

An Omnibus Specification Test of Conditional Asset Pricing Models

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Abstract

This paper presents a new omnibus specification test of conditional asset pricing models. These models provide constraints that conditional moments of returns and pricing factors must satisfy, but most of them do not provide information on the functional form of those conditional moments. Hence, the main interest of this test is that it is not only robust to functional form misspecification of conditional moments, but it also detects any relationship between pricing errors and conditioning variables. This last issue is of crucial interest for power in testing conditional models. Special emphasis is given on practical issues like bias reduction, adaptive bandwidth choice, rather general but simple requirements on the estimates, and finite sample performance, including the resampling approximations.

Keywords: Specification test, Adaptive testing, Conditional Asset Pricing Model.

JEL Codes: G12, C12, C14

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