



SCUOLA
NORMALE
SUPERIORE

NO FREE LUNCH SEMINAR
seminari di finanza quantitativa

mercoledì 6 marzo 2012

ore 13.00

Scuola Normale Superiore

Pisa

(Aula Mancini)

Fulvio Corsi

Terrà un seminario dal titolo:

“When Micro Prudence increases Macro Risk: The Destabilizing Effects of Financial Innovation, Leverage, and Diversification”

Abstract

By exploiting basic common practice accounting and risk management rules, we propose a simple analytical dynamical framework to investigate the effects of micro-prudential changes on macro-prudential outcomes. Specifically, we study the consequence of the introduction of a financial innovation that allow reducing the cost of portfolio diversification in a financial system populated by financial institutions having capital requirements in the form of VaR constraint and following standard mark-to-market and risk management rules. We provide a full analytical quantification of the multivariate feedback effects between investment prices and bank behavior induced by portfolio rebalancing in presence of asset illiquidity and show how changes in the constraints of the bank portfolio optimization endogenously drive the dynamics of the balance sheet aggregate of financial institutions and, thereby, the availability of bank liquidity to the economic system and systemic risk. The model shows that when financial innovation reduces the cost of diversification below a given threshold, the strength (due to higher leverage) and coordination (due to similarity of bank portfolios) of feedback effects increase, triggering a transition from a stationary dynamics of price returns to a non stationary one characterized by steep growths (bubbles) and plunges (bursts) of market prices.

Tutti gli interessati sono invitati a partecipare.

Classe di Scienze