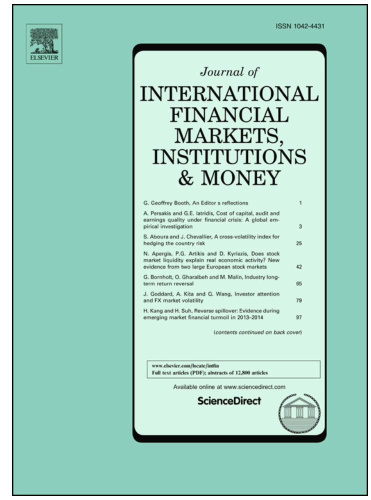

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Hande Karabiyik, Joakim Westerlund, Paresh Narayan

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On the Estimation and Testing of Predictive Panel Regressions *

Hande Karabiyik
Lund University

Joakim Westerlund†
Lund University
and
Centre for Financial Econometrics
Deakin University

Paresh Narayan
Centre for Financial Econometrics
Deakin University

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Abstract

Hjalmarsson (Predicting Global Stock Returns, *Journal of Financial and Quantitative Analysis* **45**, 49–80, 2010) considers an OLS-based estimator of predictive panel regressions that is claimed to be mixed normal under very general conditions. In a recent paper, Westerlund et al. (Testing for Predictability in Panels with General Predictors, unpublished manuscript, 2015) show that while consistent, the estimator is generally not mixed normal, which invalidates standard normal and chi-squared inference. The purpose of the present paper is to study the consequences of this theoretical result in small samples, which is done using both simulated and real data.

JEL Classification: C22; C23.

Keywords: Panel data; Predictive regression; Common factors; Mixed normality.

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†Corresponding author: Department of Economics, Lund University, Box 7082, 220 07 Lund, Sweden. Telephone: +46 46 222 8997. Fax: +46 46 222 4613. E-mail address: joakim.westerlund@nek.lu.se.