

**Speaker:** Prof. Gary Koop

**Talk Title:** Exchange rate predictability and dynamic Bayesian learning

**Talk Abstract:**

This paper considers how an investor in the foreign exchange market can exploit predictive information by means of flexible Bayesian inference. Using a benchmark vector autoregressive model, the investor is able to revise each period past predictive mistakes and learn about important data features such as parameter instability and model switching. The proposed methodology is specified in order to reflect a wide array of established empirical and theoretical patterns of exchange rates. In a thorough investigation of monthly exchange rate predictability for ten countries, we find that an investor using the proposed flexible methodology for dynamic asset allocation achieves significant economic gains relative to benchmark strategies. In particular, we find strong evidence for sparsity, fast model switching and exploiting the exchange rate cross-section.

**Speaker Bio:**

Gary Koop is a professor in the Department of Economics at the University of Strathclyde. He received his PhD at the University of Toronto in 1989. He has held professorial posts at the Universities of Edinburgh, Glasgow and Leicester and was an assistant professor at Boston University, Queen's University and the University of Toronto. His research work in Bayesian econometrics has resulted in over a hundred publications in international quality journals. He has also published several textbooks including Bayesian Econometrics, Bayesian Econometric Methods and is co-editor of the Oxford Handbook of Bayesian Econometrics. He is on the editorial board of several journals including the Journal of Business and

Economic Statistics and the Journal of Applied Econometrics.