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Statistical Testing for Conditional Copulas

In conditional copula models, the copula parameter is deterministically linked to a covariate via the calibration function. The latter is of central interest for inference and is usually estimated nonparametrically. However, when a parametric model for the calibration function is appropriate, the resulting estimator exhibits significant gains in statistical efficiency. We develop methodology for testing a parametric formulation of the calibration function against a general alternative and propose a generalized likelihood ratio-type test that enables conditional copula model diagnostics. We derive the asymptotic null distribution of the proposed test and study its finite sample performance using simulations.