mgarch dcc — Dynamic conditional correlation multivariate GARCH models

Syntax

`mgarch dcc` *eq* [*eq* ... *eq*] [*if*] [*in*] [, *options*]

where each *eq* has the form

(*depvars* = [*indepvars*] [, *eqoptions*])

options	Description
Model	
`arch(`*numlist*`)`	ARCH terms for all equations
`garch(`*numlist*`)`	GARCH terms for all equations
`het(`*varlist*`)`	include *varlist* in the specification of the conditional variance for all equations
`distribution(`*dist* [*#*]`)`	use *dist* distribution for errors [may be `gaussian` (synonym `normal`) or `t`; default is `gaussian`]
`constraints(`*numlist*`)`	apply linear constraints
SE/Robust	
`vce(`*vcetype*`)`	*vcetype* may be `oim` or `robust`
Reporting	
`level(`*#*`)`	set confidence level; default is `level(95)`
`nocnsreport`	do not display constraints
display_options	control column formats, row spacing, line width, display of omitted variables and base and empty cells, and factor-variable labeling
Maximization	
maximize_options	control the maximization process; seldom used
`from(`*matname*`)`	initial values for the coefficients; seldom used
`coeflegend`	display legend instead of statistics

eqoptions	Description
noconstant	suppress constant term in the mean equation
arch(*numlist*)	ARCH terms
garch(*numlist*)	GARCH terms
het(*varlist*)	include *varlist* in the specification of the conditional variance

You must tsset your data before using mgarch dcc; see [TS] **tsset**.
indepvars and *varlist* may contain factor variables; see [U] **11.4.3 Factor variables**.
depvars, *indepvars*, and *varlist* may contain time-series operators; see [U] **11.4.4 Time-series varlists**.
by, fp, rolling, and statsby are allowed; see [U] **11.1.10 Prefix commands**.
coeflegend does not appear in the dialog box.
See [U] **20 Estimation and postestimation commands** for more capabilities of estimation commands.

Menu

Statistics > Multivariate time series > Multivariate GARCH

Description

mgarch dcc estimates the parameters of dynamic conditional correlation (DCC) multivariate generalized autoregressive conditionally heteroskedastic (MGARCH) models in which the conditional variances are modeled as univariate generalized autoregressive conditionally heteroskedastic (GARCH) models and the conditional covariances are modeled as nonlinear functions of the conditional variances. The conditional quasicorrelation parameters that weight the nonlinear combinations of the conditional variances follow the GARCH-like process specified in Engle (2002).

The DCC MGARCH model is about as flexible as the closely related varying conditional correlation MGARCH model (see [TS] **mgarch vcc**), more flexible than the conditional correlation MGARCH model (see [TS] **mgarch ccc**), and more parsimonious than the diagonal vech MGARCH model (see [TS] **mgarch dvech**).

Options

Model

arch(*numlist*) specifies the ARCH terms for all equations in the model. By default, no ARCH terms are specified.

garch(*numlist*) specifies the GARCH terms for all equations in the model. By default, no GARCH terms are specified.

het(*varlist*) specifies that *varlist* be included in the specification of the conditional variance for all equations. This varlist enters the variance specification collectively as multiplicative heteroskedasticity.

distribution(*dist* [*#*]) specifies the assumed distribution for the errors. *dist* may be gaussian, normal, or t.

gaussian and normal are synonyms; each causes mgarch dcc to assume that the errors come from a multivariate normal distribution. *#* may not be specified with either of them.

t causes mgarch dcc to assume that the errors follow a multivariate Student t distribution, and the degree-of-freedom parameter is estimated along with the other parameters of the model. If distribution(t #) is specified, then mgarch dcc uses a multivariate Student t distribution with # degrees of freedom. # must be greater than 2.

constraints(*numlist*) specifies linear constraints to apply to the parameter estimates.

SE/Robust

vce(*vcetype*) specifies the estimator for the variance–covariance matrix of the estimator.

vce(oim), the default, specifies to use the observed information matrix (OIM) estimator.

vce(robust) specifies to use the Huber/White/sandwich estimator.

Reporting

level(#); see [R] **estimation options**.

nocnsreport; see [R] **estimation options**.

display_options: noomitted, vsquish, noemptycells, baselevels, allbaselevels, nofvlabel, fvwrap(#), fvwrapon(*style*), cformat(%*fmt*), pformat(%*fmt*), sformat(%*fmt*), and nolstretch; see [R] **estimation options**.

Maximization

maximize_options: difficult, technique(*algorithm_spec*), iterate(#), [no]log, trace, gradient, showstep, hessian, showtolerance, tolerance(#), ltolerance(#), nrtolerance(#), nonrtolerance, and from(*matname*); see [R] **maximize** for all options except from(), and see below for information on from(). These options are seldom used.

from(*matname*) specifies initial values for the coefficients. from(b0) causes mgarch dcc to begin the optimization algorithm with the values in b0. b0 must be a row vector, and the number of columns must equal the number of parameters in the model.

The following option is available with mgarch dcc but is not shown in the dialog box:

coeflegend; see [R] **estimation options**.

Eqoptions

noconstant suppresses the constant term in the mean equation.

arch(*numlist*) specifies the ARCH terms in the equation. By default, no ARCH terms are specified. This option may not be specified with model-level arch().

garch(*numlist*) specifies the GARCH terms in the equation. By default, no GARCH terms are specified. This option may not be specified with model-level garch().

het(*varlist*) specifies that *varlist* be included in the specification of the conditional variance. This varlist enters the variance specification collectively as multiplicative heteroskedasticity. This option may not be specified with model-level het().

Remarks and examples

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We assume that you have already read [TS] **mgarch**, which provides an introduction to MGARCH models and the methods implemented in mgarch dcc.

MGARCH models are dynamic multivariate regression models in which the conditional variances and covariances of the errors follow an autoregressive-moving-average structure. The DCC MGARCH model uses a nonlinear combination of univariate GARCH models with time-varying cross-equation weights to model the conditional covariance matrix of the errors.

As discussed in [TS] **mgarch**, MGARCH models differ in the parsimony and flexibility of their specifications for a time-varying conditional covariance matrix of the disturbances, denoted by $\mathbf{H}_t$. In the conditional correlation family of MGARCH models, the diagonal elements of $\mathbf{H}_t$ are modeled as univariate GARCH models, whereas the off-diagonal elements are modeled as nonlinear functions of the diagonal terms. In the DCC MGARCH model,

$$h_{ij,t} = \rho_{ij,t}\sqrt{h_{ii,t}h_{jj,t}}$$

where the diagonal elements $h_{ii,t}$ and $h_{jj,t}$ follow univariate GARCH processes and $\rho_{ij,t}$ follows the dynamic process specified in Engle (2002) and discussed below.

Because the $\rho_{ij,t}$ varies with time, this model is known as the DCC GARCH model.

❑ Technical note

The DCC GARCH model proposed by Engle (2002) can be written as

$$\begin{aligned}
\mathbf{y}_t &= \mathbf{C}\mathbf{x}_t + \boldsymbol{\epsilon}_t \\
\boldsymbol{\epsilon}_t &= \mathbf{H}_t^{1/2}\boldsymbol{\nu}_t \\
\mathbf{H}_t &= \mathbf{D}_t^{1/2}\mathbf{R}_t\mathbf{D}_t^{1/2} \\
\mathbf{R}_t &= \text{diag}(\mathbf{Q}_t)^{-1/2}\mathbf{Q}_t\text{diag}(\mathbf{Q}_t)^{-1/2} \\
\mathbf{Q}_t &= (1-\lambda_1-\lambda_2)\mathbf{R} + \lambda_1\widetilde{\boldsymbol{\epsilon}}_{t-1}\widetilde{\boldsymbol{\epsilon}}'_{t-1} + \lambda_2\mathbf{Q}_{t-1}
\end{aligned} \tag{1}$$

where

$\mathbf{y}_t$ is an $m \times 1$ vector of dependent variables;

$\mathbf{C}$ is an $m \times k$ matrix of parameters;

$\mathbf{x}_t$ is a $k \times 1$ vector of independent variables, which may contain lags of $\mathbf{y}_t$;

$\mathbf{H}_t^{1/2}$ is the Cholesky factor of the time-varying conditional covariance matrix $\mathbf{H}_t$;

$\boldsymbol{\nu}_t$ is an $m \times 1$ vector of normal, independent, and identically distributed innovations;

$\mathbf{D}_t$ is a diagonal matrix of conditional variances,

$$\mathbf{D}_t = \begin{pmatrix} \sigma_{1,t}^2 & 0 & \cdots & 0 \\ 0 & \sigma_{2,t}^2 & \cdots & 0 \\ \vdots & \vdots & \ddots & \vdots \\ 0 & 0 & \cdots & \sigma_{m,t}^2 \end{pmatrix}$$

in which each $\sigma_{i,t}^2$ evolves according to a univariate GARCH model of the form

$$\sigma_{i,t}^2 = s_i + \sum_{j=1}^{p_i}\alpha_j\epsilon_{i,t-j}^2 + \sum_{j=1}^{q_i}\beta_j\sigma_{i,t-j}^2$$

by default, or

$$\sigma_{i,t}^2 = \exp(\boldsymbol{\gamma}_i\mathbf{z}_{i,t}) + \sum_{j=1}^{p_i}\alpha_j\epsilon_{i,t-j}^2 + \sum_{j=1}^{q_i}\beta_j\sigma_{i,t-j}^2$$

when the `het()` option is specified, where γ_t is a $1 \times p$ vector of parameters, $\mathbf{z}_i$ is a $p \times 1$ vector of independent variables including a constant term, the α_j's are ARCH parameters, and the β_j's are GARCH parameters;

$\mathbf{R}_t$ is a matrix of conditional quasicorrelations,

$$\mathbf{R}_t = \begin{pmatrix} 1 & \rho_{12,t} & \cdots & \rho_{1m,t} \\ \rho_{12,t} & 1 & \cdots & \rho_{2m,t} \\ \vdots & \vdots & \ddots & \vdots \\ \rho_{1m,t} & \rho_{2m,t} & \cdots & 1 \end{pmatrix}$$

$\widetilde{\boldsymbol{\epsilon}}_t$ is an $m \times 1$ vector of standardized residuals, $\mathbf{D}_t^{-1/2}\boldsymbol{\epsilon}_t$; and

λ_1 and λ_2 are parameters that govern the dynamics of conditional quasicorrelations. λ_1 and λ_2 are nonnegative and satisfy $0 \leq \lambda_1 + \lambda_2 < 1$.

When $\mathbf{Q}_t$ is stationary, the $\mathbf{R}$ matrix in (1) is a weighted average of the unconditional covariance matrix of the standardized residuals $\widetilde{\boldsymbol{\epsilon}}_t$, denoted by $\overline{\mathbf{R}}$, and the unconditional mean of $\mathbf{Q}_t$, denoted by $\overline{\mathbf{Q}}$. Because $\overline{\mathbf{R}} \neq \overline{\mathbf{Q}}$, as shown by Aielli (2009), $\mathbf{R}$ is neither the unconditional correlation matrix nor the unconditional mean of $\mathbf{Q}_t$. For this reason, the parameters in $\mathbf{R}$ are known as quasicorrelations; see Aielli (2009) and Engle (2009) for discussions.

❑

Some examples

▷ Example 1: Model with common covariates

We have daily data on the stock returns of three car manufacturers—Toyota, Nissan, and Honda, from January 2, 2003, to December 31, 2010—in the variables `toyota`, `nissan` and `honda`. We model the conditional means of the returns as a first-order vector autoregressive process and the conditional covariances as a DCC MGARCH process in which the variance of each disturbance term follows a GARCH(1,1) process.

```
. use http://www.stata-press.com/data/r13/stocks
(Data from Yahoo! Finance)

. mgarch dcc (toyota nissan honda = L.toyota L.nissan L.honda, noconstant),
> arch(1) garch(1)

Calculating starting values....

Optimizing log likelihood

(setting technique to bhhh)
Iteration 0:   log likelihood =  16902.435
Iteration 1:   log likelihood =  17005.448
Iteration 2:   log likelihood =  17157.958
Iteration 3:   log likelihood =  17267.363
Iteration 4:   log likelihood =   17318.29
Iteration 5:   log likelihood =  17353.029
Iteration 6:   log likelihood =  17369.115
Iteration 7:   log likelihood =  17388.035
Iteration 8:   log likelihood =  17401.254
Iteration 9:   log likelihood =  17435.556
(switching technique to nr)
Iteration 10:  log likelihood =  17451.739
Iteration 11:  log likelihood =  17474.645
Iteration 12:  log likelihood =  17481.987
Iteration 13:  log likelihood =  17484.827
Iteration 14:  log likelihood =  17484.949
Iteration 15:  log likelihood =   17484.95

Refining estimates

Iteration 0:   log likelihood =   17484.95
Iteration 1:   log likelihood =   17484.95

Dynamic conditional correlation MGARCH model

Sample: 1 - 2015                                Number of obs     =       2014
Distribution: Gaussian                          Wald chi2(9)      =      19.54
Log likelihood =  17484.95                      Prob > chi2       =     0.0210

------------------------------------------------------------------------------
             |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
toyota       |
      toyota |
         L1. |  -.0510866   .0339824    -1.50   0.133     -.117691    .0155177
             |
      nissan |
         L1. |   .0297834   .0247455     1.20   0.229    -.0187169    .0782837
             |
       honda |
         L1. |  -.0162826   .0300323    -0.54   0.588    -.0751449    .0425797
-------------+----------------------------------------------------------------
ARCH_toyota  |
        arch |
         L1. |   .0608223   .0086686     7.02   0.000     .0438321    .0778124
             |
       garch |
         L1. |   .9222207   .0111053    83.04   0.000     .9004547    .9439868
             |
       _cons |   4.47e-06   1.15e-06     3.90   0.000     2.22e-06    6.72e-06
```

nissan						
toyota						
L1.	-.005672	.0389348	-0.15	0.884	-.0819828	.0706387
nissan						
L1.	-.0287095	.0309379	-0.93	0.353	-.0893466	.0319276
honda						
L1.	.0154979	.0358802	0.43	0.666	-.054826	.0858218
ARCH_nissan						
arch						
L1.	.084424	.0128192	6.59	0.000	.0592989	.1095492
garch						
L1.	.8994206	.0151125	59.52	0.000	.8698007	.9290406
_cons	7.21e-06	1.93e-06	3.74	0.000	3.43e-06	.000011
honda						
toyota						
L1.	-.027242	.0361819	-0.75	0.451	-.0981572	.0436732
nissan						
L1.	.0617495	.0271378	2.28	0.023	.0085603	.1149386
honda						
L1.	-.063507	.0332918	-1.91	0.056	-.1287578	.0017438
ARCH_honda						
arch						
L1.	.0490135	.0073695	6.65	0.000	.0345696	.0634573
garch						
L1.	.9331126	.0103685	90.00	0.000	.9127907	.9534344
_cons	5.35e-06	1.35e-06	3.95	0.000	2.69e-06	8.00e-06
corr(toyota, nissan)	.6689543	.0168021	39.81	0.000	.6360228	.7018858
corr(toyota, honda)	.7259625	.0140156	51.80	0.000	.6984923	.7534326
corr(nissan, honda)	.6335659	.0180412	35.12	0.000	.5982058	.668926
Adjustment						
lambda1	.0315274	.0088386	3.57	0.000	.0142041	.0488506
lambda2	.8704193	.0613329	14.19	0.000	.750209	.9906295

The iteration log has three parts: the dots from the search for initial values, the iteration log from optimizing the log likelihood, and the iteration log from the refining step. A detailed discussion of the optimization methods is in *Methods and formulas*.

The header describes the estimation sample and reports a Wald test against the null hypothesis that all the coefficients on the independent variables in the mean equations are zero. Here the null hypothesis is rejected at the 5% level.

The output table first presents results for the mean or variance parameters used to model each dependent variable. Subsequently, the output table presents results for the conditional quasicorrelations.

For example, the conditional quasicorrelation between the standardized residuals for Toyota and Nissan is estimated to be 0.67. Finally, the output table presents results for the adjustment parameters λ_1 and λ_2. In the example at hand, the estimates for both λ_1 and λ_2 are statistically significant.

The DCC MGARCH model reduces to the CCC MGARCH model when $\lambda_1 = \lambda_2 = 0$. The output below shows that a Wald test rejects the null hypothesis that $\lambda_1 = \lambda_2 = 0$ at all conventional levels.

```
. test _b[Adjustment:lambda1] = _b[Adjustment:lambda2] = 0
 ( 1)  [Adjustment]lambda1 - [Adjustment]lambda2 = 0
 ( 2)  [Adjustment]lambda1 = 0
           chi2(  2) = 1102.45
         Prob > chi2 =    0.0000
```

These results indicate that the assumption of time-invariant conditional correlations maintained in the CCC MGARCH model is too restrictive for these data.

◁

▷ Example 2: Model with covariates that differ by equation

We improve the previous example by removing the insignificant parameters from the model. To remove these parameters, we specify the `honda` equation separately from the `toyota` and `nissan` equations:

```
. mgarch dcc (toyota nissan = , noconstant) (honda = L.nissan, noconstant),
> arch(1) garch(1)
Calculating starting values....
Optimizing log likelihood
(setting technique to bhhh)
Iteration 0:   log likelihood =  16884.502
Iteration 1:   log likelihood =  16970.755
Iteration 2:   log likelihood =  17140.318
Iteration 3:   log likelihood =  17237.807
Iteration 4:   log likelihood =   17306.12
Iteration 5:   log likelihood =  17342.533
Iteration 6:   log likelihood =  17363.511
Iteration 7:   log likelihood =  17392.501
Iteration 8:   log likelihood =  17407.242
Iteration 9:   log likelihood =  17448.702
(switching technique to nr)
Iteration 10:  log likelihood =  17472.199
Iteration 11:  log likelihood =  17475.842
Iteration 12:  log likelihood =  17476.345
Iteration 13:  log likelihood =   17476.35
Iteration 14:  log likelihood =   17476.35
Refining estimates
Iteration 0:   log likelihood =   17476.35
Iteration 1:   log likelihood =   17476.35
```

```
Dynamic conditional correlation MGARCH model

Sample: 1 - 2015                                Number of obs     =       2014
Distribution: Gaussian                          Wald chi2(1)      =       2.21
Log likelihood =  17476.35                      Prob > chi2       =     0.1374
```

	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
ARCH_toyota						
arch						
L1.	.0608188	.0086675	7.02	0.000	.0438308	.0778067
garch						
L1.	.9219957	.0111066	83.01	0.000	.9002271	.9437643
_cons	4.49e-06	1.14e-06	3.95	0.000	2.27e-06	6.72e-06
ARCH_nissan						
arch						
L1.	.0876161	.01302	6.73	0.000	.0620974	.1131348
garch						
L1.	.8950964	.0152908	58.54	0.000	.865127	.9250658
_cons	7.69e-06	1.99e-06	3.86	0.000	3.79e-06	.0000116
honda						
nissan						
L1.	.019978	.0134488	1.49	0.137	-.0063811	.0463371
ARCH_honda						
arch						
L1.	.0488799	.0073767	6.63	0.000	.0344218	.063338
garch						
L1.	.9330047	.0103944	89.76	0.000	.912632	.9533774
_cons	5.42e-06	1.36e-06	3.98	0.000	2.75e-06	8.08e-06
corr(toyota, nissan)	.6668433	.0163209	40.86	0.000	.6348548	.6988317
corr(toyota, honda)	.7258101	.0137072	52.95	0.000	.6989446	.7526757
corr(nissan, honda)	.6313515	.0175454	35.98	0.000	.5969631	.6657399
Adjustment						
lambda1	.0324493	.0074013	4.38	0.000	.0179429	.0469556
lambda2	.8574681	.0476274	18.00	0.000	.7641202	.9508161

It turns out that the coefficient on `L1.nissan` in the `honda` equation is now statistically insignificant. We could further improve the model by removing `L1.nissan` from the model.

There is no mean equation for Toyota or Nissan. In [TS] **mgarch dcc postestimation**, we discuss prediction from models without covariates.

◁

▷ Example 3: Model with constraints

Here we fit a bivariate DCC MGARCH model for the Toyota and Nissan shares. We believe that the shares of these car manufacturers follow the same process, so we impose the constraints that the ARCH coefficients are the same for the two companies and that the GARCH coefficients are also the same.

```
. constraint 1 _b[ARCH_toyota:L.arch] = _b[ARCH_nissan:L.arch]
. constraint 2 _b[ARCH_toyota:L.garch] = _b[ARCH_nissan:L.garch]
. mgarch dcc (toyota nissan = , noconstant), arch(1) garch(1) constraints(1 2)
Calculating starting values....
Optimizing log likelihood
(setting technique to bhhh)
Iteration 0:   log likelihood =  10307.609
Iteration 1:   log likelihood =  10656.153
Iteration 2:   log likelihood =  10862.137
Iteration 3:   log likelihood =  10987.457
Iteration 4:   log likelihood =  11062.347
Iteration 5:   log likelihood =  11135.207
Iteration 6:   log likelihood =  11245.619
Iteration 7:   log likelihood =   11253.56
Iteration 8:   log likelihood =      11294
Iteration 9:   log likelihood =  11296.364
(switching technique to nr)
Iteration 10:  log likelihood =   11296.76
Iteration 11:  log likelihood =  11297.087
Iteration 12:  log likelihood =  11297.091
Iteration 13:  log likelihood =  11297.091
Refining estimates
Iteration 0:   log likelihood =  11297.091
Iteration 1:   log likelihood =  11297.091
```

```
Dynamic conditional correlation MGARCH model

Sample: 1 - 2015                                Number of obs     =       2015
Distribution: Gaussian                          Wald chi2(.)      =          .
Log likelihood =  11297.09                      Prob > chi2       =          .

 ( 1)  [ARCH_toyota]L.arch - [ARCH_nissan]L.arch = 0
 ( 2)  [ARCH_toyota]L.garch - [ARCH_nissan]L.garch = 0

------------------------------------------------------------------------------
             |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
ARCH_toyota  |
        arch |
         L1. |    .080889   .0103227     7.84   0.000      .060657    .1011211
             |
       garch |
         L1. |   .9060711   .0119107    76.07   0.000     .8827267    .9294156
             |
       _cons |   4.21e-06   1.10e-06     3.83   0.000     2.05e-06    6.36e-06
-------------+----------------------------------------------------------------
ARCH_nissan  |
        arch |
         L1. |    .080889   .0103227     7.84   0.000      .060657    .1011211
             |
       garch |
         L1. |   .9060711   .0119107    76.07   0.000     .8827267    .9294156
             |
       _cons |   5.92e-06   1.47e-06     4.03   0.000     3.04e-06    8.80e-06
-------------+----------------------------------------------------------------
  corr(toyota,|
      nissan)|   .6646283   .0187793    35.39   0.000     .6278215    .7014351
-------------+----------------------------------------------------------------
Adjustment   |
     lambda1 |   .0446559   .0123017     3.63   0.000      .020545    .0687668
     lambda2 |   .8686054   .0510885    17.00   0.000     .7684739     .968737
------------------------------------------------------------------------------
```

We could test our constraints by fitting the unconstrained model and performing a likelihood-ratio test. The results indicate that the restricted model is preferable.

◁

▷ Example 4: Model with a GARCH term

In this example, we have data on fictional stock returns for the Acme and Anvil corporations, and we believe that the movement of the two stocks is governed by different processes. We specify one ARCH and one GARCH term for the conditional variance equation for Acme and two ARCH terms for the conditional variance equation for Anvil. In addition, we include the lagged value of the stock return for Apex, the main subsidiary of Anvil corporation, in the variance equation of Anvil. For Acme, we have data on the changes in an index of futures prices of products related to those produced by Acme in `afrelated`. For Anvil, we have data on the changes in an index of futures prices of inputs used by Anvil in `afinputs`.

```
. use http://www.stata-press.com/data/r13/acmeh
. mgarch dcc (acme = afrelated, noconstant arch(1) garch(1))
> (anvil = afinputs, arch(1/2) het(L.apex))
Calculating starting values....
Optimizing log likelihood
(setting technique to bhhh)
Iteration 0:   log likelihood = -13260.522
  (output omitted )
Iteration 9:   log likelihood = -12362.876
(switching technique to nr)
Iteration 10:  log likelihood = -12362.876
Refining estimates
Iteration 0:   log likelihood = -12362.876
Iteration 1:   log likelihood = -12362.876
Dynamic conditional correlation MGARCH model
Sample: 1 - 2500                                  Number of obs   =      2499
Distribution: Gaussian                            Wald chi2(2)    =   2596.18
Log likelihood = -12362.88                        Prob > chi2     =    0.0000

------------------------------------------------------------------------------
             |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
acme         |
   afrelated |    .950805   .0557082    17.07   0.000      .841619    1.059991
-------------+----------------------------------------------------------------
ARCH_acme    |
        arch |
         L1. |   .1063295   .0157161     6.77   0.000     .0755266    .1371324
             |
       garch |
         L1. |   .7556294   .0391568    19.30   0.000     .6788836    .8323753
             |
       _cons |   2.197566    .458343     4.79   0.000      1.29923    3.095901
-------------+----------------------------------------------------------------
anvil        |
    afinputs |  -1.015657   .0209959   -48.37   0.000    -1.056808   -.9745054
       _cons |   .0808653    .019445     4.16   0.000     .0427538    .1189767
-------------+----------------------------------------------------------------
ARCH_anvil   |
        arch |
         L1. |   .5261675   .0281586    18.69   0.000     .4709777    .5813572
         L2. |   .2866454   .0196504    14.59   0.000     .2481314    .3251595
             |
        apex |
         L1. |   1.953173   .0594862    32.83   0.000     1.836582    2.069764
             |
       _cons |  -.0062964   .0710842    -0.09   0.929    -.1456188    .1330261
-------------+----------------------------------------------------------------
  corr(acme,|
      anvil) |  -.5600358   .0326358   -17.16   0.000    -.6240008   -.4960708
-------------+----------------------------------------------------------------
Adjustment   |
     lambda1 |   .1904321   .0154449    12.33   0.000     .1601607    .2207035
     lambda2 |   .7147267   .0226204    31.60   0.000     .6703916    .7590618
------------------------------------------------------------------------------
```

The results indicate that increases in the futures prices for related products lead to higher returns on the Acme stock, and increased input prices lead to lower returns on the Anvil stock. In the conditional variance equation for Anvil, the coefficient on `L1.apex` is positive and significant, which indicates that an increase in the return on the Apex stock leads to more variability in the return on the Anvil stock.

◁

Stored results

mgarch dcc stores the following in e():

Scalars

e(N)	number of observations
e(k)	number of parameters
e(k_aux)	number of auxiliary parameters
e(k_extra)	number of extra estimates added to _b
e(k_eq)	number of equations in e(b)
e(k_dv)	number of dependent variables
e(df_m)	model degrees of freedom
e(ll)	log likelihood
e(chi2)	χ^2
e(p)	significance
e(estdf)	1 if distribution parameter was estimated, 0 otherwise
e(usr)	user-provided distribution parameter
e(tmin)	minimum time in sample
e(tmax)	maximum time in sample
e(N_gaps)	number of gaps
e(rank)	rank of e(V)
e(ic)	number of iterations
e(rc)	return code
e(converged)	1 if converged, 0 otherwise

Macros

e(cmd)	mgarch
e(model)	dcc
e(cmdline)	command as typed
e(depvar)	names of dependent variables
e(covariates)	list of covariates
e(dv_eqs)	dependent variables with mean equations
e(indeps)	independent variables in each equation
e(tvar)	time variable
e(title)	title in estimation output
e(chi2type)	Wald; type of model χ^2 test
e(vce)	*vcetype* specified in vce()
e(vcetype)	title used to label Std. Err.
e(tmins)	formatted minimum time
e(tmaxs)	formatted maximum time
e(dist)	distribution for error term: gaussian or t
e(arch)	specified ARCH terms
e(garch)	specified GARCH terms
e(technique)	maximization technique
e(properties)	b V
e(estat_cmd)	program used to implement estat
e(predict)	program used to implement predict
e(marginsok)	predictions allowed by margins
e(marginsnotok)	predictions disallowed by margins

Matrices

e(b)	coefficient vector
e(Cns)	constraints matrix
e(ilog)	iteration log (up to 20 iterations)
e(gradient)	gradient vector
e(hessian)	Hessian matrix
e(V)	variance–covariance matrix of the estimators
e(pinfo)	parameter information, used by predict

Functions

e(sample)	marks estimation sample

Methods and formulas

`mgarch dcc` estimates the parameters of the DCC MGARCH model by maximum likelihood. The log-likelihood function based on the multivariate normal distribution for observation t is

$$l_t = -0.5m\log(2\pi) - 0.5\log\{\det(\mathbf{R}_t)\} - \log\left\{\det\left(\mathbf{D}_t^{1/2}\right)\right\} - 0.5\widetilde{\boldsymbol{\epsilon}}_t\mathbf{R}_t^{-1}\widetilde{\boldsymbol{\epsilon}}_t'$$

where $\widetilde{\boldsymbol{\epsilon}}_t = \mathbf{D}_t^{-1/2}\boldsymbol{\epsilon}_t$ is an $m \times 1$ vector of standardized residuals, $\boldsymbol{\epsilon}_t = \mathbf{y}_t - \mathbf{C}\mathbf{x}_t$. The log-likelihood function is $\sum_{t=1}^{T} l_t$.

If we assume that $\boldsymbol{\nu}_t$ follow a multivariate t distribution with degrees of freedom (df) greater than 2, then the log-likelihood function for observation t is

$$\begin{aligned} l_t = \log\Gamma\left(\frac{\mathrm{df}+m}{2}\right) - \log\Gamma\left(\frac{\mathrm{df}}{2}\right) - \frac{m}{2}\log\{(\mathrm{df}-2)\pi\} \\ - 0.5\log\{\det(\mathbf{R}_t)\} - \log\left\{\det\left(\mathbf{D}_t^{1/2}\right)\right\} - \frac{\mathrm{df}+m}{2}\log\left(1+\frac{\widetilde{\boldsymbol{\epsilon}}_t\mathbf{R}_t^{-1}\widetilde{\boldsymbol{\epsilon}}_t'}{\mathrm{df}-2}\right) \end{aligned}$$

The starting values for the parameters in the mean equations and the initial residuals $\widehat{\boldsymbol{\epsilon}}_t$ are obtained by least-squares regression. The starting values for the parameters in the variance equations are obtained by a procedure proposed by Gourieroux and Monfort (1997, sec. 6.2.2). The starting values for the quasicorrelation parameters are calculated from the standardized residuals $\widetilde{\boldsymbol{\epsilon}}_t$. Given the starting values for the mean and variance equations, the starting values for the parameters λ_1 and λ_2 are obtained from a grid search performed on the log likelihood.

The initial optimization step is performed in the unconstrained space. Once the maximum is found, we impose the constraints $\lambda_1 \geq 0$, $\lambda_2 \geq 0$, and $0 \leq \lambda_1 + \lambda_2 < 1$, and maximize the log likelihood in the constrained space. This step is reported in the iteration log as the refining step.

GARCH estimators require initial values that can be plugged in for $\boldsymbol{\epsilon}_{t-i}\boldsymbol{\epsilon}_{t-i}'$ and $\mathbf{H}_{t-j}$ when $t-i<1$ and $t-j<1$. `mgarch dcc` substitutes an estimator of the unconditional covariance of the disturbances

$$\widehat{\boldsymbol{\Sigma}} = T^{-1}\sum_{t=1}^{T}\widehat{\widehat{\boldsymbol{\epsilon}}}_t\widehat{\widehat{\boldsymbol{\epsilon}}}_t' \tag{2}$$

for $\boldsymbol{\epsilon}_{t-i}\boldsymbol{\epsilon}_{t-i}'$ when $t-i<1$ and for $\mathbf{H}_{t-j}$ when $t-j<1$, where $\widehat{\widehat{\boldsymbol{\epsilon}}}_t$ is the vector of residuals calculated using the estimated parameters.

`mgarch dcc` uses numerical derivatives in maximizing the log-likelihood function.

References

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Engle, R. F. 2002. Dynamic conditional correlation: A simple class of multivariate generalized autoregressive conditional heteroskedasticity models. *Journal of Business & Economic Statistics* 20: 339–350.

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Gourieroux, C. S., and A. Monfort. 1997. *Time Series and Dynamic Models*. Trans. ed. G. M. Gallo. Cambridge: Cambridge University Press.

Also see

[TS] **mgarch dcc postestimation** — Postestimation tools for mgarch dcc

[TS] **mgarch** — Multivariate GARCH models

[TS] **tsset** — Declare data to be time-series data

[TS] **arch** — Autoregressive conditional heteroskedasticity (ARCH) family of estimators

[TS] **var** — Vector autoregressive models

[U] **20 Estimation and postestimation commands**