FORECASTING INFLATION RATES:
A COMPARATIVE APPROACH

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Abstract

This paper evaluates the optimum method of forecasting inflation rates data series of the United States of America and the Federal Republic of Nigeria using derived models. The models used were GARCH, Bilinear-GARCH (BL-GARCH), STAR-GARCH (EAR-GARCH, ESTAR-GARCH and LSTAR-GARCH) and ST-GARCH (ET-GARCH, EST-GARCH and LST-GARCH). From these, it was discovered that Bilinear-GARCH performed better than Classical GARCH model. Similarly, STAR-GARCH and ST-GARCH performed better than GARCH. However, LSTARGARCH and LST-GARCH out-performed other models (EAR-GARCH, ESTAR-GARCH, ET-GARCH and EST-GARCH). In conclusion the optimum forecast model was produced by LSTAR-GARCH (STAR-GARCH) whose performance is slightly better than LST-GARCH.