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SCHOOL OF ECONOMICS SEMINAR

- Date:** Friday 6 November 2009
- Venue:** Room 113 Colin Clark Building (#39)
- Time:** 3:00 – 5:00
- Speaker:** Dr Adam Clements
Queensland University of Technology
- Topic:** On the Economic Benefit of Utility Based Estimation of a Volatility Model

Abstract:

Volatility forecasts are important inputs into financial decisions such as portfolio allocation. While the forecasts are often used in such economic applications, the parameters of these models are traditionally estimated within statistical framework. This leads to an inconsistency between the loss functions under which the model is estimated and under which it is applied. This paper examines the costs due to this inconsistency. In other words, the potential benefits of estimating a volatility model directly using a utility based loss function for the purposes of portfolio allocation. It is found that employing a utility based estimation criteria leads to the best outcomes for a utility maximizing investor.

About the Speaker:

Adam Clements gained his PhD from QUT in 2002. Prior to this he worked in funds management. His research interests lie in empirical finance and financial econometrics applied to problems such as volatility forecasting and investment issues. He has published in journal such as Journal of the American Statistical Association, Journal of Banking and Finance and the International Journal of Forecasting.

Dr Rodney Strachan, Seminar Convenor

30 October 2009