报纸上的字

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According to the Chapter 8, there are some major sources of risk which LTCM faced including the fluctuation of market prices, the high leverage ratio, the model risk and the dependency on the high credit rate of LTCM’s source of finance and trade counterparties.

Moreover, LTCM cannot adequately hedged against the risk. Firstly, although LTCM adequately consider the risk from high leverage ratio, it is difficult to control the risk at an expected range due to the limitation of funds and the high frequency of the spread trades.

Secondly, the model risk of LTCM have been ignored in the investment process. The model risk mainly depends on the difference of risk management between Salomon Brothers and investment banks and the boundedness of Value at Risk. Lastly, although LTCM can get abundant sources of credit and substantial market liquidity, the default from counterparties cannot be avoided. In my opinion, I think that the downfall of LTCM mainly due to the events beyond their control, and the particularly malicious behavior of their competitors just be trigger. Firstly, the exogenous macroeconomic shocks cause the deteriorating market conditions, and it led to the spread widened in almost every market. Secondly, the inefficiency in the Value at risk make the expansion in risk from the leverage ratio. Meanwhile, the relational coefficient between different LTCM strategies rapidly increase, and all investor evacuate in the same direction of LTCM. Therefore, the events have beyond the controlling of investor.

手机屏幕截图

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(a)

15.2

According to the deposit insurance, the depositors can get safety guarantee by their financial institution, because they will take less risk than the financial institution due to the avoiding in the deposit loss. Moreover, this model will lead to more bank failure and more claims depend on the deposit insurance. Therefore, we should enact essential regulation to require the amount of capital banks hold have connection with the risks taken.

15.5

Yes, the financial institution is exposed to credit risk on the transaction. Although, the financial institution cannot generate loss if the counterparty default now, the interest rate will change, and the swap will have a positive value to the financial institution at future. Therefore, if the counterparty default at that time, the loss will generate for the financial institution. According to the Basel I, the capital will be 0.5% of the swap principal.

15.11

According to Basel I, the capital charged will be same regardless of the credit rating of companies, so the bank’s returns will be low by lending to highly creditworthy companies. Moreover, the creditworthy of borrower need more carefully limitation of the capital requirement by the Basel II. Therefore, the banks prefer to help them issue debt securities.

15.15

Firstly, the standardized approach uses external rating to determined capital requirement. However, the Basel II correlation model is used with PD being determined by the bank by the IRB approach. Furthermore, the Basel II correlation model is used with PD, LGD, EAD and M being determined by the bank by the IRB approach.

(b)

16.1

The three major components of Basel II.5 are the calculation of stressed VaR, a new incremental risk charge, and a comprehensive risk measure for instruments dependent on credit correlation.

16.2

The six major components of Basel III are capital definition and requirements, the capital conservation buffer, the countercyclical buffer, the leverage ratio, liquidity ratios, and counterparty credit risk.

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According to Chapter 28, the author mainly demonstrates that how to avoid the generation of mistake in the risk management. There are some important details of the improvement in risk management including the importance of risk limit, the effective managing of the trading room, the controlling in liquidity risk, the lessons for nonfinancial corporations, and the existence of unknown risks or unknowable risks. Significantly, the generation of losses mainly depend on the inadequate internal controls. Furthermore, a complete and effective internal control system will reduce the losses. In conclusion, these methods will have positive effects on the risk management in the investment process.

报纸上的文字和图片的手机截图

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地图的截图

描述已自动生成

图片包含 照片, 桌子, 人们, 许多

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地图的截图

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地图的截图

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According to these two figures, it is obvious that the simulation from GARCH (1,1) will have a more sensitive reaction condition than MA and EWMA. The GARCH (1,1) include the term of long-run forecasted variance , and the changing will lead to the more sensitive in model. Moreover, the MA and EWMA generate sharp increasing after 2020.03. but the GARCH (1,1) still keep in a stable range. I think that the reason is that the volatility form GARCH (1,1) simulation more tend to long term volatility than MA and EWMA.