

Package ‘vrtest’

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Type Package

Title Variance Ratio Tests and Other Tests for Martingale Difference Hypothesis

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Description

A collection of statistical tests for martingale difference hypothesis, including automatic port-manteau test (Escansiano and Lobato, 2009) <doi:10.1016/j.jeconom.2009.03.001> and automatic variance ratio test (Kim, 2009) <doi:10.1016/j.frl.2009.04.003>.

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vrtest-package	<i>Variance Ratio tests and other tests for Martingale Difference Hypothesis</i>
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Description

A collection of variance ratio and spectral shape tests

Details

Package: vrtest
 Type: Package
 Version: 0.97
 Date: 2014-08-10
 License: GPL-2

Author(s)

Jae H. Kim
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Adjust.thin	<i>Adjustment for thinly-traded returns</i>
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Description

The adjustment based on AR(1) fitting as proposed by Miller et al. (1994)

Usage

Adjust.thin(y)

Arguments

y financial return time series

Value

Adjusted return

Author(s)

Jae H. Kim

References

Miller et al. (1994), Mean Reversion of Standard & Poor's 500 Index Base Changes: Arbitrage Induced or Statistical Illusion *Journal of Finance*, XLIX, 479-513.

Examples

```
data(exrates)
y <- exrates$ca
nob <- length(y)
r <- log(y[2:nob])-log(y[1:(nob-1)])
Adjust.thin(r)
```

Auto.Q

Automatic Portmanteau Test

Description

A robustified portmanteau test with automatic lag selection

Usage

```
Auto.Q(y, lags)
```

Arguments

y financial return time series
lags maximum lag value, the default is 10

Value

Stat Automatic portmanteau test statistic
Pvalue p-value of the test

Author(s)

Jae H. Kim

References

Escanciano, J.C., Lobato, I.N. 2009a. An automatic portmanteau test for serial correlation. *Journal of Econometrics* 151, 140-149.

Charles, A. Darne, O. Kim, J.H. 2011, Small Sample Properties of Alternative Tests for Martingale Difference Hypothesis, *Economics Letters*, 110(2), 151-154.

Examples

```
data(exrates)
y <- exrates$ca
nob <- length(y)
r <- log(y[2:nob])-log(y[1:(nob-1)])
Auto.Q(r)
```

Auto.VR

Automatic Variance Ratio Test

Description

A variance ratio test with holding period value chosen by a data dependent procedure

Usage

```
Auto.VR(y)
```

Arguments

y financial return time series

Value

stat Automatic variance ratio test statistic
sum 1+ weighted sum of autocorrelation up to the optimal order

Note

R code translated from Choi's GAUSS code

Author(s)

Jae H. Kim

References

Choi, I. 1999, Testing the random walk hypothesis for real exchange rates *Journal of Applied Econometrics*, 14, 293-308.

Examples

```

data(exrates)
y <- exrates$ca
nob <- length(y)
r <- log(y[2:nob])-log(y[1:(nob-1)])
Auto.VR(r)

```

AutoBoot.test

*Wild Bootstrapping of Automatic Variance Ratio Test***Description**

This function returns wild bootstrap test results for the Automatic Variance Ratio Test of Choi (1999)

Usage

```
AutoBoot.test(y, nboot, wild,prob=c(0.025,0.975))
```

Arguments

y	a vector of time series, typically financial return
nboot	the number of bootstrap iterations
wild	"Normal" for the wild bootstrap using the standard normal distribution, "Mammen" for the wild bootstrap using Mammen's two point distribution, "Rademacher" for the wild bootstrap using Rademacher's two point distribution
prob	probability limits for confidence intervals

Value

test.stat	Automatic variance ratio test statistic
VRsum	1+ weighted sum of autocorrelation up to the optimal order
pval	Wild Bootstrap p-value for the test
CI	Confidence Intervals for the test statistic from Bootstrap distribution
CI.VRsum	Confidence Intervals for the VRsum from Bootstrap distribution

Author(s)

Jae H. Kim

References

Kim, J. H., 2009, Automatic Variance Ratio Test under Conditional Heteroskedascity, Finance Research Letters, 6(3), 179-185.

Charles, A. Darne, O. Kim, J.H. 2011, Small Sample Proeprties of Alternative Tests for Martingale Difference Hypothesis, Economics Letters, 110(2), 151-154.

Examples

```
r <- rnorm(100)
AutoBoot.test(r,nboot=500,wild="Normal")
```

Ave.Ex

*Average Exponential Tests***Description**

Average exponential tests of Andrews and Ploberger (1996)

Usage

```
Ave.Ex(y)
```

Arguments

y financial return time series

Value

Ex.LM	LM test
Ex.LR	LR test

Note

Traslated from Choi's Gauss codes

Author(s)

Jae H. Kim

References

Choi, I. 1999, Testing the random walk hypothesis for real exchange rates, Journal of Applied Econometrics, 14, 293-308.

Examples

```
data(exrates)
y <- exrates$ca
nob <- length(y)
r <- log(y[2:nob])-log(y[1:(nob-1)])
Ave.Ex(r)
```

Boot.test *Bootstrap Variance Ratio Tests*

Description

This function returns bootstrap p-values of the Lo-MacKilay (1988) and Chow-Denning (1993) tests.

Users can choose between iid bootstrap and wild bootstrap

Usage

```
Boot.test(y, kvec, nboot, wild, prob=c(0.025,0.975))
```

Arguments

y	a vector of time series, typically financial return
kvec	a vector of holding periods
nboot	the number of bootstrap iterations
wild	"No" for iid bootstrap, "Normal" for the wild bootstrap using the standard normal distribution, "Mammen" for the wild bootstrap using Mammen's two point distribution, "Rademacher" for the wild bootstrap using Rademacher's two point distribution
prob	probability limits for confidence intervals

Value

Holding.Period	holding periods used
LM.pval	Bootstrap p-values for the Lo-MacKinlay tests
CD.pval	Bootstrap p-value for the Chow-Denning test
CI	Confidence Intervals for Lo-Mackinlay tests from Bootstrap distribution

Author(s)

Jae H. Kim

References

Kim, J.H., 2006, Wild Bootstrapping Variance Ratio Tests. *Economics Letters*, 92, 38-43.

Examples

```
data(exrates)
y <- exrates$ca
nob <- length(y)
r <- log(y[2:nob])-log(y[1:(nob-1)])
kvec <- c(2,5,10)
Boot.test(r,kvec,nboot=500,wild="Normal")
```

Chen.Deo

Power Transformed Joint Variance Ratio Test

Description

See equation (15) of Chen and Deo (2006)

Usage

```
Chen.Deo(x, kvec)
```

Arguments

x	a vector of time series, typically financial return
kvec	a vector of holding periods

Value

Holding.Period	holding periods used
VRsum	the sum of (power transformed individual VR - 1)
QPn	QPn statistic
ChiSQ.Quantiles_1_2_5_10_20_percent	Chi-square critical values

Author(s)

Jae H. Kim

References

Chen, W. W., and Deo, R.S., 2006, The Variance Ratio Statistic at Large Horizons, *Econometric Theory*, 22, 206-234.

Examples

```
data(exrates)
y <- exrates$ca
nob <- length(y)
r <- log(y[2:nob]) - log(y[1:(nob-1)])
kvec <- c(2,5,10)
Chen.Deo(r, kvec)
```

`Chow.Denning`*Chow-Denning Multiple Variance Ratio Tests*

Description

This function returns Chow-Denning test statistics.

CD1: test for iid series; CD2: test for uncorrelated series with possible heteroskedasticity.

Usage

```
Chow.Denning(y, kvec)
```

Arguments

<code>y</code>	a vector of time series, typically financial return
<code>kvec</code>	a vector of holding periods

Value

<code>Holding.Periods</code>	holding periods used
<code>CD1</code>	CD1 statistic
<code>CD2</code>	CD2 statistic
<code>Critical.Values_10_5_1_percent</code>	10 5 1 percent critical values

Note

See Chow and Denning (1993) for the details of critical value calculation

Author(s)

Jae H. Kim

References

Chow, K. V., K. C. DENNING, 1993, A Simple Multiple Variance Ratio Test, *Journal of Econometrics*, 58, 385-401.

Examples

```
data(exrates)
y <- exrates$ca
nob <- length(y)
r <- log(y[2:nob]) - log(y[1:(nob-1)])
kvec <- c(2, 5, 10)
Chow.Denning(r, kvec)
```

`DL.test`*Dominguez-Lobato Test for Martingale Difference Hypothesis*

Description

Dominguez-Lobato Test

Usage`DL.test(y,B,p)`**Arguments**

<code>y</code>	financial return time series
<code>B</code>	the number of bootstrap iterations, the default is 300
<code>p</code>	the lag value, the default is 1

Value

<code>Cp</code>	Cramer von Mises test statistic
<code>Kp</code>	Kolmogorov-Smirnov test statistic
<code>Cp_pval</code>	wild bootstrap p-value of the Cp test
<code>Kp_pval</code>	wild bootstrap p-value of the Kp test

Author(s)

Jae H. Kim

References

Domingues M.A. and Lobato, I. N., 2003, Testing the Martingale Difference Hypothesis, *Econometrics Reviews*, 22, p351-377.

Charles, A. Darne, O. Kim, J.H. 2011, Small Sample Properties of Alternative Tests for Martingale Difference Hypothesis, *Economics Letters*, 110(2), 151-154.

Examples

```
r <- rnorm(50)
DL.test(r,B=100)
# B=100 is used for fast execution in the example.
# Use a higher number in actual application
```

exrates	<i>wright's Exchange Rates Data</i>
---------	-------------------------------------

Description

The data set used in Wright (2001) as an application, weekly from August, 7, 1974 to May 29 1996

Usage

data(exrates)

Format

A data frame with 1139 observations on the following 5 variables.

ca a numeric vector, Canadian Dollar

dm a numeric vector, Deutch Mark

ff a numeric vector, French Franc

uk a numeric vector, UK Pound

jp a numeric vector, Japanese Yen

References

WRIGHT,J.H.,2000,Alternative Variance-Ratio Tests Using Ranks and Signs, Journal of Business & Economic Statistics, 18, 1-9.

Examples

data(exrates)

Gen. Spec. Test	<i>Generalized spectral Test</i>
-----------------	----------------------------------

Description

Generalized spectral Test

Usage

Gen. Spec. Test(y, B)

Arguments

y financial return time series

B the number of bootstrap iterations, the default is 300

Value

Pboot wild bootstrap p-value of the test

Author(s)

Jae H. Kim

References

Escanciano, J.C. and Velasco, C., 2006, Generalized Spectral Tests for the martigale Difference Hypothesis, *Journal of Econometrics*, 134, p151-185.

Charles, A. Darne, O. Kim, J.H. 2011, Small Sample Proeprties of Alternative Tests for Martingale Difference Hypothesis, *Economics Letters*, 110(2), 151-154.

Examples

```
r <- rnorm(100)
Gen.Spec.Test(r)
```

Joint.Wright

A Joint Version of Wight's Rank and Sign Test

Description

This function returns joint or multiple version of Wright's rank and sign tests. The test takes the maximum value of the individual rank or sign tests, in the same manner as Chow-Denning test

Usage

```
Joint.Wright(y, kvec)
```

Arguments

y a vector of time series, typically financial return
kvec a vector of holding periods

Value

Holding.Period holding periods used
JR1 Joint test based on R1 statistics
JR2 Joint test based on R2 statistics
JS1 Joint test based on S1 statistics

Author(s)

Jae H. Kim

References

Belaire-Franch G, Contreras D. Ranks and signs-based multiple variance ratio tests, Working paper, University of Valencia 2004.

Kim, J. H. and Shamsuddin, A., 2008, Are Asian Stock Markets Efficient? Evidence from New Multiple Variance Ratio Tests, Journal of Empirical Finance 15(8), 518-532.

Examples

```
data(exrates)
y <- exrates$ca
nob <- length(y)
r <- log(y[2:nob])-log(y[1:(nob-1)])
kvec <- c(2,5,10)
Joint.Wright(r,kvec)
```

JWright.crit

Critical Values for the joint versions of Wright's rank and sign tests

Description

This function runs a simulation to calculate the critical values of the joint versions of Wright's tests.

Usage

```
JWright.crit(n, kvec, nit)
```

Arguments

n	sample size
kvec	holding period vector
nit	number of iterations

Value

Holding.Period	holding period used
JR1.crit	Critical values for the joint R1 statistic
JR2.crit	Critical values for the joint R2 statistic
JS1.crit	Critical values for the joint S1 statistic

Author(s)

Jae H. Kim

References

Belaire-Franch G, Contreras D. Ranks and signs-based multiple variance ratio tests, Working paper, University of Valencia 2004.

Kim, J. H. and Shamsuddin, A., 2008, Are Asian Stock Markets Efficient? Evidence from New Multiple Variance Ratio Tests, Journal of Empirical Finance 15(8), 518-532.

Examples

```
kvec <- c(2,5,10)
JWright.crit(n=100,kvec,nit=50)

# nit is set to 50 for fast execution in the example.
# nit=10000 is recommended as in Wright (2000)
```

 Lo.Mac

Lo-MacKinlay variance Ratio Tests

Description

The function returns M1 and M2 statistics of Lo and MacKinlay (1998).

M1: tests for iid series; M2: for uncorrelated series with possible heteroskedasticity.

Usage

```
Lo.Mac(y, kvec)
```

Arguments

y a vector of time series, typically financial return
 kvec a vector of holding periods

Value

Stats M1 and M2 statistics

Author(s)

Jae H. Kim

References

LO, A. W., and A. C. MACKINLAY (1988): "Stock Market Prices Do Not Follow Random Walks: Evidence from a Simple Specification Test," The Review of Financial Studies, 1, 41-66.

Examples

```

data(exrates)
y <- exrates$ca
nob <- length(y)
r <- log(y[2:nob])-log(y[1:(nob-1)])
kvec <- c(2,5,10)
Lo.Mac(r,kvec)

```

Panel.VR

*Panel Variance Ratio Tests***Description**

Panel variance ratio tests based on Maximum Absolute Value, Sum of Squares, and Mean of each cross-sectional units

Usage

```
Panel.VR(dat, nboot = 500)
```

Arguments

dat	a T by K matrix of asset returns, K is the number of cross sectional units and T is length of time series
nboot	the number of wild bootstrap iterations, the default is set to 500

Details

The component statistics are based on the automatic variance ratio test The set of returns are wild bootstrapped to conserve cross-sectional dependency

Value

MaxAbs.stat	the statistic based on the maximum absolute value of individual statistics
SumSquare.stat	the statistic based on the sum of squared value of individual statistics
Mean.stat	the statistic based on the mean value of individual statistics
MaxAbs.pval	the wild bootstrap pvalue based on the maximum absolute value of individual statistics
SumSquare.pval	the wild bootstrap pvalue based on the sum of squared value of individual statistics
Mean.pval	the wild bootstrap pvalue based on the mean value of individual statistics

Author(s)

Jae H. Kim

References

Kim, J. H., & Shamsuddin, A. (2015). A closer look at return predictability of the US stock market: evidence from new panel variance ratio tests. *Quantitative Finance*, 15(9), 1501-1514.

Examples

```
ret=matrix(rnorm(200),nrow=100)
Panel.VR(ret)
```

Spec.shape

Spectral shape tests for random walk

Description

Spectral Shape tests proposed by Durlauf (1991) and Choi (1999)

Usage

Spec.shape(x)

Arguments

x financial return time series

Value

AD Anderson-Darling statistic
 CVM Cramer-von Mises statistic
 M Mellows statistic

Note

Traslated from Choi's Gauss codes

Author(s)

Jae H. Kim

References

Choi, I. 1999, Testing the random walk hypothesis for real exchange rates, *Journal of Applied Econometrics*, 14, 293-308. Durlauf, S. N., 1991, Spectral based testing of the martingale hypothesis, *Journal of Econometrics*, 50, 355-376.

Examples

```
data(exrates)
y <- exrates$ca
nob <- length(y)
r <- log(y[2:nob])-log(y[1:(nob-1)])
Spec.shape(r)
```

Subsample.test	<i>Subsampling test of Whang and Kim (2003)</i>
----------------	-------------------------------------------------

Description

The function returns the p-values of the subsampling test.

Usage

```
Subsample.test(y, kvec)
```

Arguments

y	a vector of time series, typically financial return
kvec	a vector of holding periods

Details

The block lengths are chosen internally using the rule proposed in Whang and Kim (2003)

Value

Holding.Period	holding periods used
Block.Length	block lengths chosen
pval	p-values of the test for each block length used

Author(s)

Jae H. Kim

References

WHANG, Y.-J., J. KIM, 2003, A Multiple Variance Ratio Test Using Subsampling, *Economics Letters*, 79, 225-230.

Examples

```

data(exrates)
y <- exrates$ca
nob <- length(y)
r <- log(y[2:nob])-log(y[1:(nob-1)])
kvec <- c(2,5,10)
Subsample.test(r,kvec)

```

VR.minus.1

Absolute Value of (VR - 1)

Description

This value is sometimes used to measure the degree of market efficiency

Usage

```
VR.minus.1(y, kvec)
```

Arguments

y	financial return time series
kvec	a vector of holding periods

Value

VR.auto	the value of VR-1 with automatic selection of holding vectors
VR.Holding.Periods	the vector of holding periods
VR.kvec	the values of VR-1 for the chosen holding periods

Note

see Auto.VR function for automatic selection of holding periods

Author(s)

Jae H. Kim

Examples

```

data(exrates)
y <- exrates$ca
nob <- length(y)
kvec <- c(2,5,10)
r <- log(y[2:nob])-log(y[1:(nob-1)])
VR.minus.1(r,kvec)

```

VR.plot	<i>Variance Ratio Plot</i>
---------	----------------------------

Description

Plotting unstandardized variance ratios against holding periods with 95percent confidence band
Standard errors under iid returns are used.

Usage

```
VR.plot(y, kvec)
```

Arguments

y	financial return
kvec	holding period vector

Value

VR	vector of variance ratio values plotted
----	-----------------------------------------

Author(s)

Jae H. Kim & Alexios Ghalanos

Examples

```
data(exrates)
y <- exrates$ca
nob <- length(y)
r <- log(y[2:nob]) - log(y[1:(nob-1)])
kvec <- c(2,5,10)
VR.plot(r,kvec)
```

Wald	<i>Wald Test of Richardson and Smith (1991)</i>
------	-------------------------------------------------

Description

This function returns the Wald test statistic with critical values

Usage

```
Wald(y, kvec)
```

Arguments

`y` a vector of time series, typically financial return
`kvec` a vector of holding periods

Value

`Holding.Periods`
 holding periods used
`Wald.stat` Wald test statistic
`Critical.Values_10_5_1_percent`
 10 5 and 1 percent critical values

Note

The statistic asymptotically follows the chi-squared distribution with the degrees of freedom same as the number of holding periods used

Author(s)

Jae H. Kim

References

Richardson, M., T. Smith, 1991, "Tests of Financial Models in the Presence of Overlapping Observations," *The Review Financial Studies*, 4, 227-254.

Examples

```
data(exrates)
y <- exrates$ca
nob <- length(y)
r <- log(y[2:nob])-log(y[1:(nob-1)])
kvec <- c(2,5,10)
Wald(r,kvec)
```

 Wright

Wright's Rank and Sign Tests

Description

The function returns R1, R2 and S1 tests statistics detailed in Wright (2000)

Usage

```
Wright(y, kvec)
```

Arguments

y a vector of time series, typically financial return
 kvec a vector of holding periods

Details

Nonparametric tests

Value

Holding.Period holding periods used
 R1.test rank test R1
 R2.test rank test R2
 S1.test sign test S1

Author(s)

Jae H. Kim

References

WRIGHT,J.H.,2000,Alternative Variance-Ratio Tests Using Ranks and Signs, Journal of Business & Economic Statistics, 18, 1-9.

Examples

```
data(exrates)
y <- exrates$ca
nob <- length(y)
r <- log(y[2:nob])-log(y[1:(nob-1)])
kvec <- c(2,5,10)
Wright(r,kvec)
```

Wright.crit

Critical Values for Wright's rank and sign tests

Description

This function returns critical values of Wright's tests based on the simulation method detailed in Wright (2000)

Usage

```
Wright.crit(n, k, nit)
```

Arguments

n	sample size
k	holding period, a scalar
nit	number of iterations

Value

Holding.Period	holding period used
R1.crit	Critical values for the R1 statistic
R2.crit	Critical values for the R2 statistic
S1.crit	Critical values for the S1 statistic

Author(s)

Jae H. Kim

References

WRIGHT,J.H.,2000,Alternative Variance-Ratio Tests Using Ranks and Signs, Journal of Business & Economic Statistics, 18, 1-9.

Examples

```
Wright.crit(n=10,k=2,nit=50)

# nit is set to 50 for fast execution in the example.
# nit=10000 is recommended as in Wright (2000)
```

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