

A Corridor Fix for High-Frequency VIX: Developing Coherent Implied Volatility Measures*

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February 27, 2017

Abstract

The VIX index is computed as a weighted average of SPX option prices over a range of strikes according to specific rules regarding market liquidity. It is explicitly designed to provide a model-free option-implied volatility measure. Using tick-by-tick observations on the underlying options, we document a substantial time variation in the coverage which the stipulated strike range affords for the distribution of future S&P 500 index prices. This produces idiosyncratic biases in the measure, distorting the time series properties of VIX. In contrast, the “Corridor Implied Volatility” index (CX) is computed from a strike range covering an “economically invariant” proportion of the future S&P 500 index values. We find the CX measure superior in filtering out noise and eliminating artificial jumps, thus providing a markedly different characterization of the high-frequency volatility dynamics.

JEL Classification: G13, C58

Keywords: VIX, Model-Free Implied Volatility, Corridor Implied Volatility, Time Series Coherence

*We are indebted to the Zell Center for Risk at the Kellogg School of Management, Northwestern University, for financial support. We thank seminar participants at the Federal Reserve Board of Governors, the SoFiE-CREATES 2010 Conference in Aarhus, the Midwest Econometrics Group 2011 Meetings, the University of Illinois at Chicago, Virginia Tech, Spot Trading, the Osaka Conference on “High-Frequency Data Analysis in Financial Markets,” the Wisconsin School of Business, and the Illinois Institute of Technology for comments.

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