ECO764: Financial Econometrics

Last date of assignment submission: August 18 midnight

Total marks: 50

This is an individual assignment

Instructions:

• Please go through the attached papers and answer the following questions in your own words. Avoid copying and pasting from the paper.

Paper 1 title: Explaining price differences between physical and derivative freight contracts.

Reference:

Adland, R., & Alizadeh, A. H. (2018). Explaining price differences between physical and derivative freight contracts. *Transportation research part E: Logistics and transportation review*, 118, 20-33.

- 1. Please explain the positives and negatives of physical and financial contracts to control freight market risk. Answer in 150 words
 - 5 marks
- 2. How do you account for freight derivatives markets' "convenience yield"? Explain it with an example.
 - 5 marks Answer in 100 words
- 3. The authors examine the dynamic differential between time-charter rates and FFA prices. What is the approach to doing it? Could you please provide details about the procedure used in the paper? Answer in 150 words

 5 marks
- 4. Please go through the results of Tables 5 & 6 and summarize them concerning convenience yield and risk premium at macro and micro levels.

 Answer in 150 words.
 - 5 marks
- 5. How do you adopt the hedging strategy in freight trading? Using Table 7, could you please draw the inference from the hedging strategy used in the paper? Answer in 200 words.
 - 10 marks

Paper 2: The Bermuda Triangle: Weather, electricity, and insurance derivatives

Geman, H. (2000). The Bermuda triangle: weather, electricity, and insurance derivatives. *The Journal of Alternative Investments*, *3*(1), 61-69.

- 1. The author uses the term "Bermuda Triangle", could you explain the reasons?

 Answer in 200 words
- 2. Please substantiate the following statement:
 - The author mentions: "The three communities carefully watching the growth of the market of weather derivatives in the U.S. are in agreement with the pricing and hedging arguments made in this paper power marketers, power producers, and insurance/reinsurance companies."

Answer in 200 words