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APPENDIX

Expected value of stock and bond excess returns given the information set at time t-1 (Ω_{t-1}) are calculated as follows;

$$E(R_{stock,t}|\Omega_{t-1}) = \alpha_1 + (\beta_{10} + \beta_{11} I^A_t) * E(h_{stock,t} |\Omega_{t-1}) + (\delta_1 + \delta_{11} I^A_t) * E(h_{stock.bond,t} |\Omega_{t-1})$$

$$E(R_{bond,t}|\Omega_{t-1}) = \alpha_2 + (\beta_{20} + \beta_{21} I^A_t) * E(h_{bond,t} |\Omega_{t-1}) + (\delta_2 + \delta_{21} I^A_t) * E(h_{stock.bond,t} |\Omega_{t-1})$$

Since,

$$H_t = \begin{bmatrix} h_{stock,t} & h_{stock.bond,t} \\ h_{stock.bond,t} & h_{bond,t} \end{bmatrix} = C'C + A'H_{t-1}A + B'\varepsilon_{t-1}\varepsilon_{t-1}'B$$

$$= \begin{bmatrix} c_{11} & 0 \\ c_{21} & c_{22} \end{bmatrix}\begin{bmatrix} c_{11} & c_{21} \\ 0 & c_{22} \end{bmatrix}$$

$$+ \begin{bmatrix} a_{11} & 0 \\ 0 & a_{22} \end{bmatrix}\begin{bmatrix} h_{stock,t-1} & h_{stock.bond,t-1} \\ h_{stock.bond,t-1} & h_{bond,t-1} \end{bmatrix}\begin{bmatrix} a_{11} & 0 \\ 0 & a_{22} \end{bmatrix}$$

$$+ \begin{bmatrix} b_{11} & 0 \\ 0 & b_{22} \end{bmatrix}\begin{bmatrix} \varepsilon_{stock,t-1} \\ \varepsilon_{bond,t-1} \end{bmatrix}\begin{bmatrix} \varepsilon_{stock,t-1} & \varepsilon_{bond,t-1} \end{bmatrix}\begin{bmatrix} b_{11} & 0 \\ 0 & b_{22} \end{bmatrix}$$

$$= \begin{bmatrix} c^2_{11} & c_{11}c_{21} \\ c_{11}c_{21} & c^2_{21}+c^2_{22} \end{bmatrix} + \begin{bmatrix} a^2_{11} h_{stock,t-1} & a_{11} a_{22}h_{stock.bond,t-1} \\ a_{11}a_{22}h_{stock.bond,t-1} & a^2_{22} h_{bond,t-1} \end{bmatrix}$$

$$+ \begin{bmatrix} b^2_{11} \varepsilon^2_{stock,t-1} & b_{11}b_{22} \varepsilon_{stock,t-1}\varepsilon_{bond,t-1} \\ b_{11}b_{22} \varepsilon_{stock,t-1}\varepsilon_{bond,t-1} & b^2_{22} \varepsilon^2_{bond,t-1} \end{bmatrix}$$

$$h_{stock,t} = c^2_{11} + a^2_{11} h_{stock,t-1} + b^2_{11} \varepsilon^2_{stock,t-1}$$

$$h_{bond,t} = (c^2_{21} + c^2_{22}) + a^2_{22} h_{bond,t-1} + b^2_{22} \varepsilon^2_{bond,t-1}$$

$$h_{stock.bond,t} = c_{11}c_{21} + a_{11}a_{22} h_{stock.bond,t-1} + b_{11}b_{22} \varepsilon_{stock,t-1}\varepsilon_{bond,t-1}$$

$$E(h_{stock,t} | \Omega_{t-1}) = c^2_{11} + a^2_{11} E(h_{stock,t-1} | \Omega_{t-1}) + b^2_{11} E(\varepsilon^2_{stock,t-1} | \Omega_{t-1})$$

$$= c^2_{11} + a^2_{11} h_{stock,t-1} + b^2_{11} \varepsilon^2_{stock,t-1}$$

$$E(h_{bond,t} | \Omega_{t-1}) = (c^2_{21} + c^2_{22}) + a^2_{22} E(h_{bond,t-1} | \Omega_{t-1}) + b^2_{22} E(\varepsilon^2_{bond,t-1} | \Omega_{t-1})$$

$$= (c^2_{21} + c^2_{22}) + a^2_{22} h_{bond,t-1} + b^2_{22} \varepsilon^2_{bond,t-1}$$

$$E(h_{stock.bond,t} | \Omega_{t-1}) = c_{11}c_{21} + a_{11}a_{22} E(h_{stock.bond,t-1} | \Omega_{t-1}) + b_{11}b_{22} E(\varepsilon_{stock,t-1}\varepsilon_{bond,t-1} | \Omega_{t-1})$$

$$= c_{11}c_{21} + a_{11}a_{22} h_{stock.bond,t-1} + b_{11}b_{22} \varepsilon_{stock,t-1}\varepsilon_{bond,t-1}$$

Then,

$$E(R_{stock,t} | \Omega_{t-1}) = \alpha_1 + (\beta_{10} + \beta_{11} I^A_t) * [c^2_{11} + a^2_{11} h_{stock,t-1} + b^2_{11} \varepsilon^2_{stock,t-1}]$$

$$+ (\delta_1 + \delta_{11} I^A_t) * [c_{11}c_{21} + a_{11}a_{22} h_{stock.bond,t-1} + b_{11}b_{22} \varepsilon_{stock,t-1}\varepsilon_{bond,t-1}]$$

$$E(R_{bond,t} | \Omega_{t-1}) = \alpha_2 + (\beta_{20} + \beta_{21} I^A_t) * [(c^2_{21} + c^2_{22}) + a^2_{22} h_{bond,t-1} + b^2_{22} \varepsilon^2_{bond,t-1}]$$

$$+ (\delta_2 + \delta_{21} I^A_t) * [c_{11}c_{21} + a_{11}a_{22} h_{stock.bond,t-1} + b_{11}b_{22} \varepsilon_{stock,t-1}\varepsilon_{bond,t-1}]$$

BIOGRAPHY

Miss Wilai Booncharoenwattana was born on July 1, 1980 in Bangkok. She completed high school education at Satri Wat Rakhang School in 1998. Upon completion of the bachelor degree of Economics from Thammasat University in 2002, she entered the Master of Science in Finance Program at Chulalongkorn University.