

WALS model averaging
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Abstract:

Parameter estimation under model uncertainty is a difficult and fundamental issue in econometrics. One way to approach this problem --- and hence to avoid the harmful pretest effect --- is via model averaging. In model averaging all potential models play a role, but in varying degree of importance. We shall introduce a new method, called weighted average least squares (WALS), and compare the performance with the dominant method (Bayesian model averaging - BMA). Our proposed method has two major advantages over BMA: its computational burden is trivial and it is based on a transparent definition of prior ignorance.