Monitoring Structural Breaks of the Cointegration Rank in Error Correction Models

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Abstract

Consistent monitoring procedures are developed with the goal to detect structural changes in a Johansen type error correction model. In particular, we consider breaks where the cointegration rank remains constant as well as breaks changing the cointegration rank. Lagrange multiplier tests are developed allowing to monitor these kinds of breaks. The monitoring procedure is used to investigate possible structural changes the risk-adjusted forward unbiasedness hypothesis.

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