

On the Role of Volatility in Prediction with Constant Gain Learning

久留米大学 池田太郎

Branch and Evans (2006) demonstrate the superiority of constant gain learning in predicting US GDP growth and inflation. This paper examines the role of volatility in predictive performance under constant gain learning. We find that the inclusion of volatility improves out-of-sample prediction of inflation by professional forecasters, and the improvements are remarkable when the forecast includes the crisis period.

JEL Classification: E37, D83, D84

Keywords: constant gain learning, forecasting, survey of professional forecasters