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Letter from Editors

The first issue of volume 6 consists of three papers, devoted to methodological and empirical issues that represent very distinct areas of econometric research, namely theoretical Bayesian analysis, empirical finance and micro-econometric modelling.

In the first paper, Rodney Strachan and Herman van Dijk shed new light on the old problems of improper priors in Bayesian model comparison. It is demonstrated that certain improper priors (e.g. "shrinkage" ones) do result in well-defined Bayes factors, but also that they may lead to relative prior measures which bias posterior inference in favour of larger models. The authors present a simple approach to regaining both a properly defined Bayes factor and the features of the improper prior - by controlling the relative size of the supports for parameters of different models.

In the second paper, Małgorzata Doman and Ryszard Doman show how conditional dependencies observed in the FOREX market change during a trading day. They perform the analysis for two pairs of the exchange rates: (GBP/EUR, USD/EUR) and (GBP/USD, EUR/USD) using daily returns calculated on the basis of the exchange rates quoted at different hours of a day. The dynamics of the dependencies is modelled by means of three-state Markov regime switching copula models, and the strength of the linkages is described using dynamic Spearman's rho and the dynamic coefficients of tail dependence.

The third paper, by Alfredo Romero, is devoted to the so-called moderation terms in binary choice models. It is demonstrated that whether the logistic regression includes a moderation term or not depends entirely on the probabilistic structure of the data, especially when the covariates are not independently distributed. The author recommends the general-to-specific approach when using the logistic regression, only eliminating the moderation terms if warranted by likelihood-ratio testing.