

NEWSLETTER

Issue No. 2

Summer 2014

From the Managing Editor

A warm welcome to the second edition of *The Econometrics Journal* Newsletter. I hope you will find it informative and of interest.

The primary aim of *The Econometrics Journal* is the publication of econometric research with a standard of intellectual rigour and academic standing similar to that in the top field journals in econometrics. It is a general journal covering all areas of econometrics and encourages the submission of first-class papers in macro-, micro- and financial econometrics.

As an international Journal, the professional skills and experience of a wide array of well established econometricians from top institutions worldwide is utilised to help in the selection process of research papers for publication.

Editorial Changes

Recent editorial changes include the appointment of Victor Chernozhukov, (Massachusetts Institute of Technology) as Co-Editor to replace Oliver Linton (University of Cambridge) on his taking up the position of Editor of *Journal of Econometrics*. Victor previously served as an Associate Editor between 2008 and 2011 whereas Oliver has been a Co-Editor of *The Econometrics Journal* since 2007. In addition, Matias D. Cattaneo (University of Michigan) and Philip Haile (Yale University) have agreed to act as Associate Editors replacing Anders Rahbek (University of Copenhagen) and Ed Vytlačil (New York University). *The Econometrics Journal* is very grateful to Oliver, Anders and Ed for their excellent service during their tenure as Co-Editor and Associate Editors.

RES Conference 2014

The Econometrics Journal Special Session at the 2014 Royal Economic Society Annual Conference, Monday 7 to Wednesday 9 April, 2014 at the University of Manchester focused on Large Dimensional Models. The invited speakers were Jianqing Fan (ORFE Princeton University) and Marc Hallin (ECARES ULB and ORFE Princeton) whose papers were entitled "Large Panel Test of Factor Pricing Models" and "General Dynamic Factors and Volatilities" respectively. The presentations are now available on the EctJ website; see <http://www.fsmevents.com/res/2014/session2b/>

Recent Special Sessions have addressed Heterogeneity (2013), Econometrics of Forecasting (2012) and Nonparametric Identification (2011). Further details on all Special Sessions are available at <http://www.res.org.uk/view/special-session-menu.html>

The 2012 Denis Sargan Econometrics Prize

The 2012 Denis Sargan Econometrics Prize was presented to Dr. Fabrizio Ferriani (Bank of Italy) at the 2014 Royal Economic Society Annual Conference by Professor Richard Blundell past President of the Royal Economic Society. The award to Dr. Fabrizio Ferriani was in respect of his contribution to the paper "Estimating and Testing Non-Affine Option Pricing Models with a Large Unbalanced Panel of Options" published in *The Econometrics Journal*, Vol. 15, Issue No. 2, pp. 171-203. The Denis Sargan Econometrics Prize is awarded for the best (unsolicited) article published in *The Econometrics Journal* in a given year by anyone who is within five years of being awarded their doctorate. An honorarium of £1000 is awarded to the winning author.

The presentation may be found at <http://www.res.org.uk/view/DenisSaganPrizeVideo2012.html>

New Special Issue

Advances in Robust and Flexible Inference in Econometrics

A Special Issue of *The Econometrics Journal* celebrating the work and contributions of Joel L. Horowitz was published in the most recent issue Vol. 17, No. 2, of *The Econometrics Journal*. Most of the papers were presented at the Conference in Honour of Joel's 70th birthday held in June 2011 at University College London. Joel has made influential contributions to many areas in econometrics and statistics. These areas include bootstrap methods, semi-parametric and non-parametric estimation, specification testing, non-parametric instrumental variables, estimation of high-dimensional models, and functional data analysis, among others. The six papers that appear in this Special Issue reflect topics related to Joel's past and current research interests.

The links below will take you to the article text of the published papers and the editorial.

[An Instrumental Variable Random-Coefficients Model for Binary Outcomes](#) by Andrew Chesher and Adam M. Rosen (complimentary access)

[Backfitting and Smooth Backfitting in Varying Coefficient Quantile Regression](#) by Young K. Lee, Enno Mammen and Byeong U. Park (complimentary access)

[Confidence Sets Based on Inverting Anderson–Rubin Tests](#) by Russell Davidson and James G. MacKinnon

[Testing for the Stochastic Dominance Efficiency of a Given Portfolio](#) by Oliver Linton, Thierry Post and Yoon-Jae Whang

[Posterior Inference in Curved Exponential Families under Increasing Dimensions](#) by Alexandre Belloni and Victor Chernozhukov

[Generalized Dynamic Semi-Parametric Factor Models for High-Dimensional Non-Stationary Time Series](#) by Song Song, Wolfgang K. Härdle and Ya'acov Ritov

The editorial text below was prepared by the Guest Editors Xiaohong Chen, Sokbae Lee, Oliver Linton and Elie Tamer.

[Advances in Robust and Flexible Inference in Econometrics: A Special Issue in Honour of Joel L. Horowitz \(pages Si-Sii\)](#)

Replication Policy

The Econometrics Journal recently implemented a Replication Policy for all accepted papers. *The Econometrics Journal* now will only publish papers if there is complete, transparent and precise documentation for the data used in the analysis and that these data are easily available to any researcher for purposes of replication. *The Econometrics Journal* requires that all empirical and simulation results must be replicable. See the link [Replication Policy](#) for accepted papers.

Supporting Material

The Econometrics Journal provides a facility linked to the online published manuscript for supporting material that is not essential for inclusion in the full text of the accepted manuscript but which would nevertheless benefit the reader. See the link [Supporting Material](#).

Richard J. Smith
Managing Editor

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Abstracts of Forthcoming Articles

[Maximum score estimation with nonparametrically generated regressors](#) by Le-Yu Chen, Sokbae Lee, Myung Jae Sung (complimentary access)

The estimation problem in this paper is motivated by maximum score estimation of preference parameters in the binary choice model under uncertainty in which the decision rule is affected by conditional expectations. The preference parameters are estimated in two stages: we estimate conditional expectations nonparametrically in the first stage and then the preference parameters in the second stage based on Manski (1975, 1985)'s maximum score estimator using the choice data and first stage estimates. This setting can be extended to maximum score estimation with nonparametrically generated regressors. The paper establishes consistency and derives rate of convergence of the two-stage maximum score estimator. Moreover, the paper also provides sufficient conditions under which the two-stage estimator is asymptotically equivalent in distribution to the corresponding single-stage estimator that assumes the first stage input is known. The paper also presents some Monte Carlo simulation results for finite-sample behavior of the two-stage estimator.

[Common breaks in time trends for large panel data with a factor structure](#) by Dukpa Kim (complimentary access)

This paper analyzes issues related to estimating a common break in a large panel of time series data. Each series in the panel consists of a linear time trend and a random error. The linear time trend is subject to a break which occurs at the same date for all series. The error term is cross-sectionally correlated through a factor structure. The break date is estimated jointly with the common factors. In particular, two break date estimators are analyzed. The first one is obtained as an iterative solution while the second as a global one. The asymptotic properties of these estimators are analyzed under both global and local asymptotic frameworks. These two estimators are shown to be asymptotically equivalent and to achieve a faster rate of convergence than the simple break date estimator that does not take the common factors into account. The limiting distributions of the proposed break date estimators are provided so that asymptotically valid confidence intervals can be formed. Monte Carlo simulation results are provided to support the theoretical results.

[A social interaction model with an extreme order statistic](#) by Ji Tao, Lung-Fei Lee

This paper introduces a social interaction econometric model with an extreme order statistic to model peer effects. We show that the model is a well-defined system of equations and is a static game with complete information. The social interaction model may include exogenous regressors and group effects. Instrumental variables estimators are proposed for the general model that includes exogenous regressors. Distribution free methods that use recurrence relations to generate moment conditions for estimation are also considered. For a model without exogenous regressors, the maximum likelihood approach is computationally feasible.

[Point Optimal Panel Unit Root Tests with Serially Correlated Errors](#) by Hyungsik Roger Moon, Benoit Perron, Peter C.B. Phillips

Generalizations of the point-optimal panel unit root tests of Moon, Perron, and Phillips (2007; MPP) are developed to cover cases of serially correlated errors. The resulting statistics involve two modifications relative to those in MPP: (i) the error variance is replaced by the long-run variance; (ii) centering of the statistic is adjusted to correct for second-order bias effects induced by the correlation between the error and lagged dependent variable.

[Likelihood-based dynamic factor analysis for measurement and forecasting](#) by Borus Jungbacker, Siem Jan Koopman

The authors present new results for the likelihood-based analysis of the dynamic factor model. The latent factors are modeled by linear dynamic stochastic processes. The idiosyncratic disturbance series are specified as autoregressive processes with mutually correlated innovations. The new results lead to computationally efficient procedures for the estimation of the factors and for the parameter estimation by maximum likelihood methods. We also present the implications of our results for models with regression effects, for Bayesian analysis, for signal extraction, and for forecasting. An empirical illustration is provided for the analysis of a large panel of macroeconomic time series.

[Indirect inference based on the score](#) by Peter Fuleky, Eric Zivot

The Efficient Method of Moments (EMM) estimator popularized by Gallant and Tauchen (1996) is an indirect inference estimator based on the simulated auxiliary score evaluated at the sample estimate of the auxiliary parameters. We study an alternative estimator that uses the sample auxiliary score evaluated at the simulated binding function, which maps the structural parameters of interest to the auxiliary parameters. We show that the alternative estimator has the same asymptotic properties as the EMM estimator but in finite samples behaves more like the distance-based indirect inference estimator of Gouriéroux, Monfort and Renault (1993).

[Estimation of discrete games with correlated types](#) by Haiqing Xu

This paper focuses on the identification and estimation of static games of incomplete information with correlated types. Instead of making the independence assumption on players' types to simplify the equilibrium set, I propose an approach that allows me to identify subsets of the space of covariates (i.e. publicly observed state variables in payoff functions), for which there exists a unique pure strategy Bayesian Nash Equilibrium (BNE) and the equilibrium strategies are monotone functions. Moreover, characterize the monotone pure strategy BNE in a simple manner and propose an estimation procedure that uses observations only from the subset of the covariate space where the game admits a unique monotone pure strategy BNE. Further I show that the proposed estimator is p -consistent and has a limiting normal distribution.

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Top Five Most Downloaded Published Articles This Year (2014) (complimentary access)

Title	Author(s)	First Published Online
Weighted Composite Quantile Regression Estimation of DTARCH Models	Jiancheng Jiang, Xuejun Jiang and Xinyuan Song	18 Feb 2014
Multivariate Variance Targeting in the BEKK–GARCH Model	Rasmus S. Pedersen and Anders Rahbek	21 Jan 2014
Estimation of State-Space Models with Endogenous Markov Regime-Switching Parameters	Kyu H. Kang	18 Feb 2014
Estimation of Fixed Effects Panel Data Partially Linear Additive Regression Models	Chunrong Ai, Jinhong You and Yong Zhou	14 Jan 2014
Identification-Robust Inference for Endogeneity Parameters in Linear Structural Models	Firmin Doko Tchatoka ¹ and Jean-Marie Dufour	18 Feb 2014

Top Five Most Downloaded Accepted Articles in 2014 Not Yet Published (complimentary access)

Title	Author(s)	First Published Online
Estimation of Discrete Games with Correlated Types	Haiqing Xu	16 June 2014
Likelihood-Based Dynamic Factor Analysis for Measurement and Forecasting	Borus Jungbacker and Siem Jan Koopman	16 June 2014
Indirect Inference Based on the Score	Peter Fuleky and Eric Zivot	Accepted Unedited
Point Optimal Panel Unit Root Tests with Serially Correlated Errors	Hyungsik Roger Moon, Benoit Perron and Peter C.B. Phillips	Accepted Unedited
A Social Interaction Model with an Extreme Order Statistic	Ji Tao and Lung-Fei Lee	Accepted Unedited

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How to publish in The Econometrics Journal

The Econometrics Journal is published by John Wiley and Sons Ltd on behalf of the Royal Economic Society.

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Submissions

Submissions should be made online at <https://editorialexpress.com/ectj>

For more information please visit <http://www.res.org.uk/view/submissionsEconometrics.html>

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Aims and Scope

The Econometrics Journal was established in 1998 by the Royal Economic Society with the aim of creating a top international field journal for the publication of econometric research with a standard of intellectual rigour and academic standing similar to those of the pre-existing top field journals in econometrics. *The Econometrics Journal* is committed to publishing first-class papers in macro-, micro- and financial econometrics. It is a general journal for econometric research open to all areas of econometrics, whether applied, computational, methodological or theoretical contributions.

Submissions to *The Econometrics Journal* receive detailed and informative appraisal. Some papers may be rejected without seeking the advice of referees and the provision of reports but are scrutinised in detail by a member of the Editorial Board. This practice is only invoked for submissions unlikely to prove publishable in *The Econometrics Journal* to avoid unnecessarily prolonging the editorial process and taxing the limited resource of referees.

The Econometrics Journal is dedicated to achieving an exacting standard for the editorial process, both in terms of usefulness and speed, to promote the submission of high-quality econometric research. *The Econometrics Journal* provides annual reports concerning the editorial process.

The Econometrics Journal provides immediate electronic access to papers accepted for publication circumventing the often long publication delays often associated with other paper-based journals. Readers are able to view without charge papers published or forthcoming in *The Econometrics Journal*. See <http://www.res.org.uk/view/econometricsAcceptedArticles.html>

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