

Asset Price Dynamics Volatility And Prediction

This book brings together the latest research in the areas of market microstructure and high-frequency finance along with new econometric methods to address critical practical issues in these areas of research. Thirteen chapters, each of which makes a valuable and significant contribution to the existing literature have been brought together, spanning a wide range of topics including information asymmetry and the information content in limit order books, high-frequency return distribution models, multivariate volatility forecasting, analysis of individual trading behaviour, the analysis of liquidity, price discovery across markets, market microstructure models and the information content of order flow. These issues are central both to the rapidly expanding practice of high frequency trading in financial markets and to the further development of the academic literature in this area. The volume will therefore be of immediate interest to practitioners and academics. This book was originally published as a special issue of European Journal of Finance.

Current issues in macroeconomics.

Initially the theory of convergence in law of stochastic processes was developed quite independently from the theory of martingales, semimartingales and

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stochastic integrals. Apart from a few exceptions essentially concerning diffusion processes, it is only recently that the relation between the two theories has been thoroughly studied. The authors of this Grundlehren volume, two of the international leaders in the field, propose a systematic exposition of convergence in law for stochastic processes, from the point of view of semimartingale theory, with emphasis on results that are useful for mathematical theory and mathematical statistics. This leads them to develop in detail some particularly useful parts of the general theory of stochastic processes, such as martingale problems, and absolute continuity or contiguity results. The book contains an elementary introduction to the main topics: theory of martingales and stochastic integrals, Skorokhod topology, etc., as well as a large number of results which have never appeared in book form, and some entirely new results. It should be useful to the professional probabilist or mathematical statistician, and of interest also to graduate students.

Full coverage of ETF investments from an expert in the field The initial edition of Gary Gastineau's *The Exchange-Traded Fund Manual* was one of the first books to describe and analyze ETFs. It made the case for the superiority of the structure of investor-friendly ETFs over mutual funds and helped investors select better funds among the ETFs available. With this new edition, Gastineau

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provides comprehensive information on the latest developments in ETF structures, new portfolio variety, and new trading methods. With a realistic evaluation of today's indexes, Gastineau offers insights on actively managed ETFs, improved index funds, and fund and advisor selection. Discusses how to incorporate ETFs into an investment plan Offers updated coverage of new ETFs, including full-function actively managed ETFs, and a valuable chapter on trading ETFs Written by the leading authority on exchange traded funds Exchange-traded funds offer you diversification and participation in markets and investment strategies that have not been available to most investors. If you want to understand how to use ETFs effectively, the Second Edition of The Exchanged-Traded Fund Manual can show you how.

The growth of financial intermediation research has yielded a host of questions that have pushed "design" issues to the fore even as the boundary between financial intermediation and corporate finance has blurred. This volume presents review articles on six major topics that are connected by information-theoretic tools and characterized by valuable perspectives and important questions for future research. Touching upon a wide range of issues pertaining to the designs of securities, institutions, trading mechanisms and markets, industry structure, and regulation, this volume will encourage bold new efforts to shape financial

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intermediaries in the future. * Original review articles offer valuable perspectives on research issues appearing in top journals * Twenty articles are grouped by six major topics, together defining the leading research edge of financial intermediation * Corporate finance researchers will find affinities in the tools, methods, and conclusions featured in these articles

Financial Asset Pricing Theory offers a comprehensive overview of the classic and the current research in theoretical asset pricing. Asset pricing is developed around the concept of a state-price deflator which relates the price of any asset to its future (risky) dividends and thus incorporates how to adjust for both time and risk in asset valuation. The willingness of any utility-maximizing investor to shift consumption over time defines a state-price deflator which provides a link between optimal consumption and asset prices that leads to the Consumption-based Capital Asset Pricing Model (CCAPM). A simple version of the CCAPM cannot explain various stylized asset pricing facts, but these asset pricing 'puzzles' can be resolved by a number of recent extensions involving habit formation, recursive utility, multiple consumption goods, and long-run consumption risks. Other valuation techniques and modelling approaches (such as factor models, term structure models, risk-neutral valuation, and option pricing models) are explained and related to state-price deflators. The book will serve as

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a textbook for an advanced course in theoretical financial economics in a PhD or a quantitative Master of Science program. It will also be a useful reference book for researchers and finance professionals. The presentation in the book balances formal mathematical modelling and economic intuition and understanding. Both discrete-time and continuous-time models are covered. The necessary concepts and techniques concerning stochastic processes are carefully explained in a separate chapter so that only limited previous exposure to dynamic finance models is required.

This is a thoroughly updated edition of Dynamic Asset Pricing Theory, the standard text for doctoral students and researchers on the theory of asset pricing and portfolio selection in multiperiod settings under uncertainty. The asset pricing results are based on the three increasingly restrictive assumptions: absence of arbitrage, single-agent optimality, and equilibrium. These results are unified with two key concepts, state prices and martingales. Technicalities are given relatively little emphasis, so as to draw connections between these concepts and to make plain the similarities between discrete and continuous-time models. Readers will be particularly intrigued by this latest edition's most significant new feature: a chapter on corporate securities that offers alternative approaches to the valuation of corporate debt. Also, while much of the continuous-time portion of the theory is

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based on Brownian motion, this third edition introduces jumps--for example, those associated with Poisson arrivals--in order to accommodate surprise events such as bond defaults. Applications include term-structure models, derivative valuation, and hedging methods. Numerical methods covered include Monte Carlo simulation and finite-difference solutions for partial differential equations. Each chapter provides extensive problem exercises and notes to the literature. A system of appendixes reviews the necessary mathematical concepts. And references have been updated throughout. With this new edition, *Dynamic Asset Pricing Theory* remains at the head of the field.

This is a print on demand edition of a hard to find publication. Proposes a general equilibrium model where investors hire fund managers (FM) to invest their capital either in a risky bond or in a riskless asset. There is a small fraction of informed FM with superior info. on the default probability. Looking at the past performance, investors update their beliefs on the info. of their FM and make hiring and firing decisions. This leads to career concerns which affect the investment decision of un-informed FM, generating a λ reputational premium λ . When the default probability is high enough, un-informed FM prefer to invest in the riskless asset to reduce the probability of being fired. On the contrary, if the probability of default is low enough, investing in the risky bonds has a reputational advantage and the

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premium is negative.

Cut risk and generate profit even after the market drops The Second Leg Down offers practical approaches to profiting after a market event. Written by a specialist in global macro, volatility and hedging overlay strategies, this book provides in-depth insight into surviving in a volatile environment. Historical back tests and scenario diagrams illustrate a variety of strategies for offsetting portfolio risks with after-the-fact options hedging, and the discussion explores how a mixture of trend following and contrarian futures strategies can be beneficial. Without a rational analysis-based approach, investors often find themselves having to cut risk and buy protection just as options are at their most over-priced. This book provides practical strategies, expert analysis and the knowledge base to assist you in recovering your portfolio. Hedging strategies are often presented as expensive and unnecessary, especially during a bull market. When equity indices and other unstable assets drop, they find themselves stuck – hedging is now at its most expensive, but it is imperative to hedge or face liquidation. This book shows you how to salvage the situation, with strategies backed by expert analysis. Identify the right hedges during high volatility Generate attractive risk-adjusted returns Learn new strategies for offsetting risk Know your options for when losses have already occurred Imagine this scenario: you've incurred significant losses, you're approaching risk limits, you must cut risk immediately, yet slashing positions would damage the portfolio – what do you do? The Second Leg Down is your emergency hotline, with practical strategies for dire conditions.

“Bali, Engle, and Murray have produced a highly accessible introduction to the techniques and evidence of modern empirical asset pricing. This book should be read and absorbed by every serious student of the field, academic and professional.” Eugene Fama, Robert R. McCormick

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Distinguished Service Professor of Finance, University of Chicago and 2013 Nobel Laureate in Economic Sciences “The empirical analysis of the cross-section of stock returns is a monumental achievement of half a century of finance research. Both the established facts and the methods used to discover them have subtle complexities that can mislead casual observers and novice researchers. Bali, Engle, and Murray’s clear and careful guide to these issues provides a firm foundation for future discoveries.” John Campbell, Morton L. and Carole S. Olshan Professor of Economics, Harvard University “Bali, Engle, and Murray provide clear and accessible descriptions of many of the most important empirical techniques and results in asset pricing.” Kenneth R. French, Roth Family Distinguished Professor of Finance, Tuck School of Business, Dartmouth College “This exciting new book presents a thorough review of what we know about the cross-section of stock returns. Given its comprehensive nature, systematic approach, and easy-to-understand language, the book is a valuable resource for any introductory PhD class in empirical asset pricing.” Lubos Pastor, Charles P. McQuaid Professor of Finance, University of Chicago Empirical Asset Pricing: The Cross Section of Stock Returns is a comprehensive overview of the most important findings of empirical asset pricing research. The book begins with thorough expositions of the most prevalent econometric techniques with in-depth discussions of the implementation and interpretation of results illustrated through detailed examples. The second half of the book applies these techniques to demonstrate the most salient patterns observed in stock returns. The phenomena documented form the basis for a range of investment strategies as well as the foundations of contemporary empirical asset pricing research. Empirical Asset Pricing: The Cross Section of Stock Returns also includes: Discussions on the driving forces behind the patterns observed in the stock

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market An extensive set of results that serve as a reference for practitioners and academics alike Numerous references to both contemporary and foundational research articles Empirical Asset Pricing: The Cross Section of Stock Returns is an ideal textbook for graduate-level courses in asset pricing and portfolio management. The book is also an indispensable reference for researchers and practitioners in finance and economics. Turan G. Bali, PhD, is the Robert Parker Chair Professor of Finance in the McDonough School of Business at Georgetown University. The recipient of the 2014 Jack Treynor prize, he is the coauthor of Mathematical Methods for Finance: Tools for Asset and Risk Management, also published by Wiley. Robert F. Engle, PhD, is the Michael Armellino Professor of Finance in the Stern School of Business at New York University. He is the 2003 Nobel Laureate in Economic Sciences, Director of the New York University Stern Volatility Institute, and co-founding President of the Society for Financial Econometrics. Scott Murray, PhD, is an Assistant Professor in the Department of Finance in the J. Mack Robinson College of Business at Georgia State University. He is the recipient of the 2014 Jack Treynor prize.

The models of portfolio selection and asset price dynamics in this volume seek to explain the market dynamics of asset prices. Presenting a range of analytical, empirical, and numerical techniques as well as several different modeling approaches, the authors depict the state of debate on the market selection hypothesis. By explicitly assuming the heterogeneity of investors, they present models that are descriptive and normative as well, making the volume useful for both finance theorists and financial practitioners. * Explains the market dynamics of asset prices, offering insights about asset management approaches * Assumes a heterogeneity of investors that yields descriptive and normative models of portfolio selections

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and asset pricing dynamics

An introduction to the theory and methods of empirical asset pricing, integrating classical foundations with recent developments. This book offers a comprehensive advanced introduction to asset pricing, the study of models for the prices and returns of various securities. The focus is empirical, emphasizing how the models relate to the data. The book offers a uniquely integrated treatment, combining classical foundations with more recent developments in the literature and relating some of the material to applications in investment management. It covers the theory of empirical asset pricing, the main empirical methods, and a range of applied topics. The book introduces the theory of empirical asset pricing through three main paradigms: mean variance analysis, stochastic discount factors, and beta pricing models. It describes empirical methods, beginning with the generalized method of moments (GMM) and viewing other methods as special cases of GMM; offers a comprehensive review of fund performance evaluation; and presents selected applied topics, including a substantial chapter on predictability in asset markets that covers predicting the level of returns, volatility and higher moments, and predicting cross-sectional differences in returns. Other chapters cover production-based asset pricing, long-run risk models, the Campbell-Shiller approximation, the debate on covariance versus characteristics, and the relation of volatility to the cross-section of stock returns. An extensive reference section captures the current state of the field. The book is intended for use by graduate students in finance and economics; it can also serve as a reference for professionals.

Behavioral finance is the study of how psychology affects financial decision making and financial markets. It is increasingly becoming the common way of understanding investor

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behavior and stock market activity. Incorporating the latest research and theory, Shefrin offers both a strong theory and efficient empirical tools that address derivatives, fixed income securities, mean-variance efficient portfolios, and the market portfolio. The book provides a series of examples to illustrate the theory. The second edition continues the tradition of the first edition by being the one and only book to focus completely on how behavioral finance principles affect asset pricing, now with its theory deepened and enriched by a plethora of research since the first edition

The design of trading algorithms requires sophisticated mathematical models backed up by reliable data. In this textbook, the authors develop models for algorithmic trading in contexts such as executing large orders, market making, targeting VWAP and other schedules, trading pairs or collection of assets, and executing in dark pools. These models are grounded on how the exchanges work, whether the algorithm is trading with better informed traders (adverse selection), and the type of information available to market participants at both ultra-high and low frequency. *Algorithmic and High-Frequency Trading* is the first book that combines sophisticated mathematical modelling, empirical facts and financial economics, taking the reader from basic ideas to cutting-edge research and practice. If you need to understand how modern electronic markets operate, what information provides a trading edge, and how other market participants may affect the profitability of the algorithms, then this is the book for you. *Liquidity and Asset Prices* reviews the literature that studies the relationship between liquidity and asset prices. The authors review the theoretical literature that predicts how liquidity affects a security's required return and discuss the empirical connection between the two. *Liquidity and Asset Prices* surveys the theory of liquidity-based asset pricing followed by the empirical

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evidence. The theory section proceeds from basic models with exogenous holding periods to those that incorporate additional elements of risk and endogenous holding periods. The empirical section reviews the evidence on the liquidity premium for stocks, bonds, and other financial assets.

This book describes a laboratory experiment designed to test the causes and properties of bubbles in financial markets and explores the question whether it is possible to design markets which avoid such bubbles and crashes. In the experiment, subjects were given the opportunity to trade in a stock market modeled after the seminal work of Smith et al. (1988). To account for the increasing importance of online betting sites, subjects were also allowed to trade in a digital option market. The outcomes shed new light on how subjects form and update their expectations, placing special emphasis on the bounded rationality of investors. Various analytical bubble measures found in the literature are collected, calculated, classified and presented for the first time. The very interesting new bubble measures "Dispersion Ratio", "Overpriced Transactions" and "Underpriced Transactions" are developed, making the book an important step towards the research goal of preventing bubbles and crashes in financial markets.

In the wake of the global financial crisis that began in 2007, faith in the rationality of markets has lost ground to a new faith in their irrationality. The problem, Roman Frydman and Michael Goldberg argue, is that both the rational and behavioral theories of the market rest on the same fatal assumption--that markets act mechanically and economic change is fully predictable. In *Beyond*

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Mechanical Markets, Frydman and Goldberg show how the failure to abandon this assumption hinders our understanding of how markets work, why price swings help allocate capital to worthy companies, and what role government can and can't play. The financial crisis, Frydman and Goldberg argue, was made more likely, if not inevitable, by contemporary economic theory, yet its core tenets remain unchanged today. In response, the authors show how imperfect knowledge economics, an approach they pioneered, provides a better understanding of markets and the financial crisis. Frydman and Goldberg deliver a withering critique of the widely accepted view that the boom in equity prices that ended in 2007 was a bubble fueled by herd psychology. They argue, instead, that price swings are driven by individuals' ever-imperfect interpretations of the significance of economic fundamentals for future prices and risk. Because swings are at the heart of a dynamic economy, reforms should aim only to curb their excesses. Showing why we are being dangerously led astray by thinking of markets as predictably rational or irrational, *Beyond Mechanical Markets* presents a powerful challenge to conventional economic wisdom that we can't afford to ignore.

Macro Markets puts forward a unique and authoritative set of detailed proposals for establishing new markets for the management of the biggest economic risks

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facing society. Our existing financial markets are seen as being inadequate in dealing with such risks and Professor Shiller suggests major new markets as solutions to the problem. Shiller argues that although some risks, such as natural disaster or temporary unemployment, are shared by society, most risks are borne by the individual and standards of living determined by luck. He investigates whether a new technology of markets could make risk-sharing possible, and shows how new contracts could be designed to hedge all manner of risks to the individual's living standards. He proposes new international markets for perpetual claims on national incomes, and on components and aggregates of national incomes, concluding that these markets may well dwarf our stock markets in their activity and significance. He also argues for new liquid international markets for residential and commercial property. Establishing such unprecedented new markets presents some important technical problems which Shiller attempts to solve with proposals for implementing futures markets on perpetual claims on incomes, and for the construction of index numbers for cash settlement of risk management contracts. These new markets could fundamentally alter and diminish international economic fluctuations, and reduce the inequality of incomes around the world.

Assembles three different strands of long memory analysis: statistical literature

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on the properties of, and tests for, LRD processes; mathematical literature on the stochastic processes involved; and models from economic theory providing plausible micro foundations for the occurrence of long memory in economics.

Asset Price Dynamics, Volatility, and Prediction Princeton University Press

A comprehensive guide to financial engineering that stresses real-world applications Financial engineering expert Charles S. Tapiero has his finger on the pulse of shifts coming to financial engineering and its applications. With an eye toward the future, he has crafted a comprehensive and accessible book for practitioners and students of Financial Engineering that emphasizes an intuitive approach to financial and quantitative foundations in financial and risk engineering. The book covers the theory from a practitioner perspective and applies it to a variety of real-world problems. Examines the cornerstone of the explosive growth in markets worldwide Presents important financial engineering techniques to price, hedge, and manage risks in general Author heads the largest financial engineering program in the world Author Charles Tapiero wrote the seminal work Risk and Financial Management.

Recent literature shows how the destabilising effect of portfolio insurance activity on the price of the underlying asset depends on the liquidity of the asset market. We build a simple model where market timers shift capital around asset markets

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in order to exploit gains from temporary excess-volatility of asset prices. In this way, market timers increase the liquidity of asset markets reducing the excess volatility, while they increase the cross-market correlation, whereas long-ranged financial contagion eventually occurs. We show how liquidity of asset markets, cross-market correlation and excess volatility of asset prices depend on structural parameters of asset markets.

Gerald P. Dwyer, Jr. and R. W. Hafer The articles and commentaries included in this volume were presented at the Federal Reserve Bank of St. Louis' thirteenth annual economic policy conference, held on October 21-22, 1988. The conference focused on the behavior of asset market prices, a topic of increasing interest to both the popular press and to academic journals as the bull market of the 1980s continued. The events that transpired during October, 1987, both in the United States and abroad, provide an informative setting to test alternative theories. In assembling the papers presented during this conference, we asked the authors to explore the issue of asset pricing and financial market behavior from several vantages. Was the crash evidence of the bursting of a speculative bubble? Do we know enough about the workings of asset markets to hazard an intelligent guess why they dropped so dramatically in such a brief time? Do we know enough to propose regulatory changes that will prevent any such

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occurrence in the future, or do we want to even if we can? We think that the articles and commentaries contained in this volume provide significant insight to inform and to answer such questions. The article by Behzad Diba surveys existing theoretical and empirical research on rational bubbles in asset prices. This book shows how current and recent market prices convey information about the probability distributions that govern future prices. Moving beyond purely theoretical models, Stephen Taylor applies methods supported by empirical research of equity and foreign exchange markets to show how daily and more frequent asset prices, and the prices of option contracts, can be used to construct and assess predictions about future prices, their volatility, and their probability distributions. Stephen Taylor provides a comprehensive introduction to the dynamic behavior of asset prices, relying on finance theory and statistical evidence. He uses stochastic processes to define mathematical models for price dynamics, but with less mathematics than in alternative texts. The key topics covered include random walk tests, trading rules, ARCH models, stochastic volatility models, high-frequency datasets, and the information that option prices imply about volatility and distributions. Asset Price Dynamics, Volatility, and Prediction is ideal for students of economics, finance, and mathematics who are studying financial econometrics, and will enable researchers to identify and apply

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appropriate models and methods. It will likewise be a valuable resource for quantitative analysts, fund managers, risk managers, and investors who seek realistic expectations about future asset prices and the risks to which they are exposed.

The past twenty years have seen an extraordinary growth in the use of quantitative methods in financial markets. Finance professionals now routinely use sophisticated statistical techniques in portfolio management, proprietary trading, risk management, financial consulting, and securities regulation. This graduate-level textbook is intended for PhD students, advanced MBA students, and industry professionals interested in the econometrics of financial modeling. The book covers the entire spectrum of empirical finance, including: the predictability of asset returns, tests of the Random Walk Hypothesis, the microstructure of securities markets, event analysis, the Capital Asset Pricing Model and the Arbitrage Pricing Theory, the term structure of interest rates, dynamic models of economic equilibrium, and nonlinear financial models such as ARCH, neural networks, statistical fractals, and chaos theory. Each chapter develops statistical techniques within the context of a particular financial application. This exciting new text contains a unique and accessible combination of theory and practice, bringing state-of-the-art statistical techniques to the

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forefront of financial applications. Each chapter also includes a discussion of recent empirical evidence, for example, the rejection of the Random Walk Hypothesis, as well as problems designed to help readers incorporate what they have read into their own applications.

The Handbook of Financial Time Series gives an up-to-date overview of the field and covers all relevant topics both from a statistical and an econometrical point of view. There are many fine contributions, and a preamble by Nobel Prize winner Robert F. Engle.

In recent years, Fourier transform methods have emerged as one of the major methodologies for the evaluation of derivative contracts, largely due to the need to strike a balance between the extension of existing pricing models beyond the traditional Black-Scholes setting and a need to evaluate prices consistently with the market quotes. Fourier Transform Methods in Finance is a practical and accessible guide to pricing financial instruments using Fourier transform. Written by an experienced team of practitioners and academics, it covers Fourier pricing methods; the dynamics of asset prices; non stationary market dynamics; arbitrage free pricing; generalized functions and the Fourier transform method. Readers will learn how to: compute the Hilbert transform of the pricing kernel under a Fast Fourier Transform (FFT) technique characterise the price dynamics

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on a market in terms of the characteristic function, allowing for both diffusive processes and jumps apply the concept of characteristic function to non-stationary processes, in particular in the presence of stochastic volatility and more generally time change techniques perform a change of measure on the characteristic function in order to make the price process a martingale recover a general representation of the pricing kernel of the economy in terms of Hilbert transform using the theory of generalised functions apply the pricing formula to the most famous pricing models, with stochastic volatility and jumps. Junior and senior practitioners alike will benefit from this quick reference guide to state of the art models and market calibration techniques. Not only will it enable them to write an algorithm for option pricing using the most advanced models, calibrate a pricing model on options data, and extract the implied probability distribution in market data, they will also understand the most advanced models and techniques and discover how these techniques have been adjusted for applications in finance. ISBN 978-0-470-99400-9

Written in honor of Emeritus Professor Georges Prat (University of Paris Nanterre, France), this book includes contributions from eminent authors on a range of topics that are of interest to researchers and graduates, as well as investors and portfolio managers. The topics discussed include the effects of

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information and transaction costs on informational and allocative market efficiency, bubbles and stock price dynamics, paradox of rational expectations and the principle of limited information, uncertainty and expectation hypotheses, oil price dynamics, and nonlinearity in asset price dynamics.

This is the seventh in a series of annuals from the National Bureau of Economic Research that are designed to stimulate research on problems in applied economics, to bring frontier theoretical developments to a wider audience, and to accelerate the interaction between analytical and empirical research in macroeconomics. Olivier Blanchard and Stanley Fischer are both Professors of Economics at the Massachusetts Institute of Technology. Contents: What Shall We Do Today? Goals and Signposts in the Operation of Monetary Policy, Ben S. Bernanke and Frederic S. Mishkin. A Tale of Two Cities: Factor Accumulation and Technical Change in Hong Kong and Singapore, Alwyn Young. International Trade and the Wage Structure, Steven J. Davis. Imperfect Information and Macroeconomic Analysis, Joseph E. Stiglitz and Bruce Greenwald. Asset Pricing Lessons for Macroeconomics, Lars P. Hansen and John H. Cochrane. Postmortem on the Debt Crisis, Daniel Cohen.

In distilling a vast literature spanning the rational—irrational divide, this paper offers reflections on why asset bubbles continue to threaten economic stability

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despite financial markets becoming more informationally-efficient, more complete, and more heavily influenced by sophisticated (i.e. presumably rational) institutional investors. Candidate explanations for bubble persistence—such as limits to learning, frictional limits to arbitrage, and behavioral errors—seem unsatisfactory as they are inconsistent with the aforementioned trends impacting global capital markets. In lieu of the short-term nature of the asset owner—manager relationship, and the momentum bias inherent in financial benchmarks, I argue that the business risk of asset managers acts as strong motivation for institutional herding and ‘rational bubble-riding.’ Two key policy implications follow. First, procyclicality could intensify as institutional assets under management continue to grow. Second, remedial policies should extend beyond the standard suite of macroprudential and monetary measures to include time-invariant policies targeted at the cause (not just symptom) of the problem. Prominent among these should be reforms addressing principal-agent contract design and the implementation of financial benchmarks. Commodities have become an important component of many investors' portfolios and the focus of much political controversy over the past decade. This book utilizes structural models to provide a better understanding of how commodities' prices behave and what drives them. It exploits differences across commodities

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and examines a variety of predictions of the models to identify where they work and where they fail. The findings of the analysis are useful to scholars, traders and policy makers who want to better understand often puzzling - and extreme - movements in the prices of commodities from aluminium to oil to soybeans to zinc.

This book contains several innovative models for the prices of financial assets. First published in 1986, it is a classic text in the area of financial econometrics. It presents ARCH and stochastic volatility models that are often used and cited in academic research and are applied by quantitative analysts in many banks. Another often-cited contribution of the first edition is the documentation of statistical characteristics of financial returns, which are referred to as stylized facts. This second edition takes into account the remarkable progress made by empirical researchers during the past two decades from 1986 to 2006. In the new Preface, the author summarizes this progress in two key areas: firstly, measuring, modelling and forecasting volatility; and secondly, detecting and exploiting price trends. Sample Chapter(s). Chapter 1: Introduction (1,134 KB). Contents: Features of Financial Returns; Modelling Price Volatility; Forecasting Standard Deviations; The Accuracy of Autocorrelation Estimates; Testing the Random Walk Hypothesis; Forecasting Trends in Prices; Evidence Against the

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Efficiency of Futures Markets; Valuing Options; Appendix: A Computer Program for Modelling Financial Time Series. Readership: Academic researchers in finance & economics; quantitative analysts.

Stephen Taylor applies methods supported by research of equity and foreign exchange markets to demonstrate how daily and more frequent asset prices, and the prices of option contracts, can be used to construct and assess predictions about future prices, their volatility and their probability distributions.

Stochastic processes and diffusion theory are the mathematical underpinnings of many scientific disciplines, including statistical physics, physical chemistry, molecular biophysics, communications theory and many more. Many books, reviews and research articles have been published on this topic, from the purely mathematical to the most practical. This book offers an analytical approach to stochastic processes that are most common in the physical and life sciences, as well as in optimal control and in the theory of filtering of signals from noisy measurements. Its aim is to make probability theory in function space readily accessible to scientists trained in the traditional methods of applied mathematics, such as integral, ordinary, and partial differential equations and asymptotic methods, rather than in probability and measure theory.

This book is aimed at experienced practitioners in the corporate bond markets and is a specialised text for investors and traders. The author relates from both personal experience as well as his own research to bring together subjects of practical

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importance to bond market practitioners. He introduces the latest techniques used for analysis and interpretation, including: Relative value trading Approaches to trading and hedging Dynamic analysis of spot and forward rates Interest rate modelling Fitting the yield curve Analysing the long bond yield Index-linked bond analytics Corporate bond defaults * Aspects of advanced analysis for experienced bond market practitioners * Complex topics described in an accessible style * Brings together a wide range of topics in one volume

The scope of this volume is primarily to analyze from different methodological perspectives similar valuation and optimization problems arising in financial applications, aimed at facilitating a theoretical and computational integration between methods largely regarded as alternatives. Increasingly in recent years, financial management problems such as strategic asset allocation, asset-liability management, as well as asset pricing problems, have been presented in the literature adopting formulation and solution approaches rooted in stochastic programming, robust optimization, stochastic dynamic programming (including approximate SDP) methods, as well as policy rule optimization, heuristic approaches and others. The aim of the volume is to facilitate the comprehension of the modeling and methodological potentials of those methods, thus their common assumptions and peculiarities, relying on similar financial problems. The volume will address different valuation problems common in finance related to: asset pricing, optimal portfolio management, risk measurement, risk

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control and asset-liability management. The volume features chapters of theoretical and practical relevance clarifying recent advances in the associated applied field from different standpoints, relying on similar valuation problems and, as mentioned, facilitating a mutual and beneficial methodological and theoretical knowledge transfer. The distinctive aspects of the volume can be summarized as follows: Strong benchmarking philosophy, with contributors explicitly asked to underline current limits and desirable developments in their areas. Theoretical contributions, aimed at advancing the state-of-the-art in the given domain with a clear potential for applications. The inclusion of an algorithmic-computational discussion of issues arising on similar valuation problems across different methods. Variety of applications: rarely is it possible within a single volume to consider and analyze different, and possibly competing, alternative optimization techniques applied to well-identified financial valuation problems. Clear definition of the current state-of-the-art in each methodological and applied area to facilitate future research directions.

This book provides an analysis, under both discrete-time and continuous-time frameworks, on the price dynamics of leveraged exchange-traded funds (LETFs), with emphasis on the roles of leverage ratio, realized volatility, investment horizon, and tracking errors. This study provides new insights on the risks associated with LETFs. It also leads to the discussion of new risk management concepts, such as admissible leverage ratios and admissible risk horizon, as well as the mathematical and empirical

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analyses of several trading strategies, including static portfolios, pairs trading, and stop-loss strategies involving ETFs and LETFs. The final part of the book addresses the pricing of options written on LETFs. Since different LETFs are designed to track the same reference index, these funds and their associated options share very similar sources of randomness. The authors provide a no-arbitrage pricing approach that consistently value options on LETFs with different leverage ratios with stochastic volatility and jumps in the reference index. Their results are useful for market making of these options, and for identifying price discrepancies across the LETF options markets. As the market of leveraged exchange-traded products become a sizeable connected part of the financial market, it is crucial to better understand its feedback effect and broader market impact. This is important not only for individual and institutional investors, but also for regulators.

This book focuses on extending the models and theories (from a mathematical/statistical point of view) which were introduced in the first volume to a more technical level. Where volume I provided an introduction to the mathematics of bubbles and contagion, volume II digs far more deeply and widely into the modeling aspects.

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