

NAG Fortran Library Routine Document

G05HMF

Note: before using this routine, please read the Users' Note for your implementation to check the interpretation of ***bold italicised*** terms and other implementation-dependent details.

1 Purpose

G05HMF generates a given number of terms of a GJR GARCH(p, q) process (see Glosten *et al.* (1993)).

2 Specification

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SUBROUTINE G05HMF(DIST, NUM, IP, IQ, THETA, GAMMA, DF, HT, ET, FCALL,
1          RVEC, IGEN, ISEED, RWSAV, IFAIL)
  INTEGER          NUM, IP, IQ, IGEN, ISEED(4), IFAIL
  real            THETA(IQ+IP+1), GAMMA, DF, HT(NUM), ET(NUM), RVEC(40),
1          RWSAV(9)
  LOGICAL          FCALL
  CHARACTER*1      DIST

```

3 Description

A GJR GARCH(p, q) process is represented by:

$$h_t = \alpha_0 + \sum_{i=1}^q (\alpha_i + \gamma S_{t-i}) \epsilon_{t-i}^2 + \sum_{i=1}^p \beta_i h_{t-i}, \quad t = 1, \dots, T.$$

where $S_t = 1$, if $\epsilon_t < 0$, $S_t = 0$, if $\epsilon_t \geq 0$, and $\epsilon_t | \psi_{t-1} = N(0, h_t)$ or $\epsilon_t | \psi_{t-1} = S_t(df, h_t)$. Here S_t is a standardised Student's t -distribution with df degrees of freedom and variance h_t , T is the number of observations in the sequence, ϵ_t is the *observed* value of the GARCH(p, q) process at time t , h_t is the conditional variance at time t , and ψ_t the set of all information up to time t . Symmetric GARCH sequences are generated when γ is zero, otherwise asymmetric GARCH sequences are generated with γ specifying the amount by which negative shocks are to be enhanced.

One of the initialisation routines G05KBF (for a repeatable sequence if computed sequentially) or G05KCF (for a non-repeatable sequence) must be called prior to the first call to G05HMF.

4 References

Engle R (1982) Autoregressive conditional heteroskedasticity with estimates of the variance of United Kingdom inflation *Econometrica* **50** 987–1008

Bollerslev T (1986) Generalised autoregressive conditional heteroskedasticity *Journal of Econometrics* **31** 307–327

Engle R and Ng V (1993) Measuring and Testing the Impact of News on Volatility *Journal of Finance* **48** 1749–1777

Hamilton J (1994) *Time Series Analysis* Princeton University Press

Glosten L, Jagannathan R and Runkle D (1993) Relationship between the expected value and the volatility of nominal excess return on stocks *Journal of Finance* **48** 1779–1801

5 Parameters

1: DIST – CHARACTER*1

Input

On entry: the type of distribution to use for ϵ_t .

DIST = 'N'

Then a Normal distribution is used.

DIST = 'T'

Then a Student's t -distribution is used.

Constraint: DIST = 'N' or 'T'.

- 2: NUM – INTEGER *Input*
On entry: the number of terms in the sequence, T .
Constraint: NUM > 0.

- 3: IP – INTEGER *Input*
On entry: the number of coefficients, β_i , for $i = 1, \dots, p$.
Constraints:

$$\begin{aligned} IQ + IP + 1 &\leq 20, \\ IP &\geq 0. \end{aligned}$$

- 4: IQ – INTEGER *Input*
On entry: the number of coefficients, α_i , for $i = 1, \dots, q$.
Constraints:

$$\begin{aligned} IQ + IP + 1 &\leq 20, \\ IQ &\geq 1. \end{aligned}$$

- 5: THETA(IQ+IP+1) – *real* array *Input*
On entry: the first element contains the coefficient α_o , the next IQ elements contain the coefficients α_i , for $i = 1, \dots, q$. The remaining IP elements are the coefficients β_j , for $j = 1, \dots, p$.

- 6: GAMMA – *real* *Input*
On entry: the asymmetry parameter γ for the GARCH(p, q) sequence.

- 7: DF – *real* *Input*
On entry: the number of degrees of freedom for the Student's t -distribution. It is not referenced if DIST = 'N'.
Constraint: DF > 2.

- 8: HT(NUM) – *real* array *Output*
On exit: the conditional variances h_t , for $t = 1, \dots, T$ for the GARCH(p, q) sequence.

- 9: ET(NUM) – *real* array *Output*
On exit: the observations ϵ_t , for $t = 1, \dots, T$ for the GARCH(p, q) sequence.

- 10: FCALL – LOGICAL *Input*
On entry: if FCALL = .TRUE., a new sequence is to be generated, otherwise a given sequence is to be continued using the information in RVEC.

- 11: RVEC(40) – *real* array *Input/Output*
On entry: the array contains information required to continue a sequence if FCALL = .FALSE..
On exit: contains information that can be used in a subsequent call of G05HMF, with FCALL = .FALSE..

- 12: IGEN – INTEGER *Input*
On entry: must contain the identification number for the generator to be used to return a pseudo-random number and should remain unchanged following initialisation by a prior call to one of the routines G05KBF or G05KCF.
- 13: ISEED(4) – INTEGER array *Input/Output*
On entry: contains values which define the current state of the selected generator.
On exit: contains updated values defining the new state of the selected generator.
- 14: RWSAV(9) – *real* array *Workspace*
- 15: IFAIL – INTEGER *Input/Output*
On entry: IFAIL must be set to 0, -1 or 1. Users who are unfamiliar with this parameter should refer to Chapter P01 for details.
On exit: IFAIL = 0 unless the routine detects an error (see Section 6).
 For environments where it might be inappropriate to halt program execution when an error is detected, the value -1 or 1 is recommended. If the output of error messages is undesirable, then the value 1 is recommended. Otherwise, because for this routine the values of the output parameters may be useful even if IFAIL \neq 0 on exit, the recommended value is -1. **When the value -1 or 1 is used it is essential to test the value of IFAIL on exit.**

6 Error Indicators and Warnings

If on entry IFAIL = 0 or -1, explanatory error messages are output on the current error message unit (as defined by X04AAF).

Errors or warnings detected by the routine:

IFAIL = 1

On entry, IP < 0,
 or IQ < 1,
 or DF \leq 2,
 or NUM \leq 0,
 or DIST \neq 'N' and DIST \neq 'T',
 or IQ + IP + 1 > 20.

IFAIL = 2

On entry, $\alpha_i + \gamma < 0$ for some α_i

7 Accuracy

Not applicable.

8 Further Comments

None.

9 Example

See Section 9 of the document for G13FEF.