho_n$</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.4402 (0.1849)</td>
<td>0.0148 (0.053)</td>
<td>0.0871 (0.001)</td>
<td>$-6 \cdot 10^{-4}$ (1 \cdot 10^{-4})</td>
</tr>
<tr>
<td>0.0342 (0.0492)</td>
<td>0.0028 (0.0039)</td>
<td>$2 \cdot 10^{-6}$ (2 \cdot 10^{-6})</td>
<td>$2 \cdot 10^{-8}$ (3 \cdot 10^{-8})</td>
</tr>
<tr>
<td>0.1483 (0.1105)</td>
<td>0.0428 (0.0313)</td>
<td>0.0011 (0.001)</td>
<td>$1 \cdot 10^{-4}$ (9 \cdot 10^{-5})</td>
</tr>
<tr>
<td>0.4388 (0.1002)</td>
<td>0.0129 (0.03)</td>
<td>$0.1 (7 \cdot 10^{-4})$</td>
<td>$-6 \cdot 10^{-4}$ (8.07 \cdot 10^{-5})</td>
</tr>
<tr>
<td>0.01 (0.0138)</td>
<td>0.0008 (0.001)</td>
<td>$6 \cdot 10^{-7}$ (8 \cdot 10^{-7})</td>
<td>$7 \cdot 10^{-9}$ (1 \cdot 10^{-8})</td>
</tr>
<tr>
<td>0.08 (0.0604)</td>
<td>0.0222 (0.02)</td>
<td>$6 \cdot 10^{-4}$ (5 \cdot 10^{-4})</td>
<td>$6 \cdot 10^{-5}$ (5.04 \cdot 10^{-5})</td>
</tr>
</tbody>
</table>
Further issues

- Instantaneous variance is not an observable quantity in discrete time and various quantities are suggested as substitutes for the variance.
  - The resulting estimating function will not be a martingale estimating function anymore and the bias has to be accounted for in a rigorous analysis.
  - Superposition of OU-processes.
  - Comparison with the GMM estimation procedure (or combination of estimation procedures).
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