Newsletter 23/2015

ALFRED-WEBER-INSTITUT

Upcoming Seminars

Monday, 2.11.15	**Departmental Seminar**
17.15-18.15	Jörg Breitung, University of Cologne
AWI 00.010	(invited by Christan Conrad)
	"How far can we forecast? Statistical tests of the predictive content"

Wednesday, 4.11.15	**Internal Seminar**
12.15-13.15	Daniel Heyen
AWI 00.010	"Ambiguity Aversion under Maximum Likelihood Updating"

Further Events

Thursday, 5.11.15	**Tauschen, Teilen, Trixen**
18.00-19.00	Sebastian Wolf, Universität Konstanz, Fachbereich Politik- und Verwaltungswissenschaft
NUni HS 7	"Klein aber kriminell? Korruption und fragwürdige Wirtschaftsstrategien von Mikrostaaten"

Departmental Seminar

Jörg Breitung

"How far can we forecast? Statistical tests of the predictive content"*

Forecasts are useless whenever the forecast error variance fails to be smaller than the unconditional variance of the target variable. This paper proposes tests for the null hypothesis that the forecast becomes uninformative beyond some limiting forecast horizon h*. Following Diebold and Mariano (DM, 1995) we propose a test based on the comparison of the mean-square error of the model forecast and the sample variance. It is shown however that the resulting test has a degenerate limiting distribution. We therefore suggest a simple modification of the DM test that results in a chi-squared distributed test statistic. Furthermore, a forecast encompassing test is developed that outperforms the modified DM test. In our empirical analysis we apply our tests to macroeconomic forecasts of some key variables from the survey of professional forecasters. Our results suggest that the forecasts of professional forecasters fail to provide useful forecasts beyond 2-4 quarters.

*with Malte Knüppel

Internal Seminar

Daniel Heyen

"Ambiguity Aversion under Maximum Likelihood Updating"

Maximum likelihood updating (MLU) is a well-known approach for extending static ambiguity sensitive preferences to dynamic set-ups. This paper develops an example in which MLU induces an ambiguity averse maxmin expected utility (MEU) decision-maker to (i) prefer a bet on an ambiguous over a risky urn and (ii) be more willing to bet on the ambiguous urn compared to an (ambiguity neutral) subjective expected utility (SEU) decision-maker. These preferences are challenging for two reasons. The first is that prior to observing any draws from the urns, the MEU decision-maker -- in line with the usual notion of ambiguity aversion -- actually preferred the risky over the ambiguous bet and was less willing to bet on the ambiguous urn than the SEU decision-maker. The second reason is that the information that caused this switch in betting preferences was symmetric across urns and agents: both decision-makers observed from both urns a draw of the same color. Relating this finding to other well-known results in the context of dynamic extensions of ambiguity averse preferences, the paper clarifies that the identified switch in betting preferences is not due to a violation of dynamic consistency or consequentialism. Rather, the deeper reason lies in MLU's selection of extreme priors, causing a violation of the stability of set-inclusion over the course of the updating process.

Talks and Research Visits

Anna Merkel presented the paper "Fast and fair? An experimental comparison of two hypotheses" at the University of Mannheim / ZEW Experiment Seminar, September 22.

Christian Conrad presented the paper "Misspecification testing in GARCH-MIDAS models" (joint with Melanie Schienle) at the Annual Meeting of the Verein für Socialpolitik in Münster, September 6-9, and at the 11th World Congress of the Econometric Society in Montréal, Canada, August 17-21.

Visitors

Jayant Ganguli from the University of Exeter is visiting Jürgen Eichberger on November 3-6 for research (room 01.012a).

New Publications

Daniel Heyen, Thilo Wiertz, Peter J. Irvine: "Regional disparities in SRM impacts: the challenge of diverging preferences", forthcoming in *Climatic Change*.

New and Leaving Staff

Min Xie joined Stefan Klonner´s Department of Development Economics in October 2015 as a Research Fellow. His research interests include Applied Microeconomics and Development Economics. He graduated in Economics (Master) at the Center for Monetary and Financial Studies (CEMFI) Madrid, Spain and in International Economics (B.S) at Guangdong University of Finance and Economics (GDUFE) Guangzhou, China.