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*Forecasting volatility in the financial markets*,  
 J. Knight, S. Satchell (Eds.), Butterworth-Heine-  
 mann, 2002, Hardcover, £60, 420 pages, ISBN:  
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Volatility forecasting has drawn lot of interest in the last decade, during which, globalisation and the race for the European Economic Union were the driving forces for numerous ups and downs in the financial markets. Knight and Satchell have recently extended their original edited volume, which reported on work in this difficult research field.

The first edition of this book was well received, essentially because of the excellent work of its two editors in assembling a collection of state-of-the-art articles. The second edition includes two new chapters. The first, by George Christodoulakis, brings in new material about forecasting volatility via the forecastability of asset exposures to common risk factors. The second, by Declan Huang, presents some new results on forecasting-implied volatility that he links to concepts in behavioural finance. However, I expected that in such a tremendously changing environment, at least one-third of the content would have been updated. For example, I would expect to see a contribution from the area of Neural Networks.

The book starts with the chapter “Volatility modelling in finance” by A.B. Aydemir, a complete introduction to the field, garnished with the necessary advanced mathematics and an excellent literature review of more than 150 references. G.J. Jiang contributes another introductory chapter “Stochastic volatility and option pricing”, which is definitely a seminar paper. The next chapter comes from E. Acar and E. Petitdidier entitled “Modelling slippage: an application to the bund futures contract” followed by “Real trading volume and price action in the foreign

exchange markets” from P. Lequeux. B. Bahra contributes “Implied risk-neutral probability density functions from option prices: a central bank perspective”. “Hashing GARCH: a reassessment of volatility forecasting performance”, a very interesting chapter from G.A. Christodoulakis and S.E. Satchel, is followed by a UK case study “Implied volatility forecasting: a comparison of different procedures including fractionally integrated models with applications to UK equity options” by S. Hwang and S.E. Satchell. The editors provide their first mutual contribution next: “GARCH predictions and the predictions of option prices”, which is followed by “Volatility forecasting in a tick data model” from L.C.G. Rogers. Chapter 10 is by S. Bond “An econometric model of downside risk”, is followed by “Variations in the mean and volatility of stock returns around turning points of the business cycle” from G. Perez-Quiros and A. Timmermann. A.C. Harvey provides one of the best chapters of this book entitled “Long memory in stochastic volatility” followed by an equally excellent contribution—the second from the editors—“GARCH processes—some exact results, some difficulties and a suggested remedy”. The book concludes with the new two contributions of this edition.

This book is of particular relevance to anyone who wants to understand the dynamic nature of the financial markets. It should therefore be of interest to both researchers and practitioners. However, the level of mathematics in the first two chapters may limit its appeal to some readers.

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*Neural networks in business forecasting*, G. Peter Zhang, Idea Group, Inc. 2003, Hardcover, 310 pages. ISBN: 1591401763.

Neural networks (NNs) and Dr. Peter Zhang have long been synonymous. In particular, when it comes