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**Estimation of the long memory parameter in
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Estimation of the long memory parameter in non stationary models: A Simulation Study

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Abstract

In this paper we perform a Monte Carlo study based on three well-known semiparametric estimates for the long memory fractional parameter. We study the efficiency of Geweke and Porter-Hudak, Gaussian semiparametric and wavelet Ordinary Least-Square estimates in both stationary and non stationary models. We consider an adequate data tapers to compute non stationary estimates. The Monte Carlo simulation study is based on different sample size. We show that for $d \in [1/4, 1.25]$ the Haar estimate performs the others with respect to the mean squared error. The estimation methods are applied to energy data set for an empirical illustration.

Key words: Wavelets, long memory, tapering, non-stationarity, volatility

1. Introduction

In recent years, studies about long memory have received the attention of statisticians and mathematicians. This phenomenon has grown rapidly and can be found in many fields such as hydrology, chemistry, physics, economic and finance. For instance, the studies of Diebold and Redebusch (1989) and Sowell (1992b) for real gross national product, Shea (1991) for interest rates, Lo (1991) and Willinger et al. (1995) for Ethernet traffic, Boutahar et al. (2007) for US inflation rate and Tsay (2009) for political time series. Moreover, Bollerslev and Mikkelsen (1996) proposed the FIGARCH model for modelling the persistence in the volatility in financial time series. The concept of long memory describes the property that many time series models possess, despite being stationary, higher persistence than short memory models, such as ARMA models.

Usually a long memory model X_t can be characterized by a single memory parameter $d \in (0, 1/2)$ called the degree of memory of the model, which controls the shape of the spectrum near zero frequency and the hyperbolic decay of its autocorrelation function. More precisely, the spectral

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density, $f_X(\lambda)$, of the long memory model is approximated in the neighborhood of the zero frequency by

$$f_X(\lambda) \sim c\lambda^{-2d} \text{ as } \lambda \rightarrow 0^+, \quad 0 < c < \infty. \quad (1.1)$$

thus, $f_X(\lambda) \rightarrow \infty$ as $\lambda \rightarrow 0_+$. Under additional regularity assumptions of $f_X(\lambda)$, the autocorrelation function $\rho(k)$ of the long memory model has the following asymptotic behavior:

$$\rho(k) \sim ck^{2d-1} \text{ as } k \rightarrow \infty. \quad (1.2)$$

As a consequence, for $0 < d < 1/2$, $\sum_{-\infty}^{+\infty} |\rho(k)| = \infty$. This property of absolute nonsummability of autocorrelations is often considered as definition of long memory and is satisfied by the ARFIMA models (Granger and Joyeux 1980 and Hosking 1981).

The properties of the model X_t depend on the parameter value d . Several estimation techniques have been proposed in the literature for detecting the long memory phenomenon, in both time and frequency domains (Sowell 1992 and Beran 1994). These methods are grouped into three categories: the heuristic, the semiparametric and the parametric method. In the first group, we can cite for example Hurst (1951), Higuchi (1988) and Lo (1991). The second method focuses on the frequency domain estimation, in this context the most popular method is the one developed by Geweke and Porter-Hudak (1983). See also Reisen (1994), Chen et al. (1994), Robinson (1995a) and Robinson (1995b) among others. The third method based on the maximum likelihood function is proposed by Whittle (1951), Fox and Taqqu (1986), Dahlhaus (1989) and Sowell (1992). In this class we estimate simultaneously all the parameters such as the long memory parameter d , the short-run AR, the MA parameters and the scale parameter. Another semiparametric method for estimating the long memory parameter is the so-called wavelet method proposed by McCoy and Walden (1996) and Jensen (1999a).

Some recent simulation studies comparing different techniques of estimation in stationary long memory models can be found in Taqqu et al. (1995), Reisen et al. (2006), Boutahar et al. (2007) and Tsay (2009).

We propose here a Monte Carlo study to compare the GPH, Gaussian semiparametric and wavelet OLS estimation method in both stationary and non stationary models. More specifically, our main objective is to determine the best estimation method of the long memory.

The rest of the paper is organized as follows. Section 2 describes the importance of fractional differencing. Section 3 briefly recalls definitions of long memory models. In section 4 we provide a brief theoretical background of wavelets.³ Section 5 describes the GPH, the Local Whittle and the wavelet estimation methods. Section 6 proposes a simulation study. An empirical application will be presented in section 7. Section 8 concludes.

³For a broader view of wavelet theory see Daubechies (1992, 1988), Mallat (1989) or Meyer (1993).

2. Fractional differencing

2.1. Importance of fractional differencing

Most financial and economic time series are non-stationary, with their means and covariance fluctuating in time. Therefore, how to transform a non-stationary time series into a stationary one became an important problem in the field of time series analysis. The point of fractional differencing models is not merely to allow for the memory measure to be fractional, but to allow it to be unknown, and estimated from data.

Let X_t be a time series, we can obtain a new series Y_t by differencing X_t (i.e. $Y_t = (1 - L)^d X_t$). Let $f_Y(\lambda)$ be the spectral density of Y_t . The spectral density of X_t is given by

$$f_X(\lambda) = \left| 1 - e^{i\lambda} \right|^{-2d} f_Y(\lambda). \quad (2.1)$$

2.2. Meaning of fractional differencing

The fractional differencing method proposed in this paper illustrates the essence of long-term memory. It shows the connection between differencing parameter d and long-term memory.

Consider the ARFIMA(0,d,0) model often called fractional white noise which can be expressed as $(1 - L)^d X_t = \varepsilon_t$ where $(1 - L)^d = \sum_{k=0}^{\infty} \delta_k(d) L^k$ and

$$\delta_k(d) = \frac{\Gamma(k - d)}{\Gamma(k + 1) \Gamma(-d)}, \quad (2.2)$$

where $\Gamma(\cdot)$ denotes the gamma function. When $d = 0$, X_t is merely a white noise, and its autocorrelation function is equal to 0. When $d = 1$, X_t is a random walk, whose value of autocorrelation function is 1, and it can be regarded as a white noise after the first-order differencing. When d is non-integer, $X_t = -\sum_{k=1}^{+\infty} \delta_k(d) X_{t-k} + \varepsilon_t$, and hence X_t is influenced by all historical data $(X_{t-1}, X_{t-2}, \dots)$, this is just the characteristic of long-term memory.

3. Long memory

Researchers in several fields had noticed that the correlation between observations sometimes decayed at a slower rate than for data following classical ARMA models. Later on, as a direct result of the pioneer research of Mandelbrot and Van Ness (1968), self-similar and long memory models were introduced in the fields of statistics as a basis for inferences. Since then, this field is experiencing a considerable growth in the number of research results (for instance, see Franco and Reisen (2004); Boutahar et al. (2007); Reisen et al. (2006) and the references therein). The ARFIMA models are extension of ARMA models (short memory), thus we introduce a long memory characteristic by the fractional integration.

3.1. Definition and characteristics

A process X_t , $t \geq 0$, is an ARFIMA(0,d,0) or I(d) model if:

$$(1-L)^d (X_t - \mu) = \varepsilon_t, \quad (3.1)$$

where ε_t is a white noise model and d is a real number such that $|d| < 1/2$. This model is stationary for $d < 1/2$ and invertible for $d > -1/2$. Its Wold representation is given by:

$$X_t = \mu + \sum_{k=1}^{+\infty} \delta_k(-d) \varepsilon_{t-k}. \quad (3.2)$$

where $\delta_k(d)$ is given by (2.2). For $0 < d < 1/2$, the autocorrelations decay hyperbolically like k^{2d-1} as $k \rightarrow +\infty$. Similarly, the spectral density of I(d) models behaves like λ^{-2d} as $\lambda \rightarrow 0$.

More generally, an ARFIMA(p,d,q) model is defined as:

$$\Phi(L) (1-L)^d (X_t - \mu) = \Theta(L) \varepsilon_t, \quad (3.3)$$

where $\varepsilon_t \sim i.i.d(0, \sigma_\varepsilon^2)$ is a white noise process, $\Phi(L) = 1 - \phi_1 L - \dots - \phi_p L^p$ and $\Theta(L) = 1 + \theta_1 L + \dots + \theta_q L^q$.

The spectral density of the model $\{X_t\}_{t=1, \dots, T}$ is

$$f(\lambda) = \frac{\sigma_\varepsilon^2}{2\pi} \left| \frac{\Theta(e^{i\lambda})}{\Phi(e^{i\lambda})} \right|^2 |1 - e^{i\lambda}|^{-2d}, \text{ for } -\pi < \lambda < \pi. \quad (3.4)$$

$f(\lambda)$ is continuously differentiable for all non-zero frequencies. For $d > 0$, $f(\lambda)$ is discontinuous and unbounded at zero frequency. The principal properties of an ARFIMA(p,d,q) are as follows:

- if $d > -1/2$, X_t is invertible,
- if $d < 1/2$, X_t is stationary,
- if $-1/2 < d < 0$, the autocorrelation function $\rho(k)$ decreases more quickly than the case $0 < d < \frac{1}{2}$.

There is a stronger mean reversion, and X_t is called anti-persistent in Mandelbrot's terminology.

- if $0 < d < \frac{1}{2}$, X_t is a stationary long memory model. The autocorrelation function decays hyperbolically to zero and we have for $|k| \rightarrow \infty$, $\gamma(k) \equiv C_\gamma(d, \phi, \theta) |k|^{2d-1}$ where

$$C_\gamma(d, \phi, \theta) = \frac{\sigma_\varepsilon^2}{\pi} \left| \frac{\Theta(1)}{\Phi(1)} \right|^2 \Gamma(1-2d) \sin(\pi d), \quad (3.5)$$

and then for $|k| \rightarrow \infty$,

$$\rho(k) = \frac{\gamma(k)}{\gamma(0)} \equiv \frac{C_\gamma(d, \phi, \theta)}{\int_{-\pi}^{\pi} f(\lambda) d\lambda} |k|^{2d-1}. \quad (3.6)$$

- if $d = 1/2$, the spectral density is unbounded at zero frequency.

3.2. Fractional gaussian noise

The fractional Gaussian noise (fGn) model was independently developed by Granger (1980), Granger and Joyeux (1980), and Hosking (1981). The best way to introduce the fGn model is to do it from the fractional Brownian motion $\{B_H(t), t \geq 0\}$.⁴

The fGn model $\{X_t, t \geq 0\}$ is the increment of the fractional Brownian motion

$$X_t = B_H(t) - B_H(t-1), \quad t \geq 1. \quad (3.7)$$

X_t is a stationary Gaussian with autocovariance function

$$\gamma(k) = E(X_t X_{t+k}) = \frac{1}{2} \left[|k+1|^{2H} - 2k^{2H} + |k-1|^{2H} \right], \quad k \geq 0.$$

$$\gamma(k) \sim H(2H-1)k^{2H-2}, \quad \text{for } k \rightarrow \infty \text{ and } H \neq \frac{1}{2}. \quad (3.8)$$

with H is the *self similarity* parameter or *Hurst coefficient*, $0 < H < 1$.

The fGn model reduces to a white noise when $H = 1/2$, in this case $\gamma(k) = 0$ for all $k \geq 1$. When $1/2 < H < 1$, X_t is a long memory model.

The spectral density of the fGn model is given by

$$\begin{aligned} f(\lambda) &= C_H \left(2 \sin \frac{\lambda}{2} \right)^2 \sum_{k=-\infty}^{+\infty} \frac{1}{|k + 2\pi k|^{2H+1}} \\ &\sim C_H |\lambda|^{1-2H} \text{ as } \lambda \rightarrow 0, \end{aligned} \quad (3.9)$$

C_H is a constant.

4. Wavelets

Wavelets are mathematical tools for analyzing time series. This method has been adopted in the areas of computational economics (see, for example, Davidson et al. 1998), then McCoy and

⁴Regular Brownian motion is a continuous time stochastic model, $B(s)$, composed of independent Gaussian increments. Mandelbrot and Van Ness (1968) also note that in a sense fractional Brownian motion, $B_H(s)$, can be regarded as the approximation $(0.5 - H)$ fractional derivative of regular Brownian motion:

$$B_H(s) = \frac{1}{\Gamma(H + \frac{1}{2})} \int_0^s (s-t)^{H-\frac{1}{2}} dB(t) \quad \text{for } s \in (0, 1).$$

where $\Gamma(\cdot)$ is the gamma function, $B(t)$ is regular Brownian motion with unit variance and H is the Hurst coefficient, originally due to Hurst (1951). The autocovariance of fractional Brownian motion is given by:

$$E(B_H(s)B_H(t)) = \frac{1}{2} \left[s^{2H} + t^{2H} - |s-t|^{2H} \right].$$

Walden (1996) suggested an approximate maximum likelihood estimation method for estimating the fractional differencing parameter of a fractional white noise model. Johnstone and Silverman (1997) extended the method to an ARFIMA model. The series were decomposed (filtered) using wavelet transform. This analysis provides a time-frequency representation of a time series. It was developed to overcome the short coming of the Time Fourier Transform (TFT), which can be used to analyze non-stationary time series.

The Fourier transform can only provide frequency information that comprise the time series. It gives no direct information about when an oscillation occurred. However, wavelets can keep track of time and frequency information. The basic idea behind wavelet analysis is to decompose a time series into a number of components, each component can be associated with a particular scale at a particular time.

Generally, the wavelet refers to a set of functions of the form

$$\psi_{s\tau}(t) = |s|^{-1/2} \psi\left(\frac{t-\tau}{s}\right), \quad (4.1)$$

where s is the dilation parameter (scaling parameter) which dilates or compresses a time series, It is defined as $|1/\text{frequency}|$ and corresponds to frequency information, and τ is the translation parameter which simply moves the wavelet through the time domain.

Any function $f \in L^2(\mathbb{R})$ can be expanded into a wavelet series

$$f(t) = \sum_{j=-\infty}^{+\infty} \sum_{k=-\infty}^{+\infty} \omega_{jk} \psi_{jk}(t), \quad (4.2)$$

where $\psi_{jk} \in L^2(\mathbb{R})$ denotes the *dilated* and *translated* wavelet defined by

$$\psi_{jk}(t) = 2^{j/2} \psi(2^j t - k). \quad (4.3)$$

for $j, k \in \mathbb{Z}$. The term j gives the *scale* corresponding to a *dilation* by 2^j (the *octave*), and $k \in \mathbb{Z}$ is the position or translation.

There are several wavelet families such as Haar, Daubechies, Shannon and so on. Daubechies (1992) constructed the hierarchy of the compactly supported and orthogonal wavelets with a desired degree of smoothness. This smoothness can be achieved by the number of vanishing moments (the wavelet function $\psi(t)$ has M vanishing moments if $\int x^r \psi(t) dt = 0$, for $r = 0, \dots, M-1$). Daubechies defined in her famous book *Ten lectures on wavelets* many different types of wavelet transform; the continuous wavelet transform, the discrete wavelet transform,... . In statistical setting researchs are more usually concerned with discret rather than continuous functions. In the following subsection we present a brief definition of discrete wavelet transform.

4.1. The Discrete Wavelet Transform

The wavelet transform is a function of scale in contrast to the Fourier transform which is a function of frequency. The scale is inversely proportional to a frequency interval. If the scale parameter

increases, then the wavelet basis is stretched in the time domain, shrunk in the frequency domain, and shifted toward lower frequencies. Conversely, a decrease in the scale parameter reduces the time support, increases the number of frequencies captured, and shifts toward higher frequencies. The wavelet method is essentially a transformation of time series data based on the two types of filters called a *wavelet filter* and *scaling filter* denoted by h and g , respectively. The wavelet filter h and the scaling filter g are used to construct the Discrete Wavelet Transform (*DWT*) matrix. The wavelet filter h of support $L \in \mathbb{N}$ (L is the length of the filter), is defined so as to satisfy the following three properties

$$\begin{aligned}\sum_{i=1}^L h_i &= 0, \\ \sum_{i=1}^L h_i^2 &= 1, \\ \sum_{i=1}^L h_i h_{i+2n} &= \sum_{i=-\infty}^{\infty} h_i h_{i+2n} = 0, \quad \forall n \in \mathbb{N}^*.\end{aligned}$$

The scaling filter of support L similarly satisfies the following three conditions :

$$\begin{aligned}\sum_{i=1}^L g_i &= \sqrt{2}, \\ \sum_{i=1}^L g_i^2 &= 1, \\ \sum_{i=1}^L g_i g_{i+2n} &= \sum_{i=-\infty}^{\infty} g_i g_{i+2n} = 0, \quad \forall n \in \mathbb{N}^*.\end{aligned}$$

The scaling filter g_i , $i = 1, \dots, L$, is the quadrature mirror filter corresponding to the wavelet filter h_i , $i = 1, \dots, L$ by the relationship

$$g_i = (-1)^{i+1} h_{L-i+1}. \quad (4.4)$$

In addition, the following relation holds between the wavelet filter h and the scaling filter g

$$\sum_{i=1}^L g_i h_{i+2n} = 0. \quad (4.5)$$

Let $X = (X_1, X_2, \dots, X_T)'$ be an T -vector of observations. Usually, the discrete wavelet transformations are used with equally spaced observations with a sample size equal to an integer power of 2. Thus, we assume $T = 2^J$ for some positive integer J . Using the wavelet filter and the scaling

filter, the original time series $X_t, t = 1, \dots, T$ is transformed to the new series $\omega_{j,t}$ and $v_{j,t}$, called the wavelet and scaling coefficients, respectively. Then we can write

$$\omega = WX. \quad (4.6)$$

where ω is a T -vector wavelet coefficients and W is $T \times T$ real valued matrix called wavelet transform matrix.⁵

4.2. Wavelet coefficients

The *DWT* of $X = (X_1, X_2, \dots, X_T)'$ can be performed using the so-called pyramid algorithm (Mallat 1989b).

- At first, the time series $X_t, t = 1, \dots, T$ with $T = 2^J$ is filtered using the wavelet and scaling filters. We obtain two $T/2$ -vectors of coefficients, ω_1 (wavelet coefficients) and v_1 (scaling coefficients). The wavelet coefficients can be obtained by

$$\omega_{1,t} = \sum_{i=1}^L h_i X_{2t+1-i \bmod T}, \quad t = 1, \dots, \frac{T}{2}. \quad (4.7)$$

and the scaling coefficients can be obtained by

$$v_{1,t} = \sum_{i=1}^L g_i X_{2t+1-i \bmod T}, \quad t = 1, \dots, \frac{T}{2}. \quad (4.8)$$

- Second, the vector of scaling coefficients is filtered with both wavelet and scaling filter to obtain a vector of wavelet and scaling coefficients ω_2 and v_2 each with length $T/4$. Thus, we filter $v_{1,t}$ separately with $h_i, i = 1, \dots, L$ and $g_i, i = 1, \dots, L$ and subsample to produce two new series, namely

$$\begin{aligned} \omega_{2,t} &= \sum_{i=1}^L h_i v_{1,2t+1-i \bmod \frac{T}{2}}, \quad t = 1, \dots, \frac{T}{4}. \\ v_{2,t} &= \sum_{i=1}^L g_i v_{1,2t+1-i \bmod \frac{T}{2}}, \quad t = 1, \dots, \frac{T}{4}. \end{aligned}$$

- Third, repeating this process recursively, after J applications of *DWT* to get a wavelet and scaling coefficients given by

$$\omega_{j,t} = \sum_{i=1}^L h_i v_{(j-1), \left\{ (2t-1) \bmod \left(\frac{T}{2^{j-1}} \right) \right\} + 1}. \quad (4.9)$$

$$v_{j,t} = \sum_{i=1}^L g_i v_{(j-1), \left\{ (2t-1) \bmod \left(\frac{T}{2^{j-1}} \right) \right\} + 1}. \quad (4.10)$$

⁵ W satisfies $W^T W = I_T$. Orthonormality implies that $X = W^T \omega$ and $\|\omega\|^2 = \|X\|^2$, see Perceival and Walden (2000) for more details.

After a brief overview of long memory phenomenon and wavelet analysis of time series, we present in the following section some estimation methods for the long memory parameter.

5. Estimation procedure

5.1. Stationary case

We deal with some well known estimation methods of the long memory parameter d . The first one is the semiparametric method based on an approximated regression equation obtained from the logarithm of the spectral density function of a model. This method is proposed by Geweke and Porter-Hudak (1983). The second is the Gaussian semiparametric method developed by Robinson (1995b). The third is the wavelet method based on the discrete wavelet coefficients proposed by Abry and Veitch (1996) and Jensen (1999a).

5.1.1. GPH estimate

The GPH estimation procedure is a two-step procedure, which begins with the estimation of d . This method is based on least squares regression in the spectral domain, exploits the sample form of the pole of the spectral density at the origin: $f_X(\lambda) \sim \lambda^{-2d}$, $\lambda \rightarrow 0$. To illustrate this method, we can write the spectral density function of a stationary model X_t , $t = 1, \dots, T$ as

$$f_X(\lambda) = \left[4 \sin^2\left(\frac{\lambda}{2}\right) \right]^{-d} f_\varepsilon(\lambda). \quad (5.1)$$

where $f_\varepsilon(\lambda)$ is the spectral density of ε_t , assumed to be a finite and continuous function on the interval $[-\pi, \pi]$; taking the logarithm of the spectral density function $f_X(\lambda)$, the log-spectral density can be expressed as

$$\log \{f_X(\lambda)\} = \log \{f_\varepsilon(0)\} - d \log \left\{ 4 \sin^2\left(\frac{\lambda}{2}\right) \right\} + \log \left\{ \frac{f_\varepsilon(\lambda)}{f_\varepsilon(0)} \right\}. \quad (5.2)$$

Let $I_X(\lambda_j)$ be the periodogram evaluated at the Fourier frequencies $\lambda_j = 2\pi j/T$, $j = 1, 2, \dots, m$, T is the number of observations and m is the number of considered Fourier frequencies, that is the number of periodogram ordinates,⁶ which will be used in the regression

$$\begin{aligned} \log \{I_X(\lambda_j)\} &= \log \{f_\varepsilon(0)\} - d \log \left\{ 4 \sin^2\left(\frac{\lambda_j}{2}\right) \right\} + \log \left\{ \frac{f_\varepsilon(\lambda_j)}{f_\varepsilon(0)} \right\} \\ &\quad + \log \left\{ \frac{I_X(\lambda_j)}{f_X(\lambda_j)} \right\}. \end{aligned} \quad (5.3)$$

⁶We can note that the chose of m is an important issue since it strongly affects estimation results. On the one hand, m should be sufficiently small in order to consider only near zero frequencies. On the other hand, m should be sufficiently large to ensure convergence of OLS estimation.

where $\log \{f_\varepsilon(0)\}$ is a constant, $\log \{4 \sin^2(\lambda_j/2)\}$ is the exogenous variable and $\log \{I_X(\lambda_j)/f_X(\lambda_j)\}$ is a disturbance error. The GPH estimate requires two major assumptions related to asymptotic behavior of the equation (5.3):

H1: for low frequencies, we suppose that $\log \{f_\varepsilon(\lambda_j)/f_\varepsilon(0)\}$ is negligible.

H2: the random variables $\log \{I_X(\lambda_j)/f_X(\lambda_j)\}$, $j = 1, \dots, m$ are asymptotically *i.i.d.*

Under the hypotheses *H1* and *H2*, we can write the linear regression

$$\log \{I_X(\lambda_j)\} = \alpha - d \log \left\{ 4 \sin^2\left(\frac{\lambda_j}{2}\right) \right\} + e_j, \quad (5.4)$$

where $e_j \sim i.i.d(-c, \pi^2/6)$.⁷ Let $Y_j = -\log \{4 \sin^2(\lambda_j/2)\}$, the GPH estimator is the OLS estimate of the regression $\log \{I_X(\lambda_j)\}$ on the constant α and Y_j . The estimate of d , say \hat{d}_{GPH} is

$$\hat{d}_{GPH} = \frac{\sum_{j=1}^m (Y_j - \bar{Y}) \log \{I_X(\lambda_j)\}}{\sum_{j=1}^m (Y_j - \bar{Y})^2}. \quad (5.5)$$

where $\bar{Y} = m^{-1} \sum_{j=1}^m Y_j$ and $m = g(T)$ with $\lim_{T \rightarrow \infty} g(T) = \infty$ and $\lim_{T \rightarrow \infty} g(T)/T = 0$.

Geweke and Porter-Hudak (1983) showed that, if $T \rightarrow \infty$ and $|d| < 1/2$ we have

$$\sqrt{m}(\hat{d}_{GPH} - d) \sim N \left[0, \frac{\pi^2}{6} \left\{ \sum_{j=1}^m (Y_j - \bar{Y})^2 \right\}^{-1} \right]. \quad (5.6)$$

Porter-Hudak (1990), Crato and de Lima (1994), showed that the parameter m must be selected so that $m = T^v$, with $v = 0.5, 0.6, 0.7$. Robinson (1995a), Hurvich et al. (1998), Tanaka (1999) and Lieberman et al. (2001) have analyzed the GPH estimate \hat{d}_{GPH} in great detail. Under the assumption of normality for X_t , it has been proved that the estimate is consistent and asymptotically normal, so that the estimated standard error of \hat{d}_{GPH} can be used for inference. An alternative semiparametric estimator has been proposed by Robinson (1995b).

5.1.2. Gaussian semiparametric estimate

The Gaussian semiparametric estimate called Local Whittle (LW) estimate was originally developed by Robinson (1995b) under the assumption that X_t , $t = 1, \dots, T$ is a stationary model and its spectral density behaves at low frequencies like $G\lambda^{-2d}$.⁸

Robinson (1995b) studied the Gaussian semiparametric estimate of d based on minimization of a local Whittle frequency domain log-likelihood,

$$\ell_m(d, G) = \frac{1}{m} \sum_{j=1}^m \left[\log \left(G\lambda_j^{-2d} \right) + \frac{I_X(\lambda_j)}{G\lambda_j^{-2d}} \right], \quad (5.7)$$

⁷ c is Euler constant equal to 0.57721...

⁸At low frequencies, the spectral density $f_X(\lambda) \sim G_X |\lambda|^{-2d}$ as $\lambda \rightarrow 0$. for some finite constant $G_X > 0$.

where m ⁹ is some integer less than T controlling the number of frequencies included in the local likelihood. Given the interval of admissible estimate of d by, $D = [\nabla_1, \nabla_2]$, where ∇_1 and ∇_2 are numbers such that $-1/2 < \nabla_1 < \nabla_2 < 1/2$, the LW estimates are defined by

$$(\hat{d}_m^{LW}, \hat{G}_m^{LW}) = \arg \min_{d \in D, 0 < G < \infty} \ell_m(d, G). \quad (5.8)$$

Concentrating equation (5.7) with respect to G , we obtain

$$\hat{d}_m^{LW} = \arg \min_{d \in D} R_m(d). \quad (5.9)$$

where

$$R_m(d) = \log \{G_m^{LW}(d)\} - 2d \frac{1}{m} \sum_{j=1}^m \log \lambda_j, \quad G_m^{LW}(d) = \frac{1}{m} \sum_{j=1}^m \lambda_j^{2d} I_X(\lambda_j). \quad (5.10)$$

For linear time series with homoskedastic martingale difference innovations, with spectral density satisfying the same regularity conditions as for log-periodogram estimation based in GPH estimate, Robinson (1995b) proved that \hat{d}_m^{LW} is consistent and asymptotically normal

$$\sqrt{m} (\hat{d}_m^{LW} - d) \xrightarrow{d} N\left(0, \frac{1}{4}\right). \quad (5.11)$$

5.1.3. Wavelet OLS estimate

Let a time series X_t , $t = 1, \dots, T$ follows a long memory model and let $\psi(t)$ a wavelet function satisfying

$$\int \psi(t) dt = 0, \quad (5.12)$$

$$\int t^r \psi(t) dt = 0, \quad r = 0, \dots, M-1. \quad (5.13)$$

Consider the family of *dilations* and *translations* of the wavelet function $\psi(t)$ defined by equation (4.3). It can be shown that

$$\int \psi_{jk}^2(t) dt = \int \psi^2(t) dt. \quad (5.14)$$

The DWT of the model X_t , $t = 1, \dots, T$ is then defined by

⁹The bandwidth m satisfies

$$\frac{1}{m} + \frac{m^5 \log^2 m}{T^4} \rightarrow 0.$$

if the approximation $f_X(\lambda) \sim G_X |\lambda|^{-2d}$ has error $O(|\lambda|^{2-2d})$ as $\lambda \rightarrow 0$.

$$\omega_{jk} = \int X_t \psi_{jk} dt, \text{ for } j, k \in \mathbb{Z}. \quad (5.15)$$

if ψ_{jk} are orthonormal basis,¹⁰ we obtain the following representation of the model X_t :

$$X_t = \sum_{j=-\infty}^{+\infty} \sum_{k=-\infty}^{+\infty} \omega_{jk} \psi_{jk}(t). \quad (5.16)$$

Consider the *DWT* coefficients ω_{jk} discussed in subsection (4.2) and define the statistics

$$\hat{\mu}_j = \frac{1}{n_j} \sum_{k=1}^{n_j} \omega_{jk}^2, \quad (5.17)$$

where n_j is the number of coefficients at *octave* j available to be computed. As shown by Veitch and Abry (1999).

$$\hat{\mu}_j \sim \frac{z_j}{n_j} \chi_{n_j}^2. \quad (5.18)$$

where $z_j = 2^{2dj}c$, $c > 0$, and $\chi_{n_j}^2$ is Chi-squared random variable with n_j degrees of freedom. Thus, by taking logarithms we may write¹¹

$$\log_2 \hat{\mu}_j \sim 2dj + \log_2 c + \frac{\log \chi_{n_j}^2}{\log 2} - \log_2 n_j. \quad (5.19)$$

Recall that the expected value and the variance of the random variable $\log \chi_n^2$ are given by

$$\begin{aligned} E(\log \chi_n^2) &= \psi\left(\frac{n}{2}\right) + \log 2, \\ \text{Var}(\log \chi_n^2) &= \zeta\left(2, \frac{n}{2}\right). \end{aligned} \quad (5.20)$$

where $\psi(z)$ is the psi function, $\psi(z) = d/dz \log \{\Gamma(z)\}$, and $\zeta(2, n/2)$ is the Riemann zeta function

$$\zeta(x) = \frac{1}{\Gamma(x)} \int_0^\infty \frac{u^{x-1}}{e^u - 1} du = \frac{1}{1 - 2^{1-x}} \sum_{n=1}^\infty \frac{(-1)^{n-1}}{n^x}. \quad (5.21)$$

The equation (5.19) can be written as

$$y_j = \alpha + \beta x_j + \varepsilon_j, \quad (5.22)$$

where $y_j = \log_2 \hat{\mu}_j - g_j$, $\alpha = \log c$, $\beta = 2d$, $x_j = \log_2(2^j) = j$ and $\varepsilon_j = \log_2 \log \chi_{n_j} - \log_2 n_j - g_j$, $g_j = \psi(n_j/2) - \log(n_j/2)$. We conclude that ε_j satisfies

¹⁰The family $\{\psi_{ij}\}$ satisfies : $\int \psi_{ij}(t) \psi_{kl}(t) dt = 0$.

¹¹see Veitch and Abry (1999) for details.

$$\begin{aligned} E(\varepsilon_j) &\approx 0, \\ \text{Var}(\varepsilon_j) &= \frac{\zeta(2, \frac{n_j}{2})}{(\log 2)^2} \approx (2n_j \log^2 2)^{-1}. \end{aligned} \quad (5.23)$$

In order to obtain a wavelet estimate, an OLS regression is fitted to points (x_j, y_j) for $j = 1, \dots, J$ with weights $\kappa_j = n_j$. Thus, once the estimate $\hat{\beta}$ is obtained, an estimate for long memory parameter d is given by $\hat{d} = \hat{\beta}/2$. Furthermore, an estimate of the variance of \hat{d} is provided by the estimate of the variance of $\hat{\beta}$, $\text{Var}(\hat{d}) = 1/4 \text{Var}(\hat{\beta})$.

It is well known that under regularity conditions, the wavelet OLS estimate of d is efficient and consistent.

5.2. Non-stationary case

It is necessary to extend the concept of long memory to the non-stationary framework, $d \geq 1/2$. Hurvich and Ray (1995) proposed a general model for possibly non-stationary integrated vector models with components $X_t, t = 1, \dots, T$, each with memory parameter $d > -1/2$. So that, we say X_t has memory parameter $d > -1/2$ if $Y_t = (1 - L)^D X_t, D = \lfloor d + 1/2 \rfloor$, is stationary with mean μ and spectral density $f_Y(\lambda)$ behaving as $G\lambda^{-2(d-D)}$ around the origin, $-1/2 \leq d - D \leq 1/2$. To estimate the memory parameter of an integrated model beyond the stationary regime ($d > 1/2$), it has been suggested to apply a data taper either to the time series X_t or to its D -th order difference Y_t .

The idea of tapering in improving a Fourier approximation has a long history dating back to 1900 (see Brillinger, 1981). Tukey (1967) introduced this technique to time series for reducing the periodogram bias due to the strong peaks and troughs in spectral density.¹²

Velasco (1999a, b)

A taper is a sequence $h_t, t = 1, \dots, T$. Given a series of T observations, $X_t, t = 1, \dots, T$, the tapered discrete Fourier transform and the periodogram are defined as

$$D_X(\lambda_j) = \left(2\pi \sum_{t=1}^T h_t^2 \right)^{-\frac{1}{2}} \sum_{t=1}^T h_t X_t e^{i\lambda_j t}, \quad (5.24)$$

$$I_X(\lambda_j) = |D_X(\lambda_j)|^2. \quad (5.25)$$

The expectation of the periodogram is

¹²Tapering was originally used in nonparametric spectral analysis of short memory ($d = 0$) time series in order to reduce bias due to frequency domain leakage, where part of the spectrum "leaks" into adjacent frequencies. The leakage is due to the discontinuity caused by the finiteness of the sample and is reduced by using tapers which smooth this discontinuity.

$$E \{I_X(\lambda_j)\} = \int_{-\pi}^{\pi} f_X(\lambda) K(\lambda - \lambda_j) d\lambda. \quad (5.26)$$

where $f_X(\lambda)$ is the spectral density of X_t defined in (1.1) and $K(\lambda) = (2\pi T)^{-1} |\sum_1^T \exp(i\lambda t)|^2$ is the Fejér kernel. Velasco (1999a) showed that when X_t is non-stationary, $f_X(\lambda)$ plays exactly the same role as a spectral density in the asymptotics for the discrete Fourier transform at frequencies $\lambda_j, j \neq 0 \bmod T$ and he showed that the periodogram is (asymptotically) unbiased for λ if j is growing slowly with T and $d < 1$.¹³ Velasco (1999a, b) and Velasco and Robinson (2000) have considered several tapering schemes such as the cosine bell and Zurbenko-Kolmogorov tapers (Zurbenko, 1979). These tapers $h_t, t = 1, \dots, T$ have the property of being orthogonal to polynomials up to given order, for a subset of Fourier frequencies,

$$\sum_1^T (1 + t + \dots + t^{D-1}) h_t e^{it\lambda_j} = 0, \quad j \in \mathfrak{S}_{D,T} \subset \{1, \dots, \tilde{T}\}, \quad (5.27)$$

where $\tilde{T} = \lfloor (T-1)/2 \rfloor$. The usual discrete Fourier transform is obtained setting $h_t \equiv 1, t = 1, \dots, T$, while the full cosine bell taper is given by $h_t = 1/2 (1 - \cos[2\pi t/T])$, and $\sum h_t^2 = 3T/8$. For sample size $T = 4N$, where N is an integer, the weights h_t^P of the Parzen window¹⁴ are

$$h_t^P = \begin{cases} 2 \{1 - |\frac{2t-T}{T}|\}^3, & 1 \leq t \leq N \text{ or } 3N \leq t \leq 4N, \\ 1 - 6 \left[\{ \frac{2t-T}{T} \}^2 - |\frac{2t-T}{T}|^3 \right], & N < T < 3N. \end{cases} \quad (5.28)$$

Zurbenko (1979) used a class of data tapers $h_t^Z, t = 1, \dots, T$ suggested by Kolmogorov, indexed by order $p = 1, 2, \dots$, assuming $N = T/p$ integer. For $p = 3$, Zurbenko's weights are similar to the cosine window, and when $p = 4$, h_t^Z are very close to h_t^P . If $p = 2$, Zurbenko taper is equal to Bartlett's triangular window¹⁵ and when $p = 1$ they are constant.

Hurvich and Chen (2000)

Hurvich and Chen (2000) have defined a family of data tapers. This family depends on a single

¹³See theorem 1 in Velasco (1999a) for more details.

¹⁴The Parzen window is a piecewise curve window obtained by the convolution of two triangles of half length or four rectangles of one-four length.

$$w(n) = \begin{cases} 1 - 6 \left(\frac{n-N/2}{N/2} \right)^2 + 6 \left(\frac{|n-N/2|}{N/2} \right)^3, & 0 \leq |n - \frac{N}{2}| \leq \frac{N}{4} \\ 2 \left(1 - \frac{|n-N/2|}{N/2} \right)^3, & \frac{N}{4} \leq n - \frac{N}{2} \leq \frac{n}{2} \end{cases}$$

$n = 0, 1, 2, \dots, N-1$, where N is the length of the window.

¹⁵The Bartlett window of width N also known as triangular window is defined as

$$w(n) = \begin{cases} 1 - \frac{2n}{N}, & 0 \leq n \leq \frac{N}{2} \\ 1 + \frac{2n}{N}, & -\frac{N}{2} \leq n \leq 0 \\ 0, & \text{otherwise} \end{cases}$$

parameter p , referred to as the *taper order*. Set $h_t = 1 - \exp(2i\pi t/T)$ and for any integer $p \geq 0$, define the tapered discrete Fourier transform of order p of the sequence X_t , $t \in \mathbb{Z}$ as follows:

$$D_X^p(\lambda) = (2\pi T a_p)^{-1/2} \sum_{t=1}^T h_t^p X_t \exp(it\lambda), \quad (5.29)$$

$$I_X^p(\lambda) = |D_X^p(\lambda)|^2. \quad (5.30)$$

where $a_p = n^{-1} \sum_{t=1}^T |h_t|^{2p}$ is a normalization factor. As shown in Hurvich and Chen (2000, Lemma 0), the decay of the discrete Fourier transform of the taper of order p is given by

$$\left| (2\pi T a_p)^{-1/2} \sum_{t=1}^T h_t^p \exp(it\lambda) \right| \leq C \frac{T}{(1 + T|\lambda|)^p}, \quad \lambda \in (-\pi, \pi). \quad (5.31)$$

This property means that higher-order tapers control the leakage more effectively. The Fourier transform of the taper may be expressed as a finite sum of shifted Dirichlet kernels,

$$\sum_{t=1}^T h_t^p e^{it\lambda} = \sum_{k=0}^p \left\{ \sum_{t=1}^T e^{it(\lambda + \lambda_k)} \right\}. \quad (5.32)$$

Chen (2001) defined a new class of tapers. He proposed a linear combinations of Hurvich and Chen (2000) tapers with different phase shifts,

$$h(x) = (1 - e^{i2\pi x})^p \left(a_0 + a_1 e^{i2\pi x} + \dots + a_{q-1} e^{i2(q-1)\pi x} \right). \quad (5.33)$$

5.2.1. GPH estimate

Under some smoothness conditions on the short-memory density function f^* , and by assuming that the taper order p is larger than D , the ratios of the *pooled periodogram* of Y_t divided by its spectral density $\bar{I}_{\tau,p}^Y(\tilde{\lambda}_j)/f_Y(\tilde{\lambda}_j)$ are *i.i.d.*¹⁶ τ is the pooling order of the periodogram.

where

$$\bar{I}_{\tau,p}^Y(\tilde{\lambda}_j) = \sum_{j=(p+\tau)(l-1)+1}^{(p+\tau)(l-1)+p} I_{\tau}^X(\lambda_j), \quad (5.34)$$

and

$$\tilde{\lambda}_j = p^{-1} \sum_{(p+\tau)(l-1)+1}^{(p+\tau)l} \lambda_j = [2(p+\tau)(l-1) + p + \tau + 1] \frac{\pi}{T}. \quad (5.35)$$

¹⁶See Faÿ et al. (2009)

The parameter $I_\tau^X(\lambda_j)$ is the periodogram of X evaluated at the frequencies $\lambda_j = 2\pi j/T$, $j = 1, \dots, m$. The log-periodogram estimate of Geweke and Porter-Hudak (1983) is defined as the least squares estimate in the linear regression model

$$\log \left[\bar{I}_{\tau,p}^Y(\tilde{\lambda}_j) \right] = \log f^*(0) + (d-D)Y_j + u_j, 1 \leq j \leq m, \quad (5.36)$$

where $Y_j = -2 \log \left| 1 - e^{i\tilde{\lambda}_j} \right|$ and $u_j \cong \log \left[\bar{I}_{\tau,p}^Y(\tilde{\lambda}_j) / f_X(\tilde{\lambda}_j) \right]$. The GPH estimate is

$$\hat{d}_{GPH}(m) = \frac{\sum_{j=1}^m (Y_j - \bar{Y})}{\sum_{j=1}^m (Y_j - \bar{Y})^2} \times \log \left[\bar{I}_{\tau,p}^Y(\tilde{\lambda}_j) \right] + D \quad (5.37)$$

Velasco (1999b) showed that the GPH estimate is consistent for $d \in [1/2, 1)$ and asymptotically normally distributed for $d \in [1/2, 3/4)$, the GPH estimate has non-normal limiting distribution for $d \in [3/4, 1]$, and for $d > 1$, it is consistent if $p \geq \lfloor d + 1/2 \rfloor + 1$.

5.2.2. Local Whittle estimate

Let $\ell_p(G, d)$ be the objective function ¹⁷

$$\ell_p(G, d) = \frac{p}{m} \sum_{j=p, 2p, \dots, m} \left\{ \log \left(G \lambda_j^{-2d} \right) + \frac{I(\lambda_j)}{G \lambda_j^{-2d}} \right\}, \quad (5.38)$$

$I(\lambda_j)$ is defined in (5.25). Define the lower and upper bound of the admissible estimates of d by ∇_1 and ∇_2 . ∇_1 and ∇_2 are numbers such that $-1/2 < \nabla_1 < \nabla_2 < d^*$, where d^* is the maximum value of d we can estimate with tapers of order p . The estimates of (G^p, d^p) are defined as

$$(\hat{G}^p, \hat{d}_{LW}^p) = \arg \min_{0 < G < \infty, d \in [\nabla_1, \nabla_2]} \ell(G, d) \quad (5.39)$$

It can be shown that

$$\hat{d}_{LW}^p = \arg \min_{d \in [\nabla_1, \nabla_2]} R_p(d), \quad (5.40)$$

where

$$R_p(d) = \log G^p(d) - 2d \frac{p}{m} \sum_{j=p, 2p, \dots, m} \log \lambda_j, \quad (5.41)$$

and

$$G^p(d) = \frac{p}{m} \sum_{j=p, 2p, \dots, m} \lambda_j^{2d} I(\lambda_j). \quad (5.42)$$

¹⁷Velasco (1999a).

Velasco (1999a) showed that the LW estimate with $\tau = 0$ and $D = 0$ is consistent for $d \in (-1/2, 1)$ and asymptotically $N(0, 1/4)$ for $d \in (-1/2, 3/4)$. He showed that if $d > 1$ and $p \geq \lfloor d + 1/2 \rfloor + 1$ the estimate is consistent. In the next section, we report the results of a Monte Carlo experiment based on the three estimation methods defined above.

6. Simulation study

In this section, a simulation study is used to assess the performance of the three estimation procedures. For this purpose we consider four models: ARFIMA(0,d,0), ARFIMA(1,d,0), ARFIMA(0,d,1) and ARFIMA(1,d,1), $d = 0.05, 0.15, 0.25, 0.35, 0.45, 0.50, 0.75, 1.00, 1.25, 1.50$. 1000 replications of sample size $T = 2^8, 2^9, 2^{10}$ are generated. The GPH method was applied using truncation value $m = T^{0.5}$. The realizations of ARFIMA(1,d,1) model were generated for same sample size and of AR coefficient $\phi = 0.2$ and MA coefficient $\theta = 0.1$. Wavelet analysis is performed with the Haar or D(2)¹⁸ and Daubechies filters with 2 and 4 vanishing moments. In the non stationary case, for all estimators we have used the taper of order $p = 2$ and $p = 3$ of Bartlett and Zhurbenko Kolmogorov, respectively.

Our aim is divided in three points: first, to show the efficiency of the estimates, we computed the *Bias* and the Root Mean Squared Error of the estimates of long memory parameter d . Second, to show the effect of choosing the wavelet filter in estimating the long memory parameter for stationary and non stationary times series. Third, to show the importance of data tapers in non stationary case.

To compare the different estimators we considered the *Bias* given by $Bias = \bar{d} - d$, where $\bar{d} = \frac{1}{n} \sum_{i=1}^n \hat{d}_i$ and the Root Mean-Squared Error value, denoted hereafter by *RMSE*, i.e., $RMSE = \sqrt{\frac{1}{n} \sum_{i=1}^n (\hat{d}_i - d)^2}$.

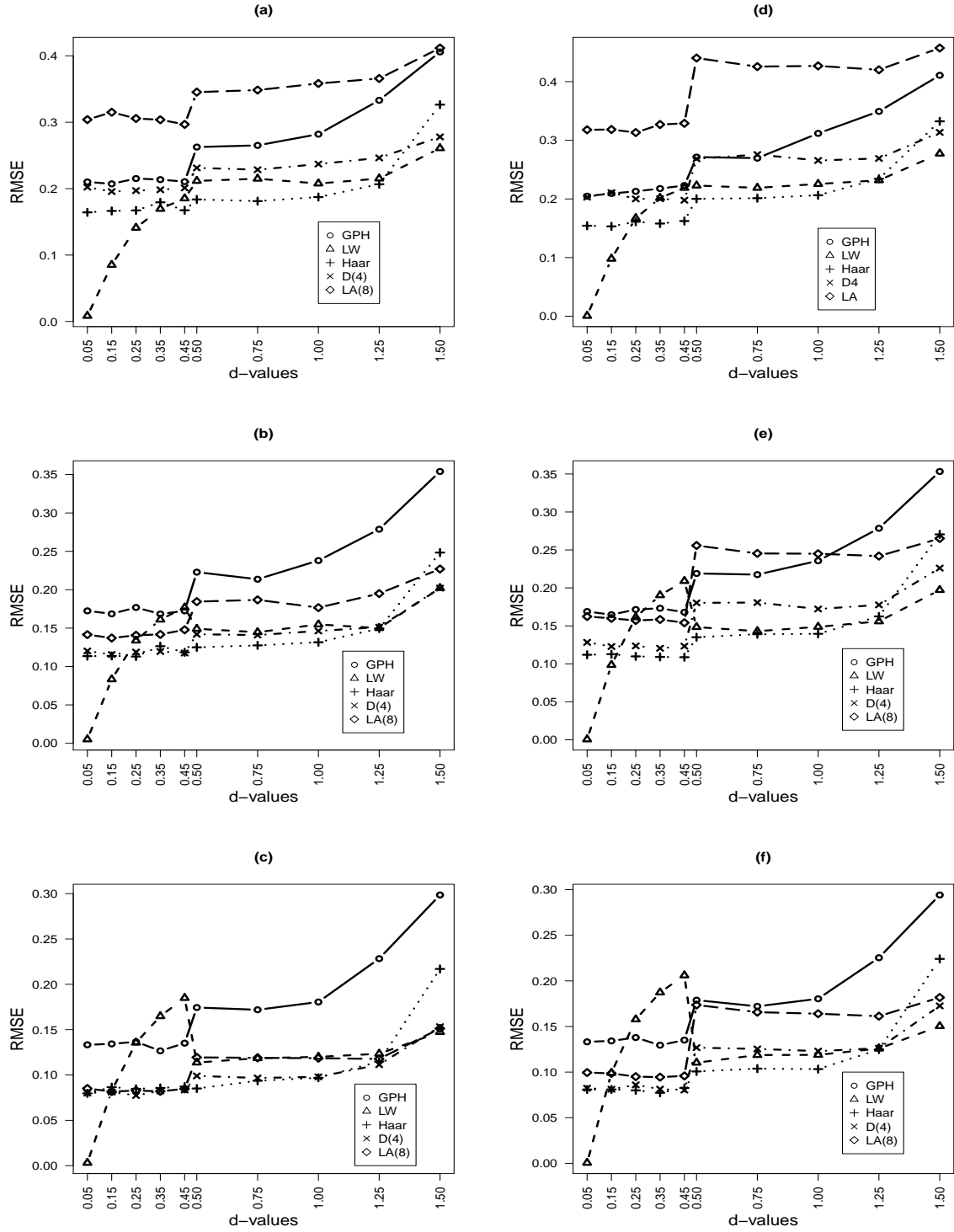
The boxplots for the ARFIMA(0,d,0) and ARFIMA(1,d,1) models with $d = 0.35$ (stationary case) and $d = 1.25$ (non stationary case) are given in figures 6.3.

The *RMSE* and *Bias* for the GPH, LW and wavelet OLS estimates over 1000 simulated realizations are provided in table 6.1, 6.2, 6.3 and 6.4. Some general comments are as follows :

- In stationary case, for the four models the LW estimate performs the GPH estimate (small *RMSE*). Such results were pointed out in Boutahar et al. (2007). In non stationary case, we have found the same results.
- Generally, for the four models used in our simulation and for $d \leq 0.2$, the LW estimate is better than the wavelet OLS one.
- Increasing the number of vanishing moments, we showed that the LW estimate is better. For instance, for the LA(8) estimate (the number of vanishing moments is 4) the *RMSE* is larger than those of all estimates.

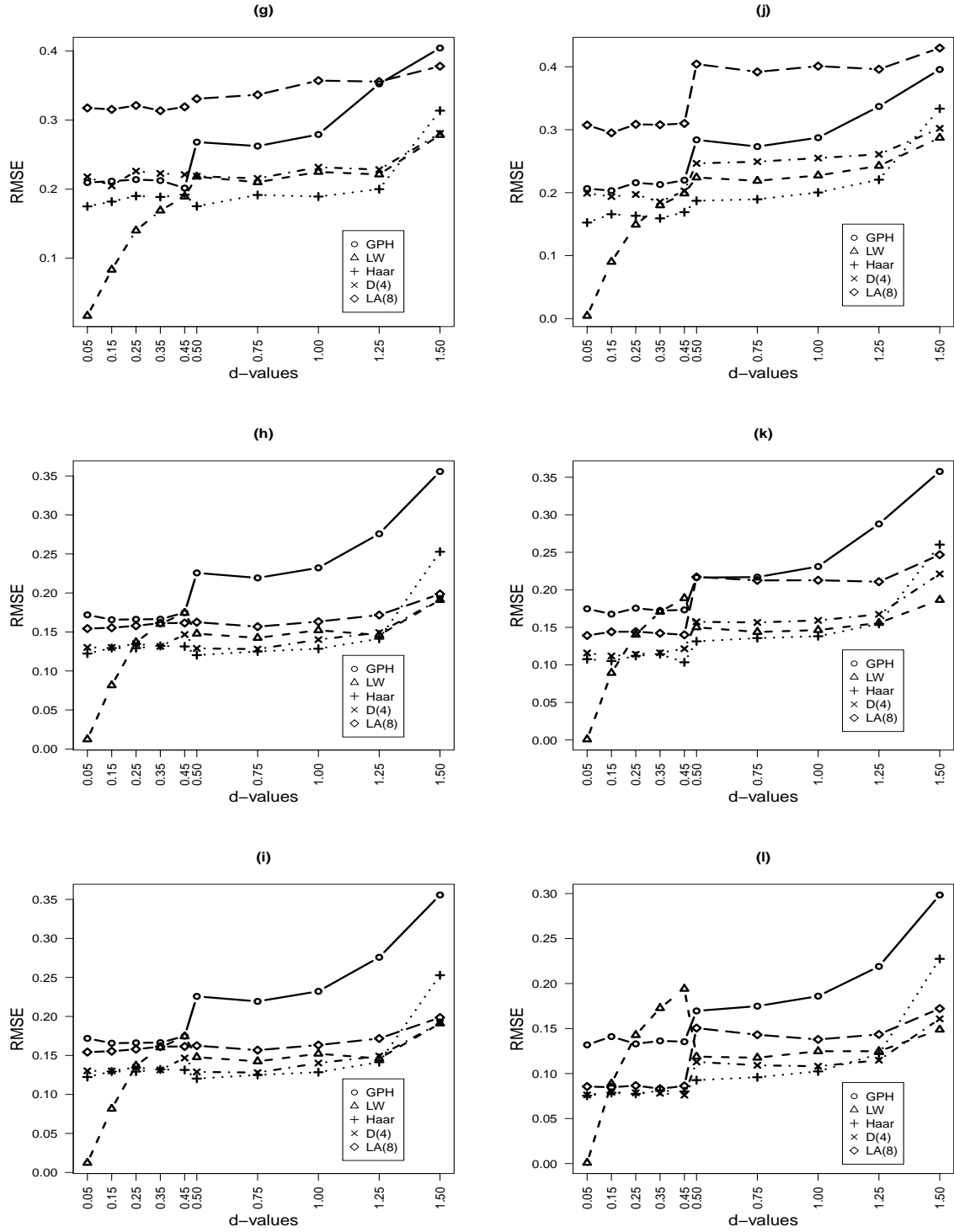
¹⁸The Haar filter corresponds to the Daubechies filter with one vanishing moments.

Figure 6.1. *RMSE* as a function of d for ARFIMA(0,d,0) and ARFIMA(1,d,0) models.



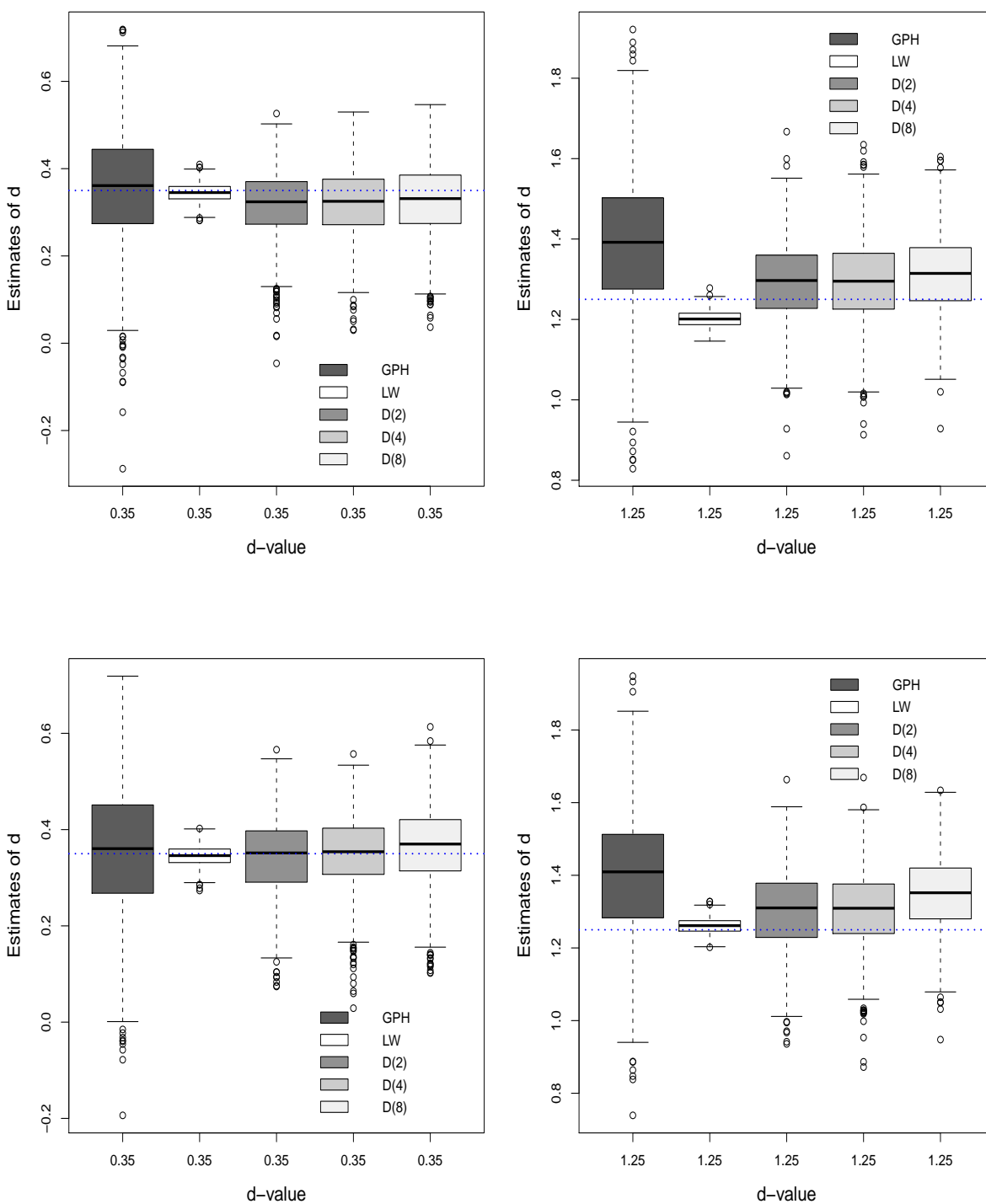
Notes: *RMSE* as a function of long memory parameter using *GPH*, *LW* and wavelet OLS (*Haar*, *D(4)* and *LA(8)*) estimation methods. (a), (b), (c) for an ARFIMA(0,d,0); (d), (e) and (f) for an ARFIMA(1,d,0) models, with $T = 256$, $T = 512$ and $T = 1024$.

Figure 6.2. *RMSE* as a function of d for ARFIMA(0,d,1) and ARFIMA(1,d,1) models.



Notes: *RMSE* as a function of long memory parameter using *GPH*, *LW* and wavelet OLS (*Haar*, *D(4)* and *LA(8)*) estimation methods. (g), (h), (i) for an ARFIMA(0,d,1); (j), (k) and (l) for an ARFIMA(1,d,1) models, with $T = 256$, $T = 512$ and $T = 1024$.

Figure 6.3. Box-plots of GPH, LW and wavelet OLS estimators.



Notes: The results are based on 1000 realizations with sample size $T = 1024$ for an ARFIMA(0,d,0) and ARFIMA(1,d,1) model. The dotted blue lines indicate 0.35 and 1.25 ordinates, respectively. The first row of the picture corresponds to the ARFIMA(0,d,0) model and the second row corresponds to the ARFIMA(1,d,1) model.

Table 6.1. *Bias* and *RMSE* of the GPH, LW and wavelet OLS estimator of the long memory parameter for an ARFIMA(0,d,0).

T	d	GPH		LW		Haar		D(4)		LA(8)	
		<i>Bias</i>	<i>RMSE</i>	<i>Bias</i>	<i>RMSE</i>	<i>Bias</i>	<i>RMSE</i>	<i>Bias</i>	<i>RMSE</i>	<i>Bias</i>	<i>RMSE</i>
256	0.05	-0.0043	0.2101	0.0018	0.0084	-0.0401	0.1643	-0.0426	0.2022	-0.0428	0.3039
	0.15	0.0021	0.2072	-0.0759	0.0851	-0.0559	0.1664	-0.0392	0.1956	-0.0508	0.3150
	0.25	-0.0047	0.2152	-0.1181	0.1410	-0.0610	0.1672	-0.0485	0.1970	-0.0661	0.3056
	0.35	0.0083	0.2136	-0.1348	0.1695	-0.0627	0.1794	-0.0518	0.1983	-0.0450	0.3037
	0.45	0.0118	0.2105	-0.1399	0.1853	-0.0664	0.1674	-0.0557	0.2011	-0.0550	0.2967
	0.50	0.0952	0.2626	0.0158	0.2116	-0.0001	0.1837	0.0702	0.2312	0.1255	0.3453
	0.75	0.0870	0.2651	0.0471	0.2149	0.0210	0.1812	0.0647	0.2285	0.1088	0.3484
	1.00	0.1385	0.2820	0.0372	0.2077	0.0180	0.1873	0.0575	0.2370	0.1100	0.3583
	1.25	0.2058	0.3330	0.0779	0.2152	0.0644	0.2066	0.0571	0.2463	0.0643	0.3658
	1.50	0.3191	0.4058	0.0109	0.2608	0.2158	0.3264	0.1027	0.2779	0.1507	0.4117
512	0.05	-0.0039	0.1725	0.0009	0.0051	-0.0412	0.1135	-0.0307	0.1202	-0.0204	0.1415
	0.15	0.0095	0.1686	-0.0755	0.0833	-0.0370	0.1138	-0.0290	0.1156	-0.0225	0.1371
	0.25	0.0116	0.1769	-0.1117	0.1338	-0.0384	0.1130	-0.0305	0.1188	-0.0326	0.1407
	0.35	0.0140	0.1684	-0.1267	0.1611	-0.0482	0.1265	-0.0347	0.1195	-0.0241	0.1418
	0.45	0.0193	0.1725	-0.1313	0.1768	-0.0462	0.1185	-0.0301	0.1176	-0.0411	0.1478
	0.50	0.0834	0.2229	-0.0111	0.1491	0.0161	0.1250	0.0570	0.1420	0.1023	0.1845
	0.75	0.0701	0.2137	-0.0035	0.1447	0.0133	0.1275	0.0516	0.1410	0.0920	0.1868
	1.00	0.1157	0.2380	0.0026	0.1548	0.0173	0.1316	0.0424	0.1463	0.0863	0.1767
	1.25	0.1796	0.2788	0.0232	0.1500	0.0562	0.1494	0.0569	0.1513	0.0808	0.1950
	1.50	0.2903	0.3540	0.0071	0.2021	0.1708	0.2484	0.1099	0.2021	0.1164	0.2270
1024	0.05	0.0097	0.1333	0.0005	0.0031	-0.0241	0.0797	-0.0174	0.0800	-0.0166	0.0851
	0.15	-0.0026	0.1343	-0.0749	0.0825	-0.0304	0.0866	-0.0258	0.0812	-0.0126	0.0817
	0.25	0.0022	0.1366	-0.1152	0.1356	-0.0322	0.0847	-0.0233	0.0774	-0.0173	0.0828
	0.35	0.0085	0.1266	-0.1330	0.1648	-0.0340	0.0857	-0.0279	0.0824	-0.0195	0.0820
	0.45	0.0120	0.1351	-0.1424	0.1849	-0.0396	0.0872	-0.0267	0.0834	-0.0260	0.0847
	0.50	0.0663	0.1744	0.0098	0.1137	0.0099	0.0851	0.0491	0.0990	0.0784	0.1194
	0.75	0.0460	0.1719	0.0266	0.1185	0.0100	0.0936	0.0419	0.0967	0.0774	0.1189
	1.00	0.0848	0.1805	0.0316	0.1200	0.0158	0.0969	0.0383	0.0979	0.0681	0.1185
	1.25	0.1452	0.2283	0.0438	0.1234	0.0413	0.1148	0.0439	0.1114	0.0638	0.1177
	1.50	0.2446	0.2985	0.0114	0.1473	0.1541	0.2169	0.0894	0.1532	0.0982	0.1513

• For $0.5 \leq d < 1.5$, we have used the Bartlett taper of order $p = 2$. We found that the Haar filter performs better results than the GPH, LW, D(4) and LA(8) estimates. But, for $d \geq 1.5$ we have used the Zhurbenko Kolmogorov taper of order $p = 3$. Using the Zhurbenko Kolmogorov taper the D(4) is better than the GPH, Haar and LA(8) estimates. Hence, we have small *RMSE*.

• In non stationary case, for $d \geq 1.5$ the LW estimate is better than all other estimates.

We concluded that the *RMSE* of the LW estimate are smaller than those of GPH and wavelet OLS

Table 6.2. *Bias* and *RMSE* of the GPH, LW and wavelet OLS estimator of the long memory parameter for an ARFIMA(1,d,0).

<i>T</i>	<i>d</i>	GPH		LW		Haar		D(4)		LA(8)	
		<i>Bias</i>	<i>RMSE</i>	<i>Bias</i>	<i>RMSE</i>	<i>Bias</i>	<i>RMSE</i>	<i>Bias</i>	<i>RMSE</i>	<i>Bias</i>	<i>RMSE</i>
256	0.05	0.0048	0.2047	0.0005	0.0005	0.0305	0.1543	0.0718	0.2030	0.1173	0.3179
	0.15	0.0109	0.2093	-0.0974	0.0979	0.0183	0.1532	0.0635	0.2107	0.1093	0.3184
	0.25	0.0198	0.2129	-0.1612	0.1671	0.0274	0.1611	0.0569	0.2000	0.1140	0.3132
	0.35	0.0304	0.2177	-0.1888	0.2017	0.0083	0.1580	0.0460	0.2003	0.0965	0.3269
	0.45	0.0250	0.2229	-0.1986	0.2188	0.0079	0.1623	0.0404	0.1978	0.1039	0.3289
	0.50	0.1110	0.2714	0.0576	0.2228	0.0747	0.2002	0.1573	0.2685	0.2840	0.4403
	0.75	0.1033	0.2696	0.0689	0.2189	0.0736	0.2013	0.1573	0.2757	0.2609	0.4257
	1.00	0.1537	0.3118	0.0722	0.2255	0.0713	0.2063	0.1485	0.2656	0.2404	0.4269
	1.25	0.2369	0.3493	0.0888	0.2318	0.1173	0.2343	0.1298	0.2691	0.2213	0.4202
	1.50	0.3379	0.4108	0.0394	0.2773	0.2379	0.3324	0.1870	0.3135	0.2506	0.4574
512	0.05	0.0088	0.1689	0.0005	0.0005	0.0235	0.1119	0.0545	0.1283	0.0890	0.1623
	0.15	0.0052	0.1647	-0.0983	0.0985	0.0171	0.1127	0.0414	0.1228	0.0833	0.1599
	0.25	0.0105	0.1715	-0.1565	0.1613	0.0078	0.1098	0.0360	0.1236	0.0758	0.1571
	0.35	0.0168	0.1732	-0.1783	0.1903	0.0045	0.1091	0.0353	0.1205	0.0766	0.1584
	0.45	0.0205	0.1679	-0.1916	0.2091	0.0011	0.1087	0.0290	0.1232	0.0590	0.1541
	0.50	0.0767	0.2190	0.0038	0.1484	0.0639	0.1350	0.1242	0.1803	0.2084	0.2558
	0.75	0.0913	0.2175	0.0056	0.1430	0.0581	0.1390	0.1240	0.1807	0.1902	0.2454
	1.00	0.1092	0.2357	0.0172	0.1487	0.0567	0.1395	0.0995	0.1722	0.1814	0.2450
	1.25	0.1841	0.2785	0.0359	0.1559	0.0822	0.1624	0.1115	0.1776	0.1685	0.2419
	1.50	0.2880	0.3533	0.0397	0.1972	0.2047	0.2705	0.1606	0.2261	0.1888	0.2651
1024	0.05	0.0008	0.1332	0.0005	0.0005	0.0170	0.0809	0.0327	0.0823	0.0582	0.0995
	0.15	0.0020	0.1342	-0.0990	0.0991	0.0099	0.0810	0.0314	0.0812	0.0593	0.0986
	0.25	0.0018	0.1379	-0.1536	0.1578	0.0092	0.0800	0.0296	0.0860	0.0552	0.0950
	0.35	0.0132	0.1295	-0.1763	0.1873	0.0024	0.0773	0.0283	0.0813	0.0490	0.0945
	0.45	0.0110	0.1351	-0.1891	0.2060	-0.0033	0.0826	0.0198	0.0803	0.0484	0.0958
	0.50	0.0624	0.1789	0.0224	0.1103	0.0485	0.1007	0.0925	0.1268	0.1486	0.1736
	0.75	0.0674	0.1721	0.0232	0.1187	0.0424	0.1038	0.0877	0.1254	0.1369	0.1657
	1.00	0.0825	0.1804	0.0384	0.1189	0.0416	0.1033	0.0810	0.1230	0.1322	0.1640
	1.25	0.1466	0.2254	0.0447	0.1258	0.0666	0.1247	0.0803	0.1262	0.1287	0.1613
	1.50	0.2426	0.2942	0.0179	0.1504	0.1686	0.2241	0.1207	0.1726	0.1443	0.1818

estimates for $d \leq 0.2$ and $d \geq 1.5$. Thus, the LW estimation method has a good performance. Moreover, the performance of the Haar estimate is better for $0.3 \leq d < 1.5$.

Table 6.3. *Bias* and *RMSE* of the GPH, LW and wavelet OLS estimator of the long memory parameter for an ARFIMA(0,d,1).

		GPH		LW		Haar		D(4)		LA(8)	
<i>T</i>	<i>d</i>	<i>Bias</i>	<i>RMSE</i>	<i>Bias</i>	<i>RMSE</i>	<i>Bias</i>	<i>RMSE</i>	<i>Bias</i>	<i>RMSE</i>	<i>Bias</i>	<i>RMSE</i>
256	0.05	-0.0015	0.2096	0.0051	0.0165	-0.0788	0.1751	-0.0960	0.2179	-0.1131	0.3176
	0.15	-0.0106	0.2116	-0.0646	0.0833	-0.0907	0.1820	-0.0783	0.2048	-0.1114	0.3155
	0.25	-0.0023	0.2139	-0.1119	0.1401	-0.0909	0.1901	-0.1056	0.2261	-0.1176	0.3212
	0.35	0.0106	0.2125	-0.1207	0.1690	-0.0948	0.1887	-0.1003	0.2228	-0.1285	0.3136
	0.45	0.0180	0.2016	-0.1314	0.1893	-0.1009	0.1920	-0.1038	0.2211	-0.1360	0.3192
	0.50	0.1129	0.2682	0.0437	0.2181	-0.0125	0.1753	0.0240	0.2187	0.0678	0.3309
	0.75	0.0854	0.2624	0.0488	0.2100	-0.0147	0.1916	0.0174	0.2156	0.0551	0.3367
	1.00	0.1325	0.2792	0.0635	0.2250	0.0093	0.1893	0.0188	0.2318	0.0336	0.3572
	1.25	0.2242	0.3525	0.0713	0.2213	0.0374	0.2000	0.0257	0.2283	0.0396	0.3558
	1.50	0.3285	0.4044	0.0258	0.2784	0.2095	0.3137	0.0934	0.2808	0.0760	0.3780
512	0.05	-0.0158	0.1719	0.0031	0.0123	-0.0606	0.1223	-0.0600	0.1302	-0.0661	0.1543
	0.15	-0.0061	0.1657	-0.0678	0.0816	-0.0697	0.1294	-0.0640	0.1301	-0.0696	0.1554
	0.25	0.0002	0.1662	-0.1102	0.1368	-0.0652	0.1293	-0.0697	0.1348	-0.0782	0.1579
	0.35	0.0011	0.1664	-0.1148	0.1602	-0.0707	0.1321	-0.0685	0.1315	-0.0803	0.1613
	0.45	0.0146	0.1748	-0.1189	0.1744	-0.0734	0.1314	-0.0829	0.1467	-0.0795	0.1615
	0.50	0.0991	0.2257	-0.0081	0.1478	-0.0109	0.1203	0.0270	0.1289	0.0563	0.1625
	0.75	0.0884	0.2193	0.0007	0.1424	-0.0095	0.1250	0.0163	0.1280	0.0415	0.1568
	1.00	0.1205	0.2322	0.0146	0.1522	0.0040	0.1285	0.0175	0.1402	0.0380	0.1633
	1.25	0.1805	0.2758	0.0273	0.1460	0.0323	0.1413	0.0209	0.1492	0.0457	0.1717
	1.50	0.2930	0.3557	0.0188	0.1910	0.1735	0.2528	0.0880	0.1915	0.0818	0.1986
1024	0.05	0.0025	0.1331	0.0015	0.0065	-0.0478	0.0918	-0.0461	0.0916	-0.0472	0.0942
	0.15	-0.0009	0.1360	-0.0728	0.0833	-0.0459	0.0886	-0.0457	0.0855	-0.0508	0.0939
	0.25	-0.0013	0.1353	-0.1107	0.1368	-0.0494	0.0924	-0.0466	0.0871	-0.0542	0.0996
	0.35	0.0057	0.1360	-0.1315	0.1708	-0.0535	0.0963	-0.0471	0.0902	-0.0550	0.0996
	0.45	0.0074	0.1403	-0.1379	0.1867	-0.0547	0.0977	-0.0544	0.0951	-0.0517	0.0947
	0.50	0.0563	0.1655	0.0202	0.1152	-0.0038	0.0863	0.0197	0.0932	0.0528	0.1037
	0.75	0.0529	0.1665	0.0199	0.1163	-0.0121	0.0926	0.0193	0.0901	0.0379	0.1012
	1.00	0.0876	0.1831	0.0344	0.1196	0.0060	0.0979	0.0220	0.0962	0.0466	0.1061
	1.25	0.1485	0.2258	0.0483	0.1239	0.0276	0.1083	0.0241	0.0963	0.0331	0.1034
	1.50	0.2454	0.2986	0.0218	0.1477	0.1493	0.2095	0.0824	0.1483	0.0735	0.1369

7. Empirical application

7.1. Data

In this section, the proposed methodology is applied to a real example for illustration. The data consist of weekly crude oil spot prices (in US dollars per barrel) during the period from Jun 15,

Table 6.4. *Bias* and *RMSE* of the GPH, LW and wavelet OLS estimator of the long memory parameter for an ARFIMA(1,d,1), $\phi = 0.2$, $\theta = 0.1$

T	d	GPH		LW		Haar		D(4)		LA(8)	
		<i>Bias</i>	<i>RMSE</i>	<i>Bias</i>	<i>RMSE</i>	<i>Bias</i>	<i>RMSE</i>	<i>Bias</i>	<i>RMSE</i>	<i>Bias</i>	<i>RMSE</i>
256	0.05	0.0064	0.2065	0.0004	0.0043	-0.0040	0.1525	0.0181	0.1991	0.0474	0.3074
	0.15	0.0116	0.2032	-0.0864	0.0901	-0.0125	0.1658	0.0176	0.1938	0.0427	0.2950
	0.25	0.0089	0.2158	-0.1358	0.1491	-0.0140	0.1633	-0.0088	0.1971	0.0633	0.3085
	0.35	0.0095	0.2129	-0.1570	0.1799	-0.0205	0.1592	0.0074	0.1854	0.0271	0.3078
	0.45	0.0202	0.2198	-0.1674	0.1987	-0.0320	0.1690	-0.0116	0.2028	0.0219	0.3099
	0.50	0.1054	0.2839	0.0540	0.2241	0.0505	0.1871	0.1156	0.2465	0.2253	0.4042
	0.75	0.1056	0.2732	0.0706	0.2188	0.0458	0.1895	0.1189	0.2492	0.1948	0.3918
	1.00	0.1522	0.2873	0.0847	0.2273	0.0520	0.2003	0.1003	0.2549	0.1778	0.4009
	1.25	0.2252	0.3369	0.1142	0.2425	0.0970	0.2206	0.0994	0.2609	0.1804	0.3960
	1.50	0.3123	0.3956	0.0562	0.2871	0.2405	0.3334	0.1657	0.3021	0.2028	0.4297
512	0.05	0.0019	0.1748	0.0001	0.0008	-0.0072	0.1077	0.0198	0.1159	0.0315	0.1392
	0.15	-0.0039	0.1677	-0.0864	0.0893	-0.0016	0.1052	0.0144	0.1119	0.0305	0.1441
	0.25	0.0031	0.1756	-0.1270	0.1402	-0.0182	0.1120	0.0097	0.1142	0.0293	0.1443
	0.35	0.0065	0.1724	-0.1481	0.1708	-0.0246	0.1143	0.0047	0.1162	0.0237	0.1422
	0.45	0.0128	0.1733	-0.1571	0.1889	-0.0087	0.1035	0.0037	0.1215	0.0155	0.1401
	0.50	0.0891	0.2164	0.0052	0.1501	0.0393	0.1314	0.0934	0.1574	0.1565	0.2172
	0.75	0.0800	0.2170	0.0140	0.1439	0.0378	0.1357	0.0872	0.1566	0.1468	0.2126
	1.00	0.1074	0.2311	0.0201	0.1464	0.0426	0.1382	0.0861	0.1593	0.1411	0.2128
	1.25	0.1869	0.2878	0.0334	0.1559	0.0748	0.1547	0.0834	0.1674	0.1306	0.2108
	1.50	0.2924	0.3577	0.0397	0.1866	0.1887	0.2603	0.1436	0.2212	0.1630	0.2468
1024	0.05	0.0017	0.1319	0.0006	0.0008	-0.0054	0.0754	0.0096	0.0762	0.0266	0.0856
	0.15	0.0049	0.1411	-0.0865	0.0888	-0.0047	0.0787	0.0084	0.0793	0.0245	0.0848
	0.25	-0.0019	0.1330	-0.1309	0.1427	-0.0066	0.0775	0.0040	0.0786	0.0229	0.0866
	0.35	0.0134	0.1363	-0.1515	0.1727	-0.0078	0.0809	-0.0009	0.0781	0.0192	0.0832
	0.45	0.0129	0.1354	-0.1644	0.1941	-0.0127	0.0802	0.0002	0.0760	0.0181	0.0862
	0.50	0.0625	0.1696	0.0251	0.1188	0.0278	0.0927	0.0738	0.1129	0.1214	0.1505
	0.75	0.0656	0.1749	0.0279	0.1176	0.0310	0.0959	0.0657	0.1092	0.1114	0.1431
	1.00	0.0876	0.1860	0.0418	0.1248	0.0304	0.1024	0.0603	0.1081	0.1015	0.1379
	1.25	0.1388	0.2190	0.0433	0.1248	0.0577	0.1216	0.0612	0.1148	0.1007	0.1435
	1.50	0.2448	0.2984	0.0266	0.1488	0.1715	0.2274	0.1075	0.1608	0.1301	0.1722

1990 to January 29, 2010. The data are from the *U.S. Energy Information Administration*.¹⁹ We consider a weekly nominal percentage return for crude oil series, i.e., $r_t = \ln(P_t/P_{t-1}) * 100$ for $t = 1, 2, \dots, T$, where r_t is the return for crude oils at time t , P_t is the weekly current price and P_{t-1}

¹⁹ http://tonto.eia.doe.gov/dnav/pet/pet_pri_spt_s1_w.htm

is the previous week's price.

In the literature, the oil price has been analyzed by many authors, see for example Chang and Wong (2003) for oil price fluctuations in Singapore economy, Sadorsky (2006) for forecasting and modeling petroleum volatility, Lardic and Mignon (2006), Lardic and Mignon (2008) for oil prices and economic activities, Chen and Chen (2007) for financial assets, Narayan and Narayan (2007) for modeling and forecasting crude oil market volatility and Kang et al. (2009) for forecasting volatility of daily crude oil markets.

Figure (7.1) shows the dynamics of crude oil spot prices and return oil price of the two sample WTI²⁰ and Europe Brent²¹ and figure (7.2) depicts a plot of volatility (i.e. of the absolute returns $|r_t|$) for the two crude oils and corresponding correlogram and spectrum function. We observe a slow decay of correlogram indicating the long memory behavior of the volatility of the weekly energy price.

Table 7.1. Summary statistics and Unit Root tests of energy price volatility.

	Descriptive statistics					Unit Root tests		
	Mean	Std.dev	Skewness	Kurtosis	J-B	PP	KPSS	ADF
WTI	3.321	3.014	2.202	7.870	3487.88	-28.202	0.182	-17.440
t-value					0.000*	0.000*	0.022**	0.000*
BRENT	3.352	3.005	2.159	7.990	3536.99	-28.008	0.197	-17.315
t-value					0.000*	0.000*	0.017**	0.000*

Notes: Sample period, weekly data: Juin 15, 1990 to January 29, 2010. J-B is the Jarque-Bera statistic for null hypothesis of normality in sample volatility distribution. PP and ADF are the Phillips-Perron and Augmented-Dickey-Fuller adjusted t -statistics of lagged dependent variable in a regression with intercept and trend (H_0 : Data are $I(1)$). KPSS is the Kwiatkowski et al. (1992) test statistic based on residuals from regression with intercept and trend (H_0 : Data are $I(0)$). The critical values for PP, KPSS and ADF are -3.43 , 0.216 and -3.96 , respectively, at 1% significance level. * and ** indicate significance at 1% and 5% level, respectively.

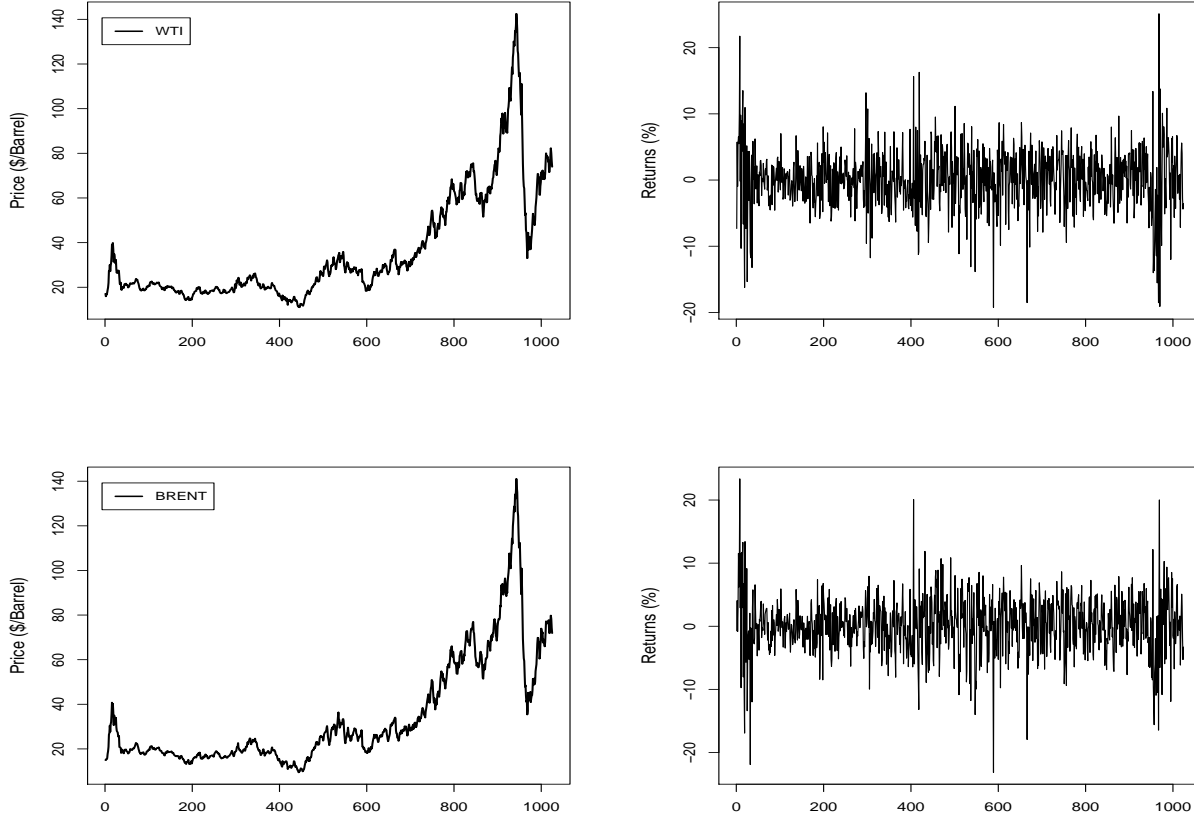
Table(7.1) displays descriptive statistics and unit root tests of weekly volatility for both WTI and Brent crude oil spot prices. The sample mean and variance of volatility are around 3 and skewness and kurtosis statistics indicate that the volatility distribution is not normally distributed.

We apply three standard unit root tests on each individual transformed series, PP (Phillips-Perron), KPSS (Kwiatkowski, Phillips, Schmidt and Shin) and Augmented-Dickey-Fuller in order to show the stationarity behavior for weekly crude oil data. Results are given in table (7.1). For the PP and ADF tests, large negative values for the statistics support the rejection of the null hypothesis of unit root at the 1% significance level. For KPSS test, the statistics are significant at 5% level implying

²⁰ West Texas Intermediate or Texas light Sweet is a type of crude oil used in the pricing of US domestic crudes, as well as oil imports into the US.

²¹Brent crude or Brent petroleum is used as a reference for pricing a number of other crude streams. It is produced in North sea region.

Figure 7.1. Oil price time series.



Notes: Level and return oil price in the period between Jun 15, 1990 and January 29, 2010.

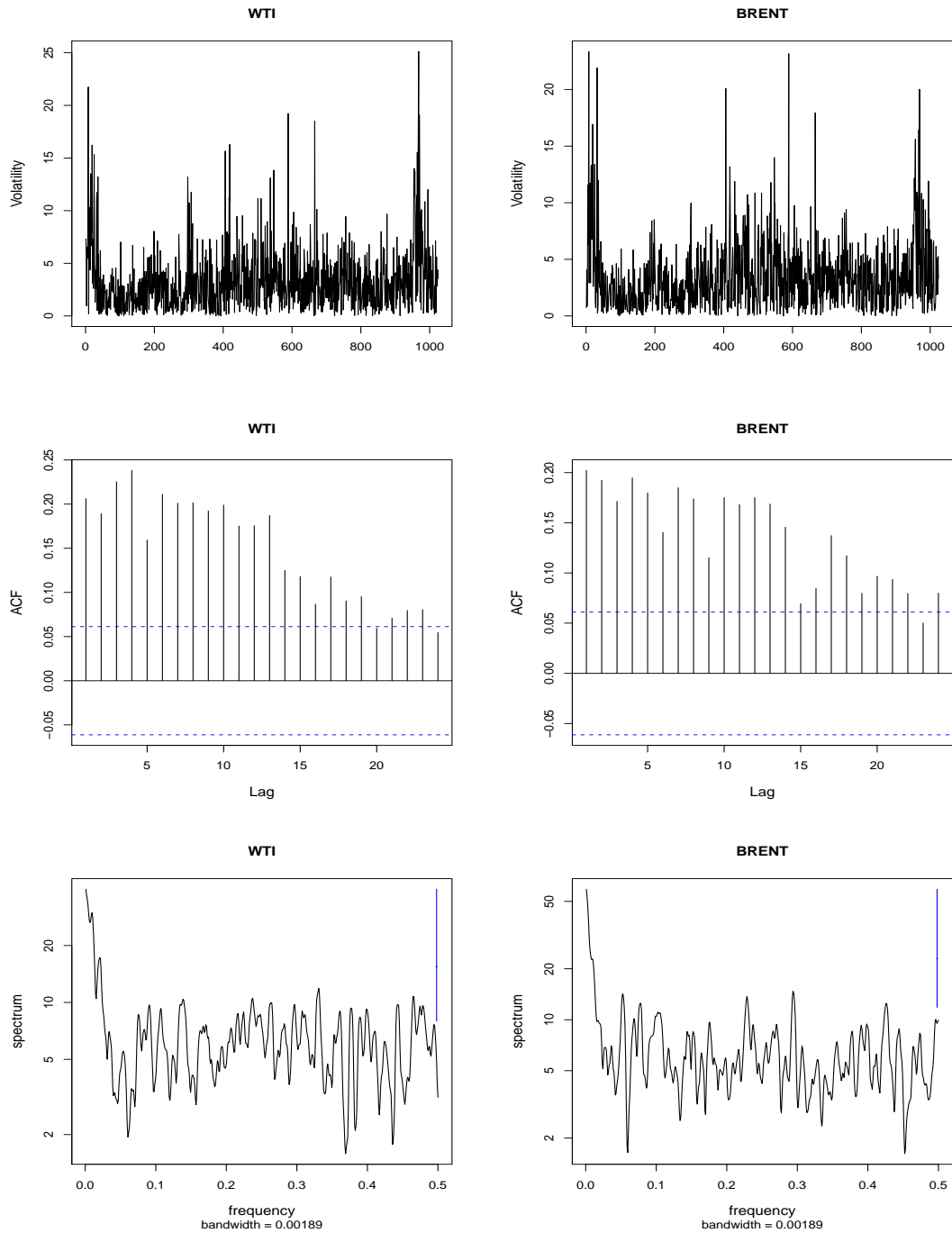
that the two series are stationary models. Hence, the volatility crude oil price series are stationary. Thus, we can examine evidence for any possible long-range dependence phenomenon.

To implement the tapering on non stationarity crude oil data, we have concentrated on the Bartlett and Zhurbenko Kolmogorov tapers. We plotted these data tapers for $p = 2$ and $p = 3$ for sample size $T = 1024$ on the first row of Fig. 7.3. The tapered crude oil series $h_t p_t$ are plotted in the second and fourth rows. In the third and fifth rows of the pictures we plotted the log-periodogram of tapered crude oil series.

7.2. Long memory of crude oil spot price volatility

Baillie et al. (1996), introduced the Fractionally Integrated GARCH (FIGARCH) model as generalization of the GARCH and Integrated GARCH (IGARCH) specifications, see Beine et al. (2002), Giraitis et al. (2004), Lardic and Mignon (2004), Lee (2005) and Baillie et al. (2007) for a few recent applications. They suggested the FIGARCH model because is able to distinguish between short and long memory in conditional variance behavior. Let the conditional variance $h_t = \text{Var}(\varepsilon_t | \Omega_{t-1})$ where Ω_{t-1} is the information set in period $t - 1$. The GARCH model is written

Figure 7.2. Energy price analysis.



Notes: weekly volatility WTI (top left) and Brent (top right) crude oil spot price in the period Jun 15, 1990 to January 29, 2010 and corresponding ACF and spectrum function.

as

$$(1 - \beta(L))h_t = \omega + \alpha(L)\varepsilon_t^2. \quad (7.1)$$

where $\beta(L)$ and $\alpha(L)$ are polynomials of order p and q , respectively. Let $v_t = \varepsilon_t^2 - h_t$. The FIGARCH model is defined as follows:

$$\phi(L)(1-L)^d \varepsilon_t^2 = \omega + (1 - \beta(L))v_t. \quad (7.2)$$

where $\phi(L) = [1 - \beta(L) - \alpha(L)](1-L)^{-d}$. Note that the FIGARCH model reduces to a GARCH model when $d = 0$ and to an IGARCH model when $d = 1$. The conditional variance of FIGARCH model may be written as

$$h_t = \frac{\omega}{1 - \beta(L)} + \lambda(L)\varepsilon_t^2. \quad (7.3)$$

Where $\lambda(L) = 1 - ([\phi(L)(1-L)^d] / [1 - \beta(L)])$.

In our analysis, we first estimate the fractional integration parameter d by the three methods described previously in section 5. The estimates results are provided in table (7.2). These estimates indicate evidence of long memory in WTI and Brent crude oil volatility.

We also assess the null hypothesis of a White noise model for WTI and Brent returns using Box-Pierce test statistics $Q(24)$. The corresponding t-statistics are 70.722 and 69.397 for WTI and Brent returns, with $p - value = 0$, respectively. Thus, we find significant evidence of serial dependence in the volatility series. Therefore, this finding implies non-normality and serial correlation in the crude oil volatilities. We used a filter to remove the serial dependence in the return series and the resulting residuals series are re-tested for GARCH and FIGARCH models to detect the long memory phenomenon in the volatility of crude oils spot prices. We used an autoregressive moving average ARMA(p,q) model to take out all the linearity in the return series. The identification of the autoregressive and moving average orders p and q are based on the lowest AIC. The Box-Pierce Q-statistics (not presented here) showed that the residuals of an ARMA(3,3) and ARMA(3,1) are White noise for the WTI and Brent return, respectively.

Second, we reported the estimation results of the GARCH and FIGARCH models in table (7.4). We showed that the FIGARCH (1,d,1) describe volatility persistence for the two crude oil prices. The estimates of long memory parameter d are 0.72 and 0.94 for the WTI and Brent, respectively, rejecting the null hypothesis of the GARCH model ($d = 0$). This result indicates persistence in the conditional variance of the volatility crude oils. Therefore, the FIGARCH model is able to capture persistence in the volatility of crude oils.

Table 7.2. GPH, LW and wavelet OLS estimates.

	WTI			Brent		
	$p = 1$	$p = 2$	$p = 3$	$p = 1$	$p = 2$	$p = 3$
Panel A: GPH (1983)						
Spot price (p_t)	0.904 (0.000)	1.142 (0.000)	1.187 (0.000)	0.864 (0.000)	1.117 (0.000)	1.122 (0.000)
return (r_t)	-0.144 (0.282)	0.019 (0.984)	0.082 (0.934)	-0.181 (0.177)	-0.001 (0.998)	0.075 (0.940)
Absolute return ($ r_t $)	0.379 (0.004)	0.542 (0.000)	0.515 (0.000)	0.395 (0.003)	0.623 (0.000)	0.626 (0.000)
Panel B: Local Whittle						
Spot price (p_t)	1.008 (0.000)	0.925 (0.000)	0.857 (0.000)	1.008 (0.000)	0.971 (0.000)	0.832 (0.000)
return (r_t)	0.027 (0.079)	0.021 (0.172)	0.027 (0.079)	0.006 (0.658)	0.004 (0.757)	-0.002 (0.876)
Absolute return ($ r_t $)	0.623 (0.000)	0.374 (0.000)	0.347 (0.000)	0.518 (0.000)	0.299 (0.000)	0.223 (0.000)
Panel C: Haar filter						
Spot price (p_t)	0.854 (0.001)	1.558 (0.000)	1.541 (0.000)	0.826 (0.001)	1.510 (0.000)	1.497 (0.000)
return (r_t)	-0.055 (0.000)	0.033 (0.000)	0.046 (0.000)	-0.030 (0.000)	0.023 (0.000)	0.032 (0.000)
Absolute return ($ r_t $)	0.137 (0.000)	0.207 (0.001)	0.227 (0.002)	0.114 (0.000)	0.208 (0.000)	0.229 (0.000)
Panel D: D(4) filter						
Spot price (p_t)	0.608 (0.001)	1.318 (0.000)	1.359 (0.000)	0.636 (0.002)	1.318 (0.000)	1.344 (0.000)
return (r_t)	-0.117 (0.000)	-0.019 (0.000)	-0.003 (0.001)	-0.126 (0.008)	-0.040 (0.006)	-0.026 (0.005)
Absolute return ($ r_t $)	0.159 (0.004)	0.195 (0.004)	0.190 (0.004)	0.087 (0.003)	0.171 (0.004)	0.180 (0.005)
Panel E: LA(8) filter						
Spot price (p_t)	0.529 (0.012)	1.324 (0.005)	1.400 (0.001)	0.571 (0.016)	1.328 (0.007)	1.398 (0.005)
return (r_t)	-0.070 (0.004)	0.031 (0.007)	0.047 (0.008)	-0.006 (0.036)	0.076 (0.043)	0.089 (0.040)
Absolute return ($ r_t $)	0.069 (0.025)	0.139 (0.027)	0.144 (0.031)	-0.018 (0.001)	0.092 (0.011)	0.196 (0.014)

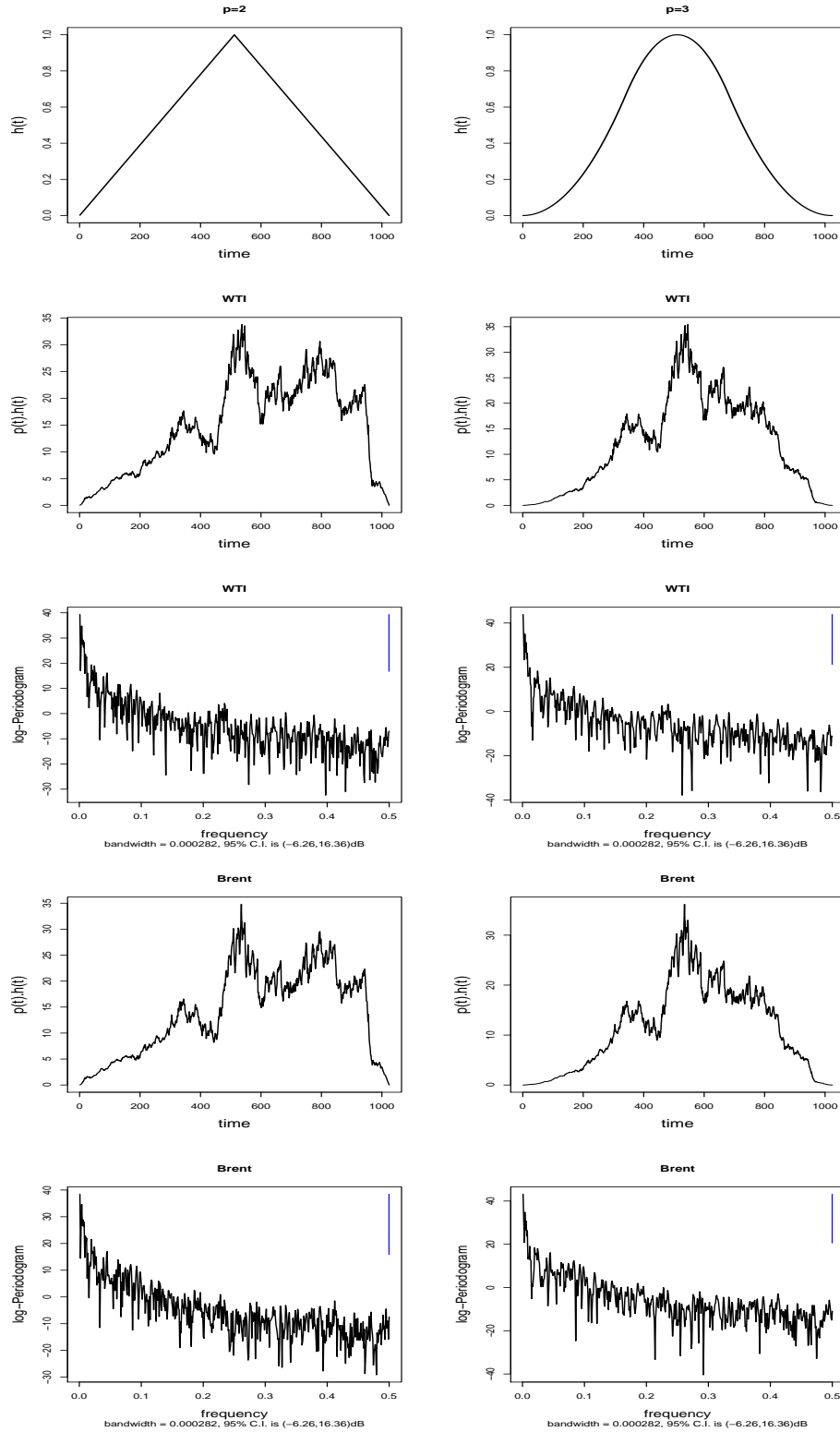
Notes: (p_t), (r_t) and $|r_t|$ are, respectively, crude oil spot price, return and absolute return. The value between parentheses are p-values. $p=1,2$ and 3 are the orders of the taper. $p=1$ means no tapering, $p=2$ is the Bartlett taper and $p=3$ is the Zhurbenko Kolmogorov taper.

Table 7.3. ARMA model estimation for the oil price returns.

	$\hat{\phi}_0$	$\hat{\phi}_1$	$\hat{\phi}_2$	$\hat{\phi}_3$	$\hat{\theta}_1$	$\hat{\theta}_2$	$\hat{\theta}_3$
WTI	0.1420 (0.1563)	0.2767 (0.0312)	-0.5153 (0.0278)	-0.2293 (0.0318)	-0.1677 (0.3456)	0.4134 (0.00)	0.4273 (0.1488)
BRENT	0.1527 (0.1819)	-0.3251 (0.0312)	0.0893 (0.0484)	0.0988 (0.0323)	0.5041 (0.2603)		

Notes: The value between parentheses are standard deviation. the mean μ was clearly non-significant for the two processes.

Figure 7.3. Data tapers, tapered oil series and log-periodogram of tapered series.



Notes: The columns correspond to data tapers of orders $p=2,3$, respectively. In the first row, the plots correspond to the weights h_t . In second and fourth rows we plot the tapered series $h_t p_t$. In the third and fifth rows appear the log-periodogram of the above series plotted against frequency.

Table 7.4. Estimation results for Crude oil price

	WTI		BRENT	
	GARCH	FIGARCH	GARCH	FIGARCH
ω	0.6866 (0.004)	0.3758 (0.022)	0.4427 (0.020)	0.2549 (0.017)
α	0.0091 (0.000)		0.0945 (0.000)	
β	0.871 (0.000)	0.7941 (0.000)	0.8843 (0.000)	0.8732 (0.000)
$Q_s(24)$	25.621 (0.372)	26.434 (0.331)	26.575 (0.324)	26.884 (0.3098)
d-FIGARCH		0.7262 (0.000)		0.9477 (0.000)
ϕ		0.1888 (0.000)		0.0286 (0.850)

Notes: p-values are in parentheses below corresponding parameter estimates. $Q_s(24)$ is the Box-Pierce test statistic for lag 24.

8. Conclusion

In this paper we considered a simulation study to evaluate the procedure for estimating the long memory parameter in stationary and non stationary time series. We have compared three semiparametric methods for the estimation of the fractional parameter d in four models: ARFIMA(0,d,0), ARFIMA(1,d,0), ARFIMA(0,d,1) and ARFIMA(1,d,1). These estimates are the Geweke and Porter-Haduk (1983), the Local Whittle (Robinson, 1995b) and the wavelet Ordinary Least-Square (Jensen, 1999). We have used the Bartlett and Zhurbenko Kolmogorov tapers with orders $p = 2$ and $p = 3$, respectively, in non stationary models. According to the simulation results we have showed that the order p of taper has a strong impact on the performance of estimates. For $d \leq 0.25$ and for $d \geq 1.5$ the Local Whittle estimate possesses a small mean squared error than the GPH and wavelet OLS estimates for small and large sample sizes and for different values of long memory parameter. But, for $d \in [0.25, 1.5)$ the performance of Haar estimate (Jensen, 1999) usually is better than the two other estimates.

The estimation results showed that the volatility of crude oil prices exhibit strong evidence of long memory which can be captured by FIGARCH model.

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