

# NAG C Library Function Document

## nag\_estimate\_agarchII (g13fcc)

### 1 Purpose

nag\_estimate\_agarchII (g13fcc) estimates the parameters of a univariate regression-type II AGARCH( $p, q$ ) process.

### 2 Specification

```
#include <nag.h>
#include <nagg13.h>

void nag_estimate_agarchII (const double yt[], const double x[], Integer tdx,
    Integer num, Integer p, Integer q, Integer nreg, Integer mn,
    double theta[], double se[], double sc[], double covar[],
    Integer tdc, double *hp, double et[], double ht[], double *lgf,
    Nag_Garch_Stationary_Type stat_opt,
    Nag_Garch_Est_Initial_Type est_opt, Integer max_iter, double tol,
    NagError *fail)
```

### 3 Description

A univariate regression-type II AGARCH( $p, q$ ) process, with  $p$  coefficients  $\alpha_i, i = 1, \dots, p$ ,  $q$  coefficients,  $\beta_i, i = 1, \dots, q$ , mean  $b_o$ , and  $k$  linear regression coefficients  $b_i, i = 1, \dots, k$ , can be represented by:

$$y_t = b_o + x_t^T b + \epsilon_t \quad (1)$$

$$\epsilon_t | \psi_{t-1} \sim N(0, h_t)$$

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

Here  $T$  is the number of terms in the sequence,  $y_t$  denotes the endogenous variables,  $x_t$  the exogenous variables,  $b_o$  the mean,  $b$  the regression coefficients,  $\epsilon_t$  the residuals,  $\gamma$  is the asymmetry parameter,  $h_t$  is the conditional variance, and  $\psi_t$  the information set of all information up to time  $t$ .

The routine nag\_estimate\_agarchII provides an estimate for  $\hat{\theta}$ , the  $(p + q + k + 3) \times 1$  parameter vector  $\theta = (b_o, b^T, \omega^T)$  where  $\omega^T = (\alpha_0, \alpha_1, \dots, \alpha_q, \beta_1, \dots, \beta_p, \gamma)$  and  $b^T = (b_1, \dots, b_k)$ .

**mn**, **nreg** (see Section 4) can be used to simplify the GARCH( $p, q$ ) expression in equation (1) as follows:

#### No Regression or Mean

$y_t = \epsilon_t$ ,  
**mn** = 0,  
**nreg** = 0, and  
 $\theta$  is a  $(p + q + 2) \times 1$  vector.

#### No Regression

$y_t = b_o + \epsilon_t$ ,  
**mn** = 1,  
**nreg** = 0, and  
 $\theta$  is a  $(p + q + 3) \times 1$  vector.

**Note:** if the  $y_t = \mu + \epsilon_t$ , where  $\mu$  is known (not to be estimated by nag\_estimate\_agarchII) then equation (1) can be written as  $y_t^\mu = \epsilon_t$ , where  $y_t^\mu = y_t - \mu$ . This corresponds to the case **No Regression or Mean**, with  $y_t$  replaced by  $y_t - \mu$ .

#### No Mean

$y_t = x_t^T b + \epsilon_t$ ,  
 $\mathbf{mn} = 0$ ,  
 $\mathbf{nreg} = k$  and  
 $\theta$  is a  $(p + q + k + 2) \times 1$  vector.

## 4 Parameters

**Note:** for convenience **npar** will be used here to denote the expression  $2 + \mathbf{q} + \mathbf{p} + \mathbf{mn} + \mathbf{nreg}$  representing the number of model parameters.

- 1:    **yt[num]** – const double *Input*  
       *On entry:* the sequence of observations,  $y_t$ ,  $t = 1, \dots, T$ .
  
- 2:    **x[num][tdx]** – const double *Input*  
       *On entry:* row  $t$  of **x** contains the time dependent exogenous vector  $x_t$ , where  $x_t^T = (x_t^1, \dots, x_t^k)$ , for  $t = 1, \dots, T$ .
  
- 3:    **tdx** – Integer *Input*  
       *On entry:* the second dimension of the array **x** as declared in the function from which `nag_estimate_agarchII` is called.  
       *Constraint:* **tdx**  $\geq$  **nreg**.
  
- 4:    **num** – Integer *Input*  
       *On entry:* the number of terms in the sequence,  $T$ .  
       *Constraint:* **num**  $\geq$  **npar**.
  
- 5:    **p** – Integer *Input*  
       *On entry:* the GARCH( $p, q$ ) parameter  $p$ .  
       *Constraint:* **p**  $\geq$  0.
  
- 6:    **q** – Integer *Input*  
       *On entry:* the GARCH( $p, q$ ) parameter  $q$ .  
       *Constraint:* **q**  $\geq$  1.
  
- 7:    **nreg** – Integer *Input*  
       *On entry:* the number of regression coefficients,  $k$ .  
       *Constraint:* **nreg**  $\geq$  0.
  
- 8:    **mn** – Integer *Input*  
       *On entry:* if **mn** = 1 then the mean term  $b_0$  will be included in the model.  
       *Constraint:* **mn** = 0 or **mn** = 1.
  
- 9:    **theta[npar]** – double *Input/Output*  
       *On entry:* the initial parameter estimates for the vector  $\theta$ . The first element contains the coefficient  $\alpha_0$ , the next **q** elements contain the coefficients  $\alpha_i$ ,  $i = 1, \dots, q$ . The next **p** elements are the coefficients  $\beta_j$ ,  $j = 1, \dots, p$ . The next element contains the asymmetry parameter  $\gamma$ . If **est\_opt** = **Nag\_Garch\_Est\_Initial\_False** then (when **mn** = 1) the next term contains an initial estimate of the mean term  $b_0$  and the remaining **nreg** elements are taken as initial estimates of the linear regression coefficients  $b_i$ ,  $i = 1, \dots, k$ .

- On exit:* the estimated values  $\hat{\theta}$  for the vector  $\theta$ . The first element contains the coefficient  $\alpha_o$ , the next **q** elements contain the coefficients  $\alpha_i$ ,  $i = 1, \dots, q$ . The next **p** elements are the coefficients  $\beta_j$ ,  $j = 1, \dots, p$ . The next element contains the estimate for the asymmetry parameter  $\gamma$ . If **mn** = 1 then the next element contains an estimate for the mean term  $b_o$ . The final **nreg** elements are the estimated linear regression coefficients  $b_i$ ,  $i = 1, \dots, k$ .
- 10: **se[npar]** – double *Output*
- On exit:* the standard errors for  $\hat{\theta}$ . The first element contains the standard error for  $\alpha_o$ , the next **q** elements contain the standard errors for  $\alpha_i$ ,  $i = 1, \dots, q$ , the next **p** elements are the standard errors for  $\beta_j$ ,  $j = 1, \dots, p$ . The next element contains the standard error for  $\gamma$ . If **mn** = 1 then the next element contains the standard error for  $b_o$ . The final **nreg** elements are the standard errors for  $b_j$ ,  $j = 1, \dots, k$ .
- 11: **sc[npar]** – double *Output*
- On exit:* the scores for  $\hat{\theta}$ . The first element contains the score for  $\alpha_o$ , the next **q** elements contain the score for  $\alpha_i$ ,  $i = 1, \dots, q$ , the next **p** elements are the scores for  $\beta_j$ ,  $j = 1, \dots, p$ . The next element contains the score for  $\gamma$ . If **mn** = 1 then the next element contains the score for  $b_o$ . The final **nreg** elements are the scores for  $b_j$ ,  $j = 1, \dots, k$ .
- 12: **covar[npar][tdc]** – double *Output*
- On exit:* the covariance matrix of the parameter estimates  $\hat{\theta}$ , that is the inverse of the Fisher Information Matrix.
- 13: **tdc** – Integer *Input*
- On entry:* the second dimension of the array **covar** as declared in the function from which `nag_estimate_agarchII` is called.
- Constraint:* **tdc**  $\geq$  **npar**.
- 14: **hp** – double \* *Input/Output*
- On entry:* If **est\_opt** = **Nag\_Garch\_Est\_Initial\_False** then **hp** is the value to be used for the pre-observed conditional variance. If **est\_opt** = **Nag\_Garch\_Est\_Initial\_True** then **hp** is not referenced.
- On exit:* If **est\_opt** = **Nag\_Garch\_Est\_Initial\_True** then **hp** is the estimated value of the pre-observed conditional variance.
- 15: **et[num]** – double *Output*
- On exit:* the estimated residuals,  $\epsilon_t$ ,  $t = 1, \dots, T$ .
- 16: **ht[num]** – double *Output*
- On exit:* the estimated conditional variances,  $h_t$ ,  $t = 1, \dots, T$ .
- 17: **lgf** – double \* *Output*
- On exit:* the value of the log likelihood function at  $\hat{\theta}$ .
- 18: **stat\_opt** – Nag\_Garch\_Stationary\_Type *Input*
- On entry:* If **stat\_opt** = **Nag\_Garch\_Stationary\_True** then Stationary conditions are enforced. If **stat\_opt** = **Nag\_Garch\_Stationary\_False** then Stationary conditions are not enforced.
- 19: **est\_opt** – Nag\_Garch\_Est\_Initial\_Type *Input*
- On entry:* If **est\_opt** = **Nag\_Garch\_Est\_Initial\_True** then the routine provides initial parameter estimates of the regression terms ( $b_o, b^T$ ). If **est\_opt** = **Nag\_Garch\_Est\_Initial\_False** then the initial estimates of the regression parameters ( $b_o, b^T$ ) must be supplied by the user.

- 20: **max\_iter** – Integer *Input*  
*On entry:* the maximum number of iterations to be used by the optimisation routine when estimating the GARCH( $p, q$ ) parameters. If **max\_iter** is set to 0 then the standard errors, score vector and variance-covariance are calculated for the input value of  $\theta$  in **theta**; however the value of  $\theta$  is not updated.  
*Constraint:* **max\_iter**  $\geq$  0.
- 21: **tol** – double *Input*  
*On entry:* the tolerance to be used by the optimisation routine when estimating the GARCH( $p, q$ ) parameters.
- 22: **fail** – NagError \* *Input/Output*  
 The NAG error parameter (see the Essential Introduction).

## 5 Error Indicators and Warnings

### NE\_BAD\_PARAM

On entry, parameter **stat\_opt** had an illegal value.  
 On entry, parameter **est\_opt** had an illegal value.

### NE\_INT\_ARG\_LT

On entry, **nreg** must not be less than 0: **nreg** =  $\langle value \rangle$ .  
 On entry, **q** must not be less than 1: **q** =  $\langle value \rangle$ .  
 On entry, **p** must not be less than 0: **p** =  $\langle value \rangle$ .  
 On entry, **max\_iter** must not be less than 0: **max\_iter** =  $\langle value \rangle$ .

### NE\_2\_INT\_ARG\_LT

On entry, **tdx** =  $\langle value \rangle$  while **nreg** =  $\langle value \rangle$ .  
 These parameters must satisfy **tdx**  $\geq$  **nreg**.  
 On entry, **tdc** =  $\langle value \rangle$  while  $2 + \mathbf{q} + \mathbf{p} + \mathbf{mn} + \mathbf{nreg} = \langle value \rangle$ .  
 These parameters must satisfy **tdc**  $\geq 2 + \mathbf{q} + \mathbf{p} + \mathbf{mn} + \mathbf{nreg}$ .  
 On entry, **num** =  $\langle value \rangle$  while  $2 + \mathbf{q} + \mathbf{p} + \mathbf{mn} + \mathbf{nreg} = \langle value \rangle$ .  
 These parameters must satisfy **num**  $\geq 2 + \mathbf{q} + \mathbf{p} + \mathbf{mn} + \mathbf{nreg}$ .

### NE\_INVALID\_INT\_RANGE\_2

Value  $\langle value \rangle$  given to **mn** is not valid. Correct range is 0 to 1.

### NE\_MAT\_NOT\_FULL\_RANK

Matrix  $X$  does not give a model of full rank.

### NE\_MAT\_NOT\_POS\_DEF

Attempt to invert the second derivative matrix needed in the calculation of the covariance matrix of the parameter estimates has failed. The matrix is not positive-definite, possibly due to rounding errors.

### NE\_ALLOC\_FAIL

Memory allocation failed.

### NE\_INTERNAL\_ERROR

An internal error has occurred in this function. Check the function call and any array sizes. If the call is correct then please consult NAG for assistance.

## 6 Further Comments

### 6.1 Accuracy

Not applicable.

### 6.2 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

## 7 See Also

None.

## 8 Example

This example program illustrates the use of `nag_estimate_agarchII` to model a GARCH(1,1) sequence generated by `nag_generate_agarchII` (`g05hlc`), a three step forecast is then calculated using `nag_forecast_agarchII` (`g13fdc`).

### 8.1 Program Text

```

/* nag_estimate_agarchII (g13fcc) Example Program.
 *
 * Copyright 2000 Numerical Algorithms Group.
 *
 * NAG C Library
 *
 * Mark 6, 2000.
 *
 */

#include <nag.h>
#include <nag_stdlib.h>
#include <stdio.h>
#include <ctype.h>
#include <math.h>
#include <nagg05.h>
#include <nagg13.h>

int main(void)
{
  double *bx=0, *covar=0, *et=0, fac1, gamma, hp;
  double *ht=0, lgf, mean, *param=0, *rvec=0;
  double *sc=0, *se=0, *theta=0, *cvar=0,tol;
  double *x=0, xterm, *yt=0;
  Integer exit_status = 0;
  Integer i, nt, ip, iq, j, k;
  Integer tdx, tdc;
  Integer maxit, mn, npar, nreg, seed, num, num_startup;
  Nag_Garch_Fcall_Type fcall;
  Nag_Garch_Stationary_Type stat_opt;

```

```

Nag_Garch_Est_Initial_Type est_opt;
NagError fail;

INIT_FAIL(fail);
mn = 1;
nreg = 2;
gamma = -0.4;
ip = 1;
iq = 1;
num = 1000;
nt = 3;
npar = iq + ip + 1;

tdc = npar+mn+nreg+1;
tdx = nreg;

#define YT(I) yt[(I)-1]
#define THETA(I) theta[(I)-1]
#define SE(I) se[(I)-1]
#define SC(I) sc[(I)-1]
#define RVEC(I) rvec[(I)-1]
#define PARAM(I) param[(I)-1]
#define HT(I) ht[(I)-1]
#define ET(I) et[(I)-1]
#define BX(I) bx[(I)-1]
#define CVAR(I) cvar[(I)-1]
#define X(I,J) x[((I)-1)*tdx + ((J)-1)]
#define COVAR(I,J) covar[((I)-1)*tdc + ((J)-1)]

Vprintf ("g13fcc Example Program Results\n\n");

if (!(bx = NAG_ALLOC (nreg, double))
    || !(covar = NAG_ALLOC ((npar+mn+nreg+1) * (npar+mn+nreg+1), double))
    || !(et = NAG_ALLOC (num, double))
    || !(ht = NAG_ALLOC (num, double))
    || !(param = NAG_ALLOC (npar+mn+nreg+1, double))
    || !(rvec = NAG_ALLOC (40, double))
    || !(sc = NAG_ALLOC (npar+mn+nreg+1, double))
    || !(se = NAG_ALLOC (npar+mn+nreg+1, double))
    || !(theta = NAG_ALLOC (npar+mn+nreg+1, double))
    || !(x = NAG_ALLOC (num * nreg, double))
    || !(cvar = NAG_ALLOC (nt, double))
    || !(yt = NAG_ALLOC (num, double)))
{
    Vprintf("Allocation failure\n");
    exit_status = -1;
    goto END;
}

seed = 11;
BX (1) = 1.5;
BX (2) = 2.5;
mean = 3.0;

for (i = 1; i <= num; ++i)
{

```

```

    fac1 = (double) i *.01;
    X (i, 1) = sin (fac1) * 0.7 + 0.01;
    X (i, 2) = fac1 * 0.1 + 0.5;
}

PARAM (1) = 0.2;
PARAM (2) = 0.2;
PARAM (3) = 0.7;

fcall = Nag_Garch_Fcall_True;
g05cbc(seed);
num_startup = 300;
g05hlc (num_startup, ip, iq, &PARAM (1), gamma, &HT (1), &YT (1),
        fcall, &RVEC (1), &fail);
if (fail.code != NE_NOERROR)
{
    Vprintf("Error from g05hlc.\n%s\n", fail.message);
    exit_status = 1;
    goto END;
}

fcall = Nag_Garch_Fcall_False;
g05hlc (num, ip, iq, &PARAM (1), gamma, &HT (1), &YT (1),
        fcall, &RVEC (1), &fail);
if (fail.code != NE_NOERROR)
{
    Vprintf("Error from g05hlc.\n%s\n", fail.message);
    exit_status = 1;
    goto END;
}

for (i = 1; i <= num; ++i)
{
    xterm = 0.0;
    for (k = 1; k <= nreg; ++k)
xterm += X (i, k) * BX (k);

    if (mn == 1)
        YT (i) = mean + xterm + YT (i);
    else
YT (i) = xterm + YT (i);
}

for (i = 1; i <= npar; ++i)
    THETA (i) = PARAM (i) * 0.5;

THETA (npar + 1) = gamma * 0.5;
if (mn == 1)
    THETA (npar + mn + 1) = mean * 0.5;

for (i = 1; i <= nreg; ++i)
    THETA (npar + mn + 1 + i) = BX (i) * 0.5;

maxit = 50;
tol = 1e-12;

stat_opt = Nag_Garch_Stationary_True;
est_opt = Nag_Garch_Est_Initial_True;

```

```

g13fcc (&YT (1), &X (1, 1), tdx, num, ip, iq, nreg, mn,
        &THETA (1), &SE (1), &SC (1), &COVAR (1, 1), tdc, &hp,
        &ET (1), &HT (1), &lgf, stat_opt, est_opt, maxit, tol, &fail);
if (fail.code != NE_NOERROR)
{
    Vprintf("Error from g13fcc.\n%s\n", fail.message);
    exit_status = 1;
    goto END;
}

Vprintf ("          Parameter estimates          Standard errors          Correct va-
lues\n");
for (j = 1; j <= npar; ++j)
    Vprintf ("%20.4f                          (%6.4f) %20.4f\n", THETA (j), SE (j),
PARAM(j));
Vprintf ("%20.4f                          (%6.4f) %20.4f\n", THETA (npar+1), SE (npar+1),
gamma);
if (mn == 1)
    Vprintf ("%20.4f                          (%6.4f) %20.4f\n", THETA (npar+mn+1), SE
(npar+mn+1), mean);
for (j = 1; j <= nreg; ++j)
    Vprintf ("%20.4f                          (%6.4f) %20.4f\n", THETA (mn+npar+1+j), SE(mn+n-
par+1+j), BX(j));

/* now forecast nt steps ahead */

gamma = THETA(npar+1);

g13fdc(num,nt,ip,iq,&THETA(1),gamma,&CVAR(1),&HT(1),&ET(1),&fail);

Vprintf ("\n%ld step forecast = %8.4f\n",nt, CVAR(nt));

END:
if (bx) NAG_FREE (bx);
if (covar) NAG_FREE (covar);
if (et) NAG_FREE (et);
if (ht) NAG_FREE (ht);
if (param) NAG_FREE (param);
if (rvec) NAG_FREE (rvec);
if (sc) NAG_FREE (sc);
if (se) NAG_FREE (se);
if (theta) NAG_FREE (theta);
if (cvar) NAG_FREE (cvar);
if (x) NAG_FREE (x);
if (yt) NAG_FREE (yt);

return exit_status;
}

```

## 8.2 Program Data

None.



### 8.3 Program Results

g13fcc Example Program Results

Parameter estimates	Standard errors	Correct values
0.2349	(0.0501)	0.2000
0.1625	(0.0411)	0.2000
0.7090	(0.0393)	0.7000
-0.6095	(0.1673)	-0.4000
2.9586	(0.1270)	3.0000
1.4986	(0.0811)	1.5000
2.5459	(0.1210)	2.5000

3 step forecast = 1.3388

---