Effective Time Varying Hedge Ratios: An Empirical Study of Thai Market

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Abstract

This paper analyzes the influence of asymmetry term in the unconditional volatility on the estimation. Multivariate GARCH models are employed to estimate the optimal hedge ratios for the Thai stock market by including the well-known patterns of asymmetry, which may affect volatility forecasts. The main empirical results show that more complex model including the asymmetry term in volatility outperforms the simpler models in hedging effectiveness for both in-sample and out-sample analysis.