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Guest editorial

## Forecasting and empirical methods in finance and macroeconomics <sup>☆</sup>

All economic agents forecast, and forecasting figures especially prominently in financial and macroeconomic contexts. Central to finance, for example, is the idea of expectations of earnings streams and their effects on asset prices, and central to macroeconomics is the idea of expectations of business conditions and their effects on investment and consumption decisions. Moreover, predictive ideas are very much intertwined in finance and macroeconomics. Modern asset pricing models, for example, attribute excess returns and return predictability in part to macroeconomic factors such as recession risk.

There is a strong derived demand for development and assessment of econometric methods for use in empirical finance and macroeconomics, with special emphasis on problems of prediction, which is the focus of a working group led by us with generous support from the National Bureau of Economic Research and the National Science Foundation. On the finance side, recent years have featured extensive inquiry into issues such as long-horizon mean reversion in asset returns, persistence in mutual fund performance, volatility and correlation forecasting with applications to financial risk management, and selection biases due to survival or data snooping. Similarly, on the macroeconomics side, we have seen the development and application of new coincident and leading indicators, diffusion indexes, regime-switching models (with potentially time-varying transition probabilities), and new breeds of macroeconomic models that demand new tools for estimation and forecasting.

Group meetings have produced several associated symposia, including Diebold and Watson (1996), Diebold and West (1998) and Diebold et al. (1999). Here we offer the latest installment. Many of the papers were presented at a July 1999 meeting organized under the auspices of the Summer Institute of the National Bureau of Economic Research. All papers were refereed.

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The papers cover both theory and applications, in finance and macroeconomics, with a strong predictive theme running throughout. Topics include, in no particular order: volatility modeling and forecasting (Blair et al.; Calvet and Fisher), multifractal processes (Calvet and Fisher), semiparametric and nonparametric methods (Chen and Conley; Linton et al.; Marinucci and Robinson), forecast accuracy comparison and encompassing (Clark and McCracken; West), spatial models for panel data (Chen and Conley); the relationship between regime switching or structural change and the appearance of long memory (Diebold and Inoue), bootstrap methods and their use in correcting for sample selection and data mining (Sullivan et al.), long memory in univariate and multivariate environments (Diebold and Inoue; Marinucci and Robinson), extracting and evaluating predictive information from asset markets (Blair et al.; Lamont), extracting and evaluating predictive information from macroeconomic series with emphasis on using only the data actually available in real time (Croushore), and flexible modeling of the term structure (Linton et al.).

We think that the papers assembled in this symposium make an unusually exciting and coherent contribution, and we hope that readers will enjoy reading it as much as we enjoyed assembling it.

### **References to papers appearing in this symposium**

- Blair, B., Poon, S.-H., Taylor, S. "Forecasting S&P 100 volatility: the incremental information content of implied volatilities and high frequency index returns".  
 Calvet, L., Fisher, A., Forecasting multifractal volatility".  
 Chen, X. and T. Conley, A new semiparametric spatial model for panel time series".  
 Clark, T., McCracken, M., Tests of equal forecast accuracy and encompassing for nested models.  
 Croushore, D., Stark, T., A real-time data set for macroeconomists.  
 Diebold, F.X., Inoue, A., Long memory and regime switching.  
 Lamont, O., Economic tracking portfolios.  
 Linton, O., Mammen, E., Nielsen, J., Tanggaard, C., Yield curve estimation by kernel smoothing methods.  
 Marinucci, D., Robinson, P., semiparametric fractional cointegration analysis.  
 Sullivan, R., Timmermann, A., White, H., Dangers of data mining: the case of calendar effects in stock returns.  
 West, K.D., Encompassing tests when no model is encompassing.

### **References**

- Diebold, F.X., Stock, J.H., West, K.D. (Eds.), 1999. Forecasting and empirical methods in macroeconomics and finance. *Review of Economics and Statistics* (Special issue) 81, 553–673.  
 Diebold, F.X., Watson, M.W. (Eds.), 1996. Econometric forecasting. *Journal of Applied Econometrics* (Special issue) 11, 453–594.

Diebold, F.X., West, K.D. (Eds.), (1998). Forecasting and empirical methods in macroeconomics and finance. *International Economic Review* (Special issue) 39, 811–1144.

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