
The Newsletter of the EURO Working Group on Financial Modelling

NEWSFLOW

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NEWSFLOW

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Subscription is free for members of the EURO Working Group on Financial Modelling. See back cover 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.

NEW!!!!

You can now find information about the Euro Working Group on the internet.
See the site www.finance-on-eur.nl and select 'Research'.

NEWSFLOW is published twice a year (March and October) by the EURO Working Group on Financial Modelling under a grant from the Erasmus University Rotterdam. Circulation: over 400 to 38 countries.

Editorial

Bulbs and bubbles

After deciding for the Netherlands as the place for this autumn's EWGFM meeting, the next choice was Haarlem as the meeting's venue. As you can find through the meeting's website

<http://www.eur.nl/topics/finance/ewgfm/>

Haarlem is an attractive small town, close to Amsterdam, the sea, the flower auction in Aalsmeer and much more. It is well-connected by train, car, boat and bike and Amsterdam airport is one taxi- or busride away. But there are other reasons for choosing Haarlem. It was one of the Dutch cities that started to prosper in the late 16th and early 17th century, stimulated by the expertise and wealth of the Flemish refugees that came to Holland (In Haarlem you can find many signs of the Flemish part of its history).

This period of prosperity has brought many financial innovations. Among others, the first incorporated firm with publicly traded shares was created here. The first exchanges originated in Belgium and were further developed in the Netherlands. Activity was large and supported the unprecedented growth of the country. But it is also the place of one of the best known bubbles in financial history: the Tulipomania. The tulip bulbs that are still grown in the Haarlem area were sold at sky rocketing future prices. I believe that was the moment when the word 'bulb' was transformed in the word 'bubble'. The difference is that bulbs 'give rise to blossoming flowers', whereas 'bubbles' have a strong tendency to implode. The latter happened also with the tulip prices.

Given the choice for Haarlem, the choice of Teyler's Museum as the venue for our meeting was not difficult. On the Museum's website we can read that

...The Museum was named after Pieter Teyler van der Hulst (1702-1778), a wealthy Haarlem cloth merchant and *financier*. A typical representative of the Enlightenment, Teyler shared its conviction that *knowledge enriches humanity*.Teyler van der Hulst stipulated in his will that his capital should be placed in a foundation under the management of five Directors, and that it should be used to *stimulate*, amongst other things, *the arts and sciences*. After Teyler's death in 1778, two Learned Societies were created, and the first public museum in the Netherlands was built. It is thanks to Pieter Teyler that we can still have access to the arts and sciences of past centuries.

I hope that many of our *NEWSFLOW's* readers will attend this meeting: you are all very welcome!

Jaap Spronk

Call for papers EJOR

Thusfar, 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. This was followed by a stream of issues, 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:

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With respect to format and other requirements of submitted work, the authors are kindly referred to the Instructions to Authors, that 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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HERMES Center of Excellence on Computational Finance & Economics

The HERMES Center on Computational Finance and Economics at the University of Cyprus has been selected by the European Commission as a European Center of Excellence in 2000. The Center faculty, graduate students, and visitors pursue a broad research agenda that focuses on optimal financial decision making from both the supply side (financial institutions) and the demand side (households and institutional investors). Emphasis is placed on the challenges created for both sides by the globalization and innovations of the financial markets, especially for the economies of pre-accession States as they move towards harmonization with European Union.

The work of the Center is divided in five major areas. The first deals with enterprise wide risk management and the development of both innovative methodologies and decision support tools. The second deals with the saving and borrowing behavior of households and their portfolio choices. The third deals with empirical studies of capital markets and the information they reveal for the prediction of bankruptcy events and the management of credit risk. The fourth deals with real options, their valuation, and their use in coping with an uncertain world. The fifth deals with issues surrounding the performance of financial institutions in delivering quality services.

Data-driven theoretical modeling, empirical analysis, and the use of computations are the cornerstones of the disciplinary approaches of the Center's activity, that brings together researchers from finance, economics, accounting, management sciences, mathematics and computer science. Research is basic, yet relevant to this important sector of economic activity.

The Center fosters a community of scholars, practitioners, and graduate students whose interests support the mission of the Center. Close collaboration with industry ensures that the Center's research remains not only cutting-edge in pursuit of academic excellence, but is also relevant to financial institutions, in their quest for competitive excellence. If you would like to know more about the Center or join in its activities please let us know of your interest and visit our Web site at <http://www.hermes.ucy.ac.cy/>



Stavros A. Zenios

Director

POST DOCTORAL RESEARCHER in Risk Management

The *HERMES Center on Computational Finance and Economics* seeks qualified applicants for Post Doctoral researchers and Research Assistants.

About the Center

The HERMES Center on Computational Finance and Economics at the University of Cyprus was selected as a European Center of Excellence in 2001. It is currently expanding its research staff with Postdoctoral Researchers and Doctoral students. The Center operates jointly with Algorithmic Inc. of Toronto the RiskLab (Cyprus) with regional coverage in Greece, Central Europe and Russia. The Center permanent staff are internationally visible faculty of the Departments of Business Administration and Economics. Several visitors from leading North American and European Universities enhance the intellectual environment of the Center. A major international Conference and several workshops are hosted each year with EU funding.

Job Description

The successful applicant will work on the development of state-of-the-art risk management models and their deployment on the World Wide Web, in collaboration with faculty of the Center, faculty from the University of Copenhagen and the Wharton School, and research staff of Algorithmics Inc.

Qualifications

Applicants should hold a Ph.D. in Finance, Operations Research, Mathematics or Statistics, Computer Science, Electrical Engineering, Economics or Econometrics. Holders of M.Sc. degrees will be considered as Research Assistants and they can also enroll on the Department's PhD program.

The contract period is initially for two years. Applicants should submit CV and the names of three referees (preferably academics). The salary is 2,000EUR per month or higher, based on experience.

Applications should reach:

University of Cyprus Administration Offices
Doryforos Building, Block C, 1st floor
9-11, Larnacos Avenue
CY-2101 Nicosia

by the **1st of October 2001**.

Applications by email at hermes@ucy.ac.cy marked "Postdoctoral Fellow" or "Research Assistant"

For more information, please contact the HERMES Secretariat (tel.: +357-2-892424, e-mail: hermes@ucy.ac.cy, <http://www.hermes.ucy.ac.cy>).

WORKING PAPER SERIES

HERMES Center of Excellence
on Computational Finance & Economics
University of Cyprus

Preprints of these working papers can be downloaded from www.hermes.ucy.ac.cy or obtained by sending an e-mail to hermes@ucy.ac.cy

Working Paper 01-01
STOCHASTIC PROGRAMMING MODELS FOR ASSET AND LIABILITY MANAGEMENT
Roy Kouwenberg and Stavros A. Zenios

Working Paper 01-02
THE VALUE OF INTEGRATIVE RISK MANAGEMENT FOR INSURANCE PRODUCTS WITH GUARANTEES
Andrea Consiglio, Flavio Cocco and Stavros A. Zenios

Working Paper 01-03
EXTENDING CREDIT RISK (PRICING) MODELS FOR THE SIMULATION OF PORTFOLIOS OF INTEREST RATE AND CREDIT RISK SENSITIVE SECURITIES
Norbert Jobst and Stavros A. Zenios

Working Paper 01-04
TRACKING CORPORATE BOND INDICES IN AN INTEGRATED MARKET AND CREDIT RISK ENVIRONMENT
Norbert Jobst and Stavros A. Zenios

Working Paper 01-05
THE TAIL THAT WAGS THE DOG: INTEGRATING CREDIT RISK IN ASSET PORTFOLIOS
Norbert Jobst and Stavros A. Zenios

Working Paper 01-06
PARALLELIZATION, OPTIMIZATION, AND PERFORMANCE ANALYSIS OF PORTFOLIO CHOICE MODELS
Ahmed Abdelkhalek, Angelos Bilas, and Alexander Michaelides

Working Paper 01-07
REAL R&D OPTIONS WITH ENDOGENOUS AND EXOGENOUS LEARNING
Spiros H. Martzoukos

Working Paper 01-08
PORTFOLIO CHOICE AND LIQUIDITY CONSTRAINTS
Michael Haliassos and Alexander Michaelides
(Also published as CEPR Discussion Paper No. 2822)

Working Paper 01-09
PORTFOLIO CHOICE, LIQUIDITY CONSTRAINTS AND STOCK MARKET MEAN REVERSION
Alexander Michaelides
(Also published as CEPR Discussion Paper No. 2823)

Working Paper 01-10
BORROWING CONSTRAINTS, PORTFOLIO CHOICE, AND PRECAUTIONARY MOTIVES
Michael Haliassos and Christis Hassapis

Working Paper 01-11
DEBT REVOLVERS FOR SELF CONTROL
Carol C. Bertaut and Michael Haliassos

Working Paper 01-12
EQUITY CULTURE AND HOUSEHOLD BEHAVIOR
Michael Haliassos and Christis Hassapis

Working Paper 01-13
SCENARIO OPTIMIZATION ASSET AND LIABILITY MODELING FOR ENDOWMENTS WITH GUARANTEES
Andrea Consiglio, Flavio Cocco and Stavros A. Zenios
(Also published as WFIC Working Paper 00-41-B)

Working Paper 01-14
RESOLVING A REAL OPTIONS PARADOX WITH INCOMPLETE INFORMATION: AFTER ALL, WHY LEARN?
Spiros H. Martzoukos and Lenos Trigeorgis

Working Paper 01-15
REAL OPTIONS WITH INCOMPLETE INFORMATION AND MULTI-DIMENSIONAL RANDOM CONTROLS
Spiros H. Martzoukos

Working Paper 01-16
HOUSEHOLD PORTFOLIOS: AN INTERNATIONAL COMPARISON
Luigi Guiso, Michael Haliassos and Tullio Jappelli

Working Paper 01-17
CALIBRATION AND COMPUTATION OF HOUSEHOLD PORTFOLIO MODELS
Michael Haliassos and Alexander Michaelides

Working Paper 01-18
ENTERPRISE-WIDE ASSET AND LIABILITY MANAGEMENT: ISSUES, INSTITUTIONS, AND MODELS
Dan Rosen and Stavros A. Zenios

29th EWG Meeting

The 30th meeting will be held in Capri, from 2-5 May, 2002.

This meeting will a.o. be organized by:

Rita d'Ecclesia

For further information please contact the organizing committee at:

Email: info@ewgfm.org

More information about this meeting can be found on the internetsite:

<http://www.ewgfm.org/>

Haarlem 15-17 November 2001

Program

The Program of this meeting and other information can be found on the internetsite:

<http://www.eur.nl/topics/finance/ewgfm/>

Information

This meeting is organized by:

Jaap Spronk

For further information please contact him at:

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More information about this meeting can be found on the internetsite

<http://www.eur.nl/topics/finance/ewgfm/>

Next meeting(s)

The Autumn 2002 meeting will be organized in Cyprus.

The Spring 2003 meeting will be organized in Sheffield, U.K., by Chris Adcock.

Offers to organise one of the future meetings are welcome.

Working Papers

From the *Rotterdam Institute for Business Economic Studies* (RIBES), Erasmus University Rotterdam, Room H15-28, P.O. Box 1738, 3000 DR Rotterdam, The Netherlands, the following papers can be ordered:

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|---|--|
| <p>9401/F Hallerbach, W.G., Duration and bond return approximation, The quaso-convexity effect, January 1994.</p> <p>9405/F Smit, J.T.J., The flexibility value of strategic investments under competition, March 1994.</p> <p>9414/F Spronk, Jaap and Erik M. Vermeulen, Interfirm performance evaluation under uncertainty: A multi-dimensional framework, September 1994.</p> <p>9422/F Brouwer, Frank, Paul C. van Aalst and Nico L. van der Sar, Investment risk and risk management revisited, November 1994.</p> <p>9426/F Hallerbach, Winfried G., A simple approximation to the normal distribution function with an application to the Black & Scholes option pricing model, December 1994.</p> <p>9502/F Higson, Chris and Jamie Elliott, Post-takeovers returns - The UK evidence, March 1995.</p> <p>9503/F Groenendijk, A.A. and E.E. Hagen, Solving the capital structure puzzle: The government as a stakeholder in the firm, March 1995.</p> <p>9504/F Vermeulen, Erik M., Jaap Spronk and Nico van der Wijst, Analysing risk and performance using the multi-factor concept, april 1995.</p> <p>9505/F Vermeulen, Erik M., Jaap Spronk and Nico van der Wijst, A Framework for conditional failure prediction, April 1995.</p> <p>9508/F Brännback, M. and J. Spronk, A multidimensional framework for strategic decisions, June 1995</p> <p>9509/F Hallerbach, W.G. and J.Spronk, Portfolio management for the non-average investor, June 1995.</p> <p>9520/F Soppe A., De duurzaamheid van het internationale geld en bankstelsel: Een ethische beschouwing, September 1995.</p> <p>9526/F Groenendijk, A.A., Investeren, kasstroomprojectie en ondernemingswaarde, December 1995.</p> <p>9606/F Greco S, The splitting property of fuzzy financial laws, September 1996.</p> <p>9612/F Post, T. and J. Spronk, Interactive data envelopment analysis, September 1996.</p> | <p>9615/O/F Bruining, J., A.C.C. Herst and D. Citron, Loan covenant relationship banking and MBO's in default: a comparative study of the UK and Holland.</p> <p>9616/F Soppe, A.B.M., De rol van rente, geld en vermogen in het wereld economisch proces: een ethische beschouwing.</p> <p>9707/F Post, Th. and J. Spronk, Bank performance bench-marking in stochastic environments using log-linear mean-variance data envelopment analysis.</p> <p>9711/F Groenendijk, A.A. and J. Spronk, Portfolio performance through the eyes of monkeys.</p> <p>9713/F Spronk, J. and E.M. Vermeulen, Interfirm performance evaluation under uncertainty.</p> <p>9719/F Meulen, J. van der and J. van der Voort, Er valt wat te zeggen voor passief beleggen.</p> <p>9721 Post, G.T., Transconcave Data Envelopment Analysis</p> <p>9822 Kouwenberg, R., Dynamic Portfolio Insurance: A Stochastic Programming Approach</p> <p>9824 Soppe, A., Capital, Interest and Ethics: Some Empirical Explorations of an Ethical Approach of economic growth</p> <p>9847 Post, G.T., Estimating non-convex production sets using transconcave DEA</p> <p>9905 Post, G.T., Nonparametric efficiency estimation in stochastic environments</p> <p>9911 Kuosmanen, T. and G.T. Post, Robust Efficiency Measurement. Dealing with outliers in Data Envelopment Analysis</p> <p>9913 Hallerbach, W.G. and J. Spronk, A Multicriteria Framework for Risk Analysis</p> <p>9922 Spronk, J. and W.G. Hallerbach, Het "redelijk rendement" voor ondernemingsactiviteiten vanuit financieel-economisch perspectief</p> <p>9933 Post, G.T. and J. Spronk, Evaluating productive performance under uncertainty</p> <p>9934 Kuosmanen, T. and G.T. Post, Measuring economic efficiency with incomplete price information.</p> |
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| 9801 | Roy Kouwenberg, A stochastic programming model for asset liability management for pension funds. | 9903 | Philip Hans Franses and Patrick J.F. Groenen, Visualizing time-varying correlations across stock markets. |
| 9802 | Dick van Dijk, Philip Hans Franses and André Lucas, Short patches of outliers, ARCH and volatility modeling. | 9904 | Pauline Bod, David Blitz, Philip Hans Franses and Roy Kluitman, An unbiased variance estimator for overlapping returns. |
| 9803 | Philip Hans Franses and Richard Paap, Modeling day-of-the-week seasonality in the S&P 500 index. | 9905 | Martin Martens and Ser-Huang Poon, Correlation dynamics between international stock markets using synchronous data. |
| 9804 | Jenke ter Horst, Theo Nijman and Frans de Roon, Style analysis and performance evaluation of Dutch mutual funds. | 9906 | Jaap Hoek, Patrick Houweling and Frank Kleiberger, The joint estimation of term structures and credit spreads. |
| 9805 | Jenke ter Horst, Theo Nijman and Frans de Roon, Performance analysis of international mutual funds incorporating market frictions. | 9907 | Winfried Hallerbach and Bert Menkveld, Value at risk as a diagnostic tool for corporates: the airline industry. |
| 9806 | Monique Donders, Roy Kouwenberg and Ton Vorst, Options and earnings announcements: an empirical study of volatility, trading volume, open interest and liquidity. | 9908 | Ser-Huang Poon and Peter F. Pope, Tests of option market efficiency: a high frequency data and common volatility component approach. |
| 9807 | Bert Menkveld and Ton Vorst, A pricing model for American options with stochastic interest rates. | 9909 | Jacek Gondzio, Roy Kouwenberg and Ton Vorst, Hedging options under transaction costs and stochastic volatility. |
| 9808 | Jon Danielsson, Philip Hartmann and Casper de Vries, The cost of conservatism: extreme returns, value-at-risk, and the Basle multiplication factor. | 9910 | Jon Danielsson, Bjorn N. Jorgensen and Casper G. de Vries, VoF or VAR? Firm Value and Risk Management. |
| 9809 | Antoon Pelsser and Ton Vorst, Pricing of flexible and limit caps. | 2001 | Ton Vorst, Optimal Portfolios under a Value at Risk Constraint. |
| 9810 | Phil Hunt, Joanne Kennedy and Antoon Pelsser, Markov-functional interest rate models. | 2002 | Bert Menkveld and Ton Vorst, A Pricing Model for American Options with Stochastic Interest Rates. |
| 9811 | Antoon Pelsser, Pricing double barrier options using analytical inversion of Laplace transforms. | 2003 | Henk Grootveld and Winfried G. Hallerbach, Upgrading Value-at-Risk from Diagnostic Metric to Decision Variable. |
| 9812 | Phil Hunt and Antoon Pelsser, Arbitrage-free pricing of quan-to-swapt-ions | 2004 | Philip Hans Franses and Roy Kluitman, Unbiased Variance Estimators for overlapping Returns when the Returns have First-Order Dynamics. |
| 9813 | Roy Kouwenberg, Dynamic portfolio insurance: a stochastic programming approach. | 2005 | Arjan Berkelaar and Roy Kouwenberg, Retirement Saving with Contribution Payments and Labor Income as a Benchmark for Investments. |
| 9901 | Dick van Dijk, Philip Hans Franses, André Lucas and Nick Taylor, SETS, arbitrage activity, and stock price dynamics. | 2006 | Arjan Berkelaar and Roy Kouwenberg, Dynamic Asset Allocation and Downside-Risk Aversion. |
| 9902 | Jan Annaert and Marc J.K. de Ceuster, The big mac: more than a junk asset allocator? | 2007 | Yulia Veld-Merkoulova, Price Limits in Futures Markets: Effect on the Price Discovery Process and Volatility |

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 300 members, 28 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://www.eur.nl/topics/finance/research/euowgr.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: H  l  ne Molenaar, address below.

Membership

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

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