The Newsletter of the EURO Working Group on Financial Modelling

NEWSFLOW

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NEWSFLOW

Editor

Hélène Molenaar
Erasmus University Rotterdam
Department of Finance, Room H14-01
P.O. Box 1738
3000 DR Rotterdam
The Netherlands

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Subscription is free for members of the EURO Working Group on Financial Modelling. See last page for information on membership.

Invitation to readers

Readers are invited to actively contribute to the newsletter. Examples are book reviews, announcements, opinions, lists of published papers, etc.

You can also find information about the Euro Working Group on the internet site
http://www2.eur.nl/topics/finance//ewgfm/ewgfm.htm

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Editorial

Best time for London! The Euro Working Group on Financial Modelling (EWGFM) is meeting in London 4-6 September this year. This is the 43rd meeting of the group. While we are going through a worldwide credit crunch our working group is meeting in London, one of the financial centres of the world. Cass Business School is hosting the meeting. We are at the financial centre of London, called "City".

Welcome to the "intellectual hub of the city". London Stock Exchange and Bank of England are all at walking distance. So are the offices of many Banks and Investment Banks as well as international financial institutions. You can see them all as you are strolling around.

Our keynote speakers are Professors Elroy Dimson and Betty Simkins. Their key note addresses are very timely. Elroy will ask contemporary questions in the light of long term evidence for more than a century of global markets and a wide range of asset classes. Betty will ask what is wrong with corporate risk management and will discuss its implications for research in finance.

We have about 60 presentations from authors from all around Europe and the world. Topics cover corporate finance, asset management, international finance, behavioural finance, financial modelling, portfolio management, derivatives and energy. I hope you enjoy them.

I hope the weather is good and some really nice summer sales are still on while you are here.

Looking forward to seeing you all in London,

Gulnur Muradoglu

Call for papers EJOR

Thus far, the European Journal of Operational Research has published a number of special issues on Financial Modelling:
Issue 74/2, edited by T. Martikainen, I. Virtanen and P. Yli-Olli;
Issue 91/2, edited by E. Castagnoli and J. Spronk. In 1998, the European Journal of Operational Research together with the EURO Working Group on Financial Modelling decided to start a more regular series of feature issues.

A feature issue on financial modelling is an issue of EJOR partly or wholly devoted to financial modelling. The intended frequency of these feature issues on financial modelling is once or twice per year.

Papers on financial modelling are solicited that help to solve financial-economic decision problems in practice. Papers may relate to new insights, both theoretical and empirical, into the environment in which decision makers operate new tools available to the decision makers and to the integration of these tools within frameworks for financial-economic decision-making. Papers that stimulate and strengthen the interaction between financial economic theory and the practice of financial decision-making will be especially welcome.

The first feature issue was published as Issue Volume 114, Number 2, April 16, 1999, and edited by J. Spronk. A stream of issues followed this; some of which have been published and the others will follow soon.

Authors who want to submit to the upcoming feature issue are kindly invited to submit four copies of their paper to the Guest Editor Financial Modelling:

Nico van der Wijst
The Norwegian University of Science & Techn.
Dept. of Managerial Economics &
Techn. Management
Alfred Getz vei 1
N-7034 Trondheim
NORWAY
Tel. + 47.73.597712
Fax + 47.73.593603
E-mail: Wijst@iot.ntnu.no

With respect to format and other requirements of submitted work, the authors are kindly referred to the Instructions to Authors, which can be found in every issue of EJOR. For the feature papers there is a separate board of editors, consisting of

Wolfgang Bühler, University of Mannheim, Germany

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Announcement

Interesting possibilities to publish your papers electronically, without losing your rights to submit these papers to journals:

www.ssrn.com

and

www.finance-research.net

London (UK)
4-6 September 2008

Website meeting:

http://www.cass.city.ac.uk/ewgfm43/

Information

This meeting is organized by

This meeting will be organized by Gulnur Muradoglu
G.Muradoglu@city.ac.uk

Next meeting(s)

The 44th meeting will be held in Costa Rica, from

4-6 May 2009

The EWGFM welcomes participants to the 44th Euro Working Group on Financial Modelling meeting, to be held on May 4th-6th 2009 in San Jose, Costa Rica. The conference will be hosted by University of Costa Rica (UCR) and Universidad Popular Autonoma del Estado de Puebla (UPAEP). Costa Rica is a friendly, peaceful, and beautiful country, located in Central America. It is internationally known for its natural diversity; nowadays Costa Rica is one of the top touristic destinations in the world. We have organized a meeting involving a combination of high quality academic and touristic events. We are looking forward to seeing you in May!
Juan Rafael Vargas,Karen Watkins, Yanira Xirinachs, José Zaglul
(chairs)

More information about the Costa Rica Meeting can be found on the website:

http://www2.eur.nl/topics/finance/ewgfm/meetings.htm

2009
The Autumn 2009 meeting will be organized in *Greece*.

For more information about organizing a meeting, please contact Jaap Spronk (spronk@few.eur.nl) or Hélène Molenaar (molenaar@few.eur.nl)

Working Papers

ERIM

You can find publications of the Erasmus Research Institute of Management (ERIM) on the following website:

http://www.erim.eur.nl/ERIM

ECFR

From the *Erasmus Center for Financial Research* (ECFR), Erasmus University Rotterdam, Room H11-01, P.O. Box 1738, 3000 DR Rotterdam, The Netherlands, some papers can be ordered:

For more information:

http://www.ecfr.nl

TINBERGEN INSTITUTE

For more information:

http://www.tinbergen.nl/

Please add other relevant sites if you want!

Call for Papers

The call for papers for the EURO Excellence in Practice Award 2009 can be found on the website:

http://www2.eur.nl/topics/finance/ewgfm/ewgfm.htm

EUROPT-2008

REPORT

Of the International Conference and EURO Mini Conference "Continuous Optimization and Knowledge Based Technologies" (EUROPT-2008)

May 20-23, 2008, Neringa, Lithuania

The International Conference and EURO Mini Conference "Continuous Optimization and Knowledge Based Technologies (EUROPT-2008)" was held in Neringa, Lithuania, May 20-23, 2008, http://www.mii.lt/EUROPT-2008.

The organizing institutions of the EUROPT-2008 are
- European Association of Operational Research Societies (EURO),
- EURO Working Group on Continuous Optimization (EUROPT),
- Institute of Mathematics and Informatics, Vilnius, Lithuania,
- Lithuanian Operational Research Society (LitORS),
- Germany OR Society (GOR),
- Vilnius Gediminas Technical University, Vilnius, Lithuania,

in cooperation with
- European Chapter on Metaheuristics (EUME);
- European Chapter on Combinatorial Optimization (ECCO);
- European Working Group on Financial MOdelling;
- IBM Europe (Zurich),
- Institute of Applied Mathematics, METU, Ankara, Turkey.

The conference EUROPT-2008 was supported by
-European Association of Operational Research Societies (EURO),
- EURO Working Group on Continuous Optimization (EUROPT WG),
- Germany OR Society (GOR),
- IBM Europe (Zurich),
- European Office of Aerospace Research & Development (EOARD),
- Society for Industrial and Applied Mathematics (SIAM),
- Ministry of Education and Science of the Republic of Lithuania.

The Conference was organized by the Organizing Committee, chaired by Professor Leonidas Sakalauskas from the Institute of Mathematics and Informatics, Vilnius, Lithuania, and co-chaired by

Professor Gerhard Wilhelm Weber from the Middle EAST University, Ankara, Turkey. The scientific programme of the conference has been created as well as papers to publish in ISI Proceedings and special issues of top-rating journals have been selected by the International Programme Committee, chaired by Professor Tamas Terlaky from the McMaster University, Hamilton, Canada, and co-chaired by Professor Boris T. Polyak from the Institute of Control Problems, Moscow, Russia.

The EUROPT-2008 has provided a forum for multidisciplinary communication of recent works on continuous optimization and knowledge based technologies, in which many newcomers were introduced on the international stage, renowned experts honoured, new research projects were started, friendship between participants was initialized and intensified as well as friendship between nations deepened.

The Programme Committee accepted 166 abstracts for publishing in the Volume of Abstracts from those submitted by more than 200 authors from 28 countries. 123 participants from 24 countries (Australia, Brazil, Belgium, Czech, Estonia, Finland, France, Germany, Hungary, Israel, Italy, Korea, Latvia, Lithuania, Netherlands, Norway, Poland, Portugal, Romania, Russia, Turkey, Ukraine, United Kingdom, United States) attended the Conference communicating with 7 invited lectures, 1 EUROPT invited lecture, and 112 contributed presentations in 28 parallel contributed sessions.

The invited lectures have been delivered by well-known scientists who put the special emphasis on those areas that mostly contribute to the appreciation of the state-of-the-art of continuous optimization and knowledge-based technologies, that became important tutorials for many young promising researchers, who took an active part in the conference. The folowing invited lectures have been delivered:

"PAC-Bayes theory of Generalisation" by Prof. John Shawe-Taylor (University College London, UK),

"Machine Learning with Bregman Divergence" by Prof. Inderjit Dhillon (University of Texas at Austin, USA),

"A tale of two debt crises: stochastic optimal control analysis" by Prof. Jerome Stein (Brown University, USA),

"OR in RNA structure analysis" by Dr Marta Szachniuk and Prof. Jacek Blazewicz (Poznan University of Technology, Poland),

"Optimization and knowledge-based technologies in Electricity Markets" by Prof. Yves Smeers (Catholique University of Louvain, Louvain-la-Neuve, Belgium) ,

"Discrete nonlinear optimization in a conic programming framework" by Prof. Mirjam Dür (Darmstadt University of Techology, Germany),

"Multi-Objective Optimization and Multi-Criteria Decision Making" by Prof. Kaisa Miettinen (University of Jyvaskyla, Finland).

The EUROPT invited lecture "Computing safe dike heights at minimal costs" has been also delivered by Prof. Kees Roos from the Delft University, Netherlands, who was nominated as EUROPT Fellow in 2008.

Dissemination of knowledge discovered in EUROPT-2008 is a very important task. The Programme Committee selected 84 papers from those 113 submitted for publishing in the Volume of ISI Proceedings, which have been delivered during the Conference. The organizers of the Conference are planning to prepare special issues of selected EUROPT-2008 papers to be published in the top-rating journals "Informatica", "TOP (An Official Journal of the Spanish Society of Statistics and Operations Research)", "Technological and economic development of economy".

Sincerely yours,

Prof. Leonidas Sakalauskas
Vice-President of the Lithuanian Operational Research Society
Chairman of EUROPT-2008

Institute of Mathematics and Informatics
Akademijos st 4
Vilnius 2600
Lithuania
Fax: (3705) 2729209
Tel.: (3705) 2109323
E-mail: sakal@ktl.mii.lt, europt2008@ktl.mii.lt

EURO Management Science Strategic Innovation Price (MSSIP 2009)

EURO Management Science Strategic Innovation Prize (MSSIP) 2009 on the topic of Disruption Management and Robustness in Decision Making

The MSSIP Prize is awarded for an outstanding innovative contribution to Management Science/OR each year when a EURO Conference takes place. This time the subject is **Disruption Management and Robustness in Decision Making** and the prize will be awarded at the EURO 2009 Conference taking place in Bonn (Germany). The submitted work should consist of a recent paper in which a theoretical result or a practical implementation is explained. The prize is sponsored by SAP AG (12000 Euro). Submissions in electronic form should be sent before 1 January 2009 to the Jury Chair, Professor Jens Clausen: jc@imm.dtu.dk and jenclausen@s-tog.dsb.dk

Call for Applications

The prize is intended to recognize the role of Operational Research/Management Science in the context of real-life operations, where existing plans are no longer valid due to minor or major events causing disruptions. Application areas are e.g. transportation (air, rail, or road), telecommunication, and production in general.

Optimization methods currently find its way into an increasing number of industrial sectors, both for larger and companies and small and medium enterprises. At the same time more advanced methods have found their way from academia into classical applications areas, for example in planning in the airline industry. The developments within linear programming and integer programming have made it possible in many cases to solve very large and complex problems not only to near-optimality but to optimality. Furthermore, for problems that are not solved using exact methods the developments within heuristics and metaheuristics have lead to a steady improvement in solution quality and running time.

The enhanced planning methods are sometimes enabling companies to produce plans that are "too good". In planning of schedules for cabin crew in the airlines the utilization of spare time between flights is now so good that there are hardly any buffers left in the plan for absorbing disruptions. The consequence is that operating according to plans, which are optimal in the absence of disturbances, may be considerably more costly than operating according to more robust plans or according to plans, in which disruptions are more easily recovered.

As a consequence, two novel (complementary) lines of research within the Operations Research community have been initiated:

Disruption management: Optimization is used to plan for an optimal or near-optimal return to plan/schedule after a disruption. Disruption management is characterised by time-critical applications and often the complex interaction of several resources. Most existing literature on disruption management are related to airline optimization problems, however results are currently also emerging on rail and road transport applications. A few results exists in production planning and project scheduling.

Robustnes in decision making: It is usually recognised that events of stochastic nature outside the control of a company might influence the planned schedule of operations. The aim is hence often that plans for the operations as a minimum premium incorporate buffers and other characteristics so that the plan remains feasible after a disruption or at least easier to recover. As expected, this leads to a trade-off between robustness and cost of a plan. An important issue here is to define what a robust plan is. Results are few and again mostly based on work on airline optimization problems.

The submission should be a single or jointly authored unpublished paper describing either a successful application of known OR/MS methodologies to a real problem in the broadly defined area of Disruption Management and Robustness in Decision Making or novel methodologies that have been developed in order to solve relevant problems in this area.

I**nnovative and strategically relevant approaches and results will be privileged given the nature of the prize.**

The paper is to be submitted in electronic form to the chair of the jury, no later than January 1, 2009.

Jens Clausen.
Professor of Operations Research and Chief Analyst.
Technical University of Denmark and DSB S-tog a/s
jc@imm.dtu.dk and jenclausen@s-tog.dsb.dk

EURO Working Group on Financial Modelling

The EURO Working Group on Financial Modelling was founded in September 1986 in Lisbon. The primary field of interest for the Working Group can be described as "financial models that help to solve problems faced by financial decision makers in the firm, intermediaries and the investment community. From this the following objectives of the Working Group are distinguished:

- providing an international forum for exchange of information and experience on financial modelling;
- encouraging research in financial modelling (new techniques, methodologies, empirical studies, software, etc.);
- stimulating and strengthening the interaction between financial economic theory and the practice of financial decision making;
- cooperating and exchanging information with other universities and financial institutions throughout Europe.

It can be stated safely that the Working Group has become an established one. To give an idea: over 400 members, 41 international meetings and an own newsletter (*NEWSFLOW*) are three examples of the success until now.

Meetings
The meetings of the Working Group are organized twice a year, in April/May and in October/November. Earlier meetings were held in Belgium, Curaçao, Cyprus, Finland, France, Hungary, Italy, Lithuania, the Netherlands, United Kingdom, Germany, Greece, Croatia, Poland and Spain. There are now members in 34 countries spread over 4 continents. The meetings are attended by 80-100 members on average, most of them scientists but also representatives from the financial institutions, and are usually organized on Thursday, Friday and Saturday morning. The organizers are expected to schedule three types of sessions: a round table session with invited speaker(s), regular sessions with the presentation of refereed papers and balloon sessions in which unrefereed papers, new topics and 'loose' ideas can be discussed.

Newsletter
NEWSFLOW, the newsletter of the Working Group is published twice a year, about one month before each meeting. Newsflow is also published on the Internet site
http://www2.eur.nl/topics/finance//ewgfm/ewgfm.htm
It contains general information about the Working Group and the next meeting(s), letters from readers, announcements of financial seminars, calls for papers, a list of working papers, etc. For information about *NEWSFLOW* or for publication of your contributions please contact the editor: Hélène Molenaar, address below.

Membership
For information about membership of the EURO Working Group on Financial Modelling, you may write to:

Hélène Molenaar
Erasmus University Rotterdam
Finance Group, Room H14-01
P.O. Box 1738
3000 DR Rotterdam
The Netherlands
Phone: +31.10.4081282
Fax: +31.10.4089165
E-mail: molenaar@few.eur.nl