
The Newsletter of the EURO Working Group on Financial Modelling

NEWSFLOW

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NEWSFLOW

Editor

Hélène Molenaar
Erasmus University Rotterdam
Dept. of Finance & Investments, 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 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.

You can also find information about the Euro Working Group on the internet site
<http://www.eur.nl/topics/finance/research/eurowgr.htm>

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Editorial

Risk Management in Finance

Uncertainty and risk is everywhere in finance! How to manage them became one of the main concern for financial researchers. Complex models and methodologies came at hand of academics and practitioners due to the increased power of computers and numerical analysis.

This is true especially in the field of corporate finance, where the issue of credit risk measurement and management became more and more relevant. Corporations with diversified credit standards are playing a growing role in the expanding Euromarket of corporate debt. Therefore, the implementation of mathematical models to measure credit risk has reached a main role in the financial practice in order to capture and foresee financial troubles that might jeopardise firms operations.

The need to be posted on these issues is a basic requirement for researchers and practitioners not to become out of touch.

In this context the Capri's meeting has two major aims:

- 1) to provide an international symposium, where well known experts and academics may exchange and discuss their findings with practitioners and experts from the financial and banking sector and to set a common goal to work with;
- 2) to give young researchers the opportunity of coming into contact with senior and well known experts in order to set the conditions for the development of new models and methodologies.

The presence of well known scientist and practitioners from several European and non-European countries as well as Prof. Tassos Malliaris, Loyola University, Prof. Tomas Bjork, Stockholm School of Economics, Prof. Giorgio Szego, University of Rome "La Sapienza" and Dr Jessica James, Vice-President Bank One in London, will provide an accurate description of the state of the art in financial modeling.

Young researchers are considered the link between the standard finance theory and common financial reality, therefore their participation is essential to make the event successful. A precious help is provided by the EC- High Level Scientific Conferences Contribution which gives financial support to this extent. A One Day Financial Risk Management Workshop will precede the XXX Meeting with well known experts giving lectures on recent applications of credit risk and dynamic portfolio models.

Financial risk management coupled with state of the art of financial modelling allows the participants to take the adequate attitude toward pension plans, insurance risk, portfolios or corporate risk.

I should also mention that the conference will be organized in the Island of Capri that is considered the isle of sirens able to enchant the hasty visitor and the thoughtful scientist. The extraordinary beauty of the land gives the place a magic atmosphere which will be the right contest to ensure the best balance between work and leisure. I am looking forward to seeing all the NEWSFLOW's readers in Capri, especially those ready to emulate Odysseus' courage.....!

Rita d'Ecclesia

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:

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, that can be found in every issue of EJOR. For the feature papers there is a separate board of editors, consisting of

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Constantin Zopounidis, Technical University of Crete, Greece

Capri 2-5 May 2002

Program

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

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

Information

This meeting is a.o. organized by:

Rita d'Ecclesia

For further information please contact her at:

Universita di Roma "La Sapienza"
Dip. Di Teoria Economica e Metodi Quantitativi
Via G. Ermoli 22 a
00155 Rome
ITALY
Tel: 39-06-2304271
Email: ritadec@uniurb.it

More information about this meeting can be found on the internetsite

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

Next meeting(s)

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

Offers to organise the Autumn 2003 meeting, or one of the future meetings are welcome.

For more information about organising a meeting, please contact Jaap Spronk (spronk@few.eur.nl) or H el ene Molenaar (molenaar@few.eur.nl)

31st EWG Meeting

**The 31st meeting will be held in Cyprus,
From November 7-9, 2002.**

This meeting will be organized by:

Stavros Zenios and Hercules Vladimirov

For further information please contact the organizing committee at:

Email: zenios@ucy.ac.cy
or hercules@ucy.ac.cy

More information about this meeting can be found on the internetsite, which is being set up at the moment. It will be regularly updated as information becomes available. Calls for papers, venue information, registration instructions, etc. will be posted on this webpage.

As soon as this website is available, it will be announced on:

<http://www.eur.nl/topics/finance/research/euowgr.htm>

so please check this site on a regular basis.

News

If you want

- to place Job adverts, OR information
- to start a discussion, ask questions
- to share archive materials
- to have access to tutorials or surveys by prominent colleagues

You can now register with the New EURO Web Site:
<http://www.euro-online.org>

and you will have free of charge access to OR devoted forums.

Workshop “Smart Adaptive Systems in Finance”

EUNITE, the European Network of Excellence on Intelligent Technologies for Smart Adaptive Systems, is organizing a one-day workshop on the applications of smart adaptive systems in the financial sector. The workshop will provide a platform for the professionals in the financial sector to exchange ideas, opinions and experience about the opportunities for data mining, neural networks, machine learning, fuzzy modelling and evolutionary computation within the finance sector. Aspects such as portfolio management, investment strategies, financial optimization and models for the pricing of new financial instruments will be considered together with the possibilities offered by the smart adaptive systems. If you would like to be added to the mailing list of the workshop, please send an e-mail stating your name, affiliation, address and e-mail to: kaymak@few.eur.nl

More information can be obtained from U. Kaymak, Erasmus University Rotterdam.
Tel. +31.10.4081350
Fax +31.10.4089167

Working Papers

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

<http://www.fbk.eur.nl/ERIM>

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:

- | | | | |
|--------|---|----------|---|
| 9401/F | Hallerbach, W.G., Duration and bond return approximation, The quaso-convexity effect, January 1994. | 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. |
| 9405/F | Smit, J.T.J., The flexibility value of strategic investments under competition, March 1994. | 9616/F | Soppe, A.B.M., De rol van rente, geld en vermogen in het wereld economisch proces: een ethische beschouwing. |
| 9414/F | Spronk, Jaap and Erik M. Vermeulen, Interfirm performance evaluation under uncertainty: A multi-dimensional framework, September 1994. | 9707/F | Post, Th. and J. Spronk, Bank performance bench-marking in stochastic environments using log-linear mean-variance data envelopment analysis. |
| 9422/F | Brouwer, Frank, Paul C. van Aalst and Nico L. van der Sar, Investment risk and risk management revisited, November 1994. | 9711/F | Groenendijk, A.A. and J. Spronk, Portfolio performance through the eyes of monkeys. |
| 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. | 9713/F | Spronk, J. and E.M. Vermeulen, Interfirm performance evaluation under uncertainty. |
| 9502/F | Higson, Chris and Jamie Elliott, Post-takeovers returns - The UK evidence, March 1995. | 9719/F | Meulen, J. van der and J. van der Voort, Er valt wat te zeggen voor passief beleggen. |
| 9503/F | Groenendijk, A.A. and E.E. Hagen, Solving the capital structure puzzle: The government as a stakeholder in the firm, March 1995. | 9721 | Post, G.T., Transconcave Data Envelopment Analysis |
| 9504/F | Vermeulen, Erik M., Jaap Spronk and Nico van der Wijst, Analysing risk and performance using the multi-factor concept, april 1995. | 9822 | Kouwenberg, R., Dynamic Portfolio Insurance: A Stochastic Programming Approach |
| 9505/F | Vermeulen, Erik M., Jaap Spronk and Nico van der Wijst, A Framework for conditional failure prediction, April 1995. | 9824 | Soppe, A., Capital, Interest and Ethics: Some Empirical Explorations of an Ethical Approach of economic growth |
| 9508/F | Brännback, M. and J. Spronk, A multidimensional framework for strategic decisions, June 1995 | 9847 | Post, G.T., Estimating non-convex production sets using transconcave DEA |
| 9509/F | Hallerbach, W.G. and J.Spronk, Portfolio management for the non-average investor, June 1995. | 9905 | Post, G.T., Nonparametric efficiency estimation in stochastic environments |
| 9520/F | Soppe A., De duurzaamheid van het internationale geld en bankstelsel: Een ethische beschouwing, September 1995. | 9911 | Kuosmanen, T. and G.T. Post, Robust Efficiency Measurement. Dealing with outliers in Data Envelopment Analysis |
| 9526/F | Groenendijk, A.A., Investeren, kasstroomprojectie en ondernemingswaarde, December 1995. | 9913 | Hallerbach, W.G. and J. Spronk, A Multicriteria Framework for Risk Analysis |
| 9606/F | Greco S, The splitting property of fuzzy financial laws, September 1996. | 9922 | Spronk, J. and W.G. Hallerbach, Het "redelijk rendement" voor ondernemingsactiviteiten vanuit financieel-economisch perspectief |
| 9612/F | Post, T. and J. Spronk, Interactive data envelopment analysis, September 1996. | 9933 | Post, G.T. and J. Spronk, Evaluating productive performance under uncertainty |
| | | 9934 | Kuosmanen, T. and G.T. Post, Measuring economic efficiency with incomplete price information. |

Working Papers

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

For more information:

<http://www.few.eur.nl/few/research/ecfr/publications/>

9901	Dick van Dijk, Philip Hans Franses, André Lucas and Nick Taylor, SETS, arbitrage activity, and stock price dynamics.	2005	Arjan Berkelaar and Roy Kouwenberg, Retirement Saving with Contribution Payments and Labor Income as a Benchmark for Investments.
9902	Jan Annaert and Marc J.K. de Ceuster, The big mac: more than a junk asset allocator?	2006	Arjan Berkelaar and Roy Kouwenberg, Dynamic Asset Allocation and Downside-Risk Aversion.
9903	Philip Hans Franses and Patrick J.F. Groenen, Visualizing time-varying correlations across stock markets.	2007	Yulia Veld-Merkoulova, Price Limits in Futures Markets: Effect on the Price Discovery Process and Volatility.
9904	Pauline Bod, David Blitz, Philip Hans Franses and Roy Kluitman, An unbiased variance estimator for overlapping returns.	2001/1	Winfried G. Hallerbach, Enhanced Bond Return Approximations: Using Duration, Convexity and Quasi-Convexity.
9905	Martin Martens and Ser-Huang Poon, Correlation dynamics between international stock markets using synchronous data.	2001/2	Pieter Bouwknecht and Antoon Pelsser, Market Value of Insurance Contracts with Profit Sharing.
9906	Jaap Hoek, Patrick Houweling and Frank Kleibergen, The joint estimation of term structures and credit spreads.	2001/3	Frank de Jong, Joost Driessen and Antoon Pelsser, Libor Market Models versus Swap Market Models for Pricing Interest Rate Derivatives: An Empirical Analysis.
9907	Winfried Hallerbach and Bert Menkveld, Value at risk as a diagnostic tool for corporates: the airline industry.	2001/4	Antoon Pelsser, Mathematical Foundation of Convexity Correction
9908	Ser-Huang Poon and Peter F. Pope, Tests of option market efficiency: a high frequency data and common volatility component approach.	2001/5	Thierry Post, Stochastic Dominance in Case of Portfolio Diversification: Linear-Programming Tests.
9909	Jacek Gondzio, Roy Kouwenberg and Ton Vorst, Hedging options under transaction costs and stochastic volatility.	2001/6	Albert J. Menkveld, Splitting Orders in Fragmented Markets, Evidence from Cross-Listed Stocks.
9910	Jon Danielsson, Bjorn N. Jorgensen and Casper G. de Vries, VoF or VAR? Firm Value and Risk Management.	2001/7	Reimer Beder and Ton Vorst, Options on Dividend Paying Stocks.
2001	Ton Vorst, Optimal Portfolios under a Value at Risk Constraint.	2001/8	Chris Veld and Yulia V. Veld-Merkoulova, Do Spin-Offs Really Create Value? The European Case.
2002	Bert Menkveld and Ton Vorst, A Pricing Model for American Options with Stochastic Interest Rates.	2001/9	Namwon Hyung and Casper G. de Vries, Portfolio Diversification Effects and Regular Variation in Financial Data.
2003	Henk Grootveld and Winfried G. Hallerbach, Upgrading Value-at-Risk from Diagnostic Metric to Decision Variable.	2001/10	Jón Danielson, Bjørn N. Jorgensen, Casper G. de Vries and Xiaoguang Yang, Optimal Portfolio Allocation under a Probabilistic Risk Constraint and the Incentives for Financial Innovation
2004	Philip Hans Franses and Roy Kluitman, Unbiased Variance Estimators for overlapping Returns when the Returns have First-Order Dynamics.	2001/11	P. Hartmann, S. Straetmans, C.G. de Vries, Asset Market Linkages in Crisis Periods

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, 29 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/eurowgr.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
Dept. of Finance and Investments, 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