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Vines: Building Multivariate Copulas Using Pair Copula Constructions

Standard multivariate copula classes such as the elliptical or Archimedean one are restricted in their tail and symmetry behavior, since they are closed under margins. These restrictions might not be satisfied in real data applications. In contrast vine copula models are very flexible. They are constructed using only bivariate copula building blocks called pair copulas. The full specification of a vine model requires the choice of vine tree structure, copula families for each pair copula term and their corresponding parameters. I will introduce this class of copulas and discuss their statistical inference including model selection. Approaches will be illustrated using financial data.