# [Elements of Economics, Finance, and Computational Mathematics]

Radu Briciu January 3, 2025

#### Abstract

We examine an emerging pedagogical realm in which the importance of three major disciplines are considered in synchronicity. The aim is to understand the coherence of an interdisciplinary science formed around modern Economics, Finance, and Computational Mathematics. We recognize the rapidly evolving progress in data encoding techniques and contemplate economic, financial, and societal phenomena that may arise from technology evolving at increasing rates.

# Contents

1	Inti	roduction	4
2	Rec	ecent computational developments	
	2.1	Zero Knowledge Proofs	5
	2.2	Machine learning in numerical methods	
3	Dec	centralization and Ethics	5
	3.1	Recent case studies	
		3.1.1 Kleros [27]	5
		3.1.2 Tornado Cash [20] [22]	Ę
		3.1.3 Polymarket information content	-
	3.2	Perspectives	5
4	Hyj	potheticals	5
	4.1	Macroeconomic trend prediction using live shipping data	5
	4.2	Decentralization for internal and external policy	Ę
	4.3	Commodities markets and their decentralization	-
	4.4	FX option markets and their decentralization	1
	4.5	Commercial legal services and their decentralization	5
$\mathbf{R}_{i}$	oforo	nces	S

### 1 Introduction

We will preface this paper with a few notions believed to be true, honest, and scientifically informed to the best of our abilities.

The first fundamental axiom we consider is that recent evolutions in cryptography [7] [17] [20] [1] create new possibilities in many financial, legal, and economic processes allowing for the properties of full transparency and trust-less execution. We make an inherent connection between economic and social prosperity. We also borrow the illustrious concept of efficient market hypothesis as famously described by Fama and Samuelson [6] to justify the veracity of market convergence to optimal results given sufficient coverage and volume. We recognize contemporary technology as a potentially pernicious solution to economic processes and their corruption by malicious intent. Semantic junctures between various meanings of the word corrupt lend themselves perfectly to our study for one principal reason: we claim that a mathematically incorruptible informational process is the ideal tool for transitioning vital financial processes to a transparent framework designed to protect against malicious human intent (i.e., corruption).

# 2 Recent computational developments

- 2.1 Zero Knowledge Proofs
- 2.2 Machine learning in numerical methods

## 3 Decentralization and Ethics

- 3.1 Recent case studies
- 3.1.1 Kleros [27]
- 3.1.2 Tornado Cash [20] [22]
- 3.1.3 Polymarket information content
- 3.2 Perspectives

# 4 Hypotheticals

- 4.1 Macroeconomic trend prediction using live shipping data
- 4.2 Decentralization for internal and external policy
- 4.3 Commodities markets and their decentralization
- 4.4 FX option markets and their decentralization
- 4.5 Commerical legal services and their decentralization

#### References

- [1] Shahla Atapoor et al. "VSS from Distributed ZK Proofs and Applications". In: Lecture notes in computer science (Jan. 2023), pp. 405–440. DOI: 10.1007/978-981-99-8721-4\_13. (Visited on 12/05/2024).
- [2] Christian Beck, Weinan E, and Arnulf Jentzen. "Machine Learning Approximation Algorithms for High-Dimensional Fully Nonlinear Partial Differential Equations and Second-order Backward Stochastic Differential Equations". In: *Journal of Nonlinear Science* (Jan. 2019). DOI: 10.1007/s00332-018-9525-3.
- [3] Fischer Black and Myron Scholes. "The Pricing of Options and Corporate Liabilities". In: *Journal of Political Economy* 81 (1973), pp. 637-654. URL: https://www.jstor.org/stable/1831029?origin=JSTOR-pdf.
- [4] Aleš Černý. Mathematical Techniques In Finance: Tools for Incomplete Markets. 1st ed. Princeton University Press, 2004.
- [5] Aleš Černý, Christoph Czichowsky, and Jan Kallsen. "Numeraire-Invariant Quadratic Hedging and Mean-Variance Portfolio Allocation". In: *Mathematics of Operations Research* 49 (May 2023), pp. 752–781. DOI: 10.1287/moor.2023.1374. (Visited on 12/08/2024).
- [6] Thomas Delcey. "Samuelson vs Fama on the Efficient Market Hypothesis: The Point of View of Expertise". In: *OEconomia* 9 (Mar. 2019), pp. 37–58. DOI: 10.4000/oeconomia.5300.
- [7] Jens Ernstberger et al. Do You Need a Zero Knowledge Proof? 2024. URL: https://eprint.iacr.org/2024/050.pdf.
- [8] Christoph Frey et al. Option Pricing via Machine Learning with Python. Tidy Finance, 2022. URL: https://www.tidy-finance.org/python/option-pricing-via-machine-learning.html.
- [9] Gianluca Fusai, Andrea Roncoroni, and Mark Cummins. Handbook of Multi-Commodity Markets and Products. John Wiley and Sons, Feb. 2015.
- [10] Gianluca Fusai, Andrea Roncoroni, and Mark Cummins. *Handbook of Multi-Commodity Markets and Products*. John Wiley & Sons, Feb. 2015.
- [11] Henri Gavin. The Levenberg-Marquardt algorithm for nonlinear least squares curve-fitting problems. 2024. URL: https://people.duke.edu/~hpgavin/lm.pdf.

- [12] Paul Glasserman. Monte Carlo Methods in Financial Engineering. Springer Science & Business Media, Mar. 2013.
- [13] Steven L. Heston. "A Closed-Form Solution for Options with Stochastic Volatility with Applications to Bond and Currency Options". In: Review of Financial Studies 6 (Apr. 1993), pp. 327–343. DOI: 10.1093/rfs/6.2.327.
- [14] Willem Hundsdorfer et al. "A Positive Finite-Difference Advection Scheme". In: *Journal of Computational Physics* 117 (Mar. 1995), pp. 35–46. DOI: 10.1006/jcph.1995.1042.
- [15] Philippe Jorion. Value at risk: the new benchmark for managing financial risk. Mcgraw-Hill, 2007.
- [16] Jan Kirenz. Using Keras for Structured Data Jan Kirenz. Kirenz.com, 2022. URL: https://www.kirenz.com/blog/posts/2022-06-17deep-learning-and-keras-data-preprocessing-with-structureddata/.
- [17] Oleksandr Kuznetsov et al. "Enhanced Security and Efficiency in Blockchain with Aggregated Zero-Knowledge Proof Mechanisms". In: *IEEE Access* (2024), pp. 1–1. DOI: 10.1109/ACCESS.2024.3384705. URL: https://arxiv.org/abs/2402.03834.
- [18] James Lee-Thorp et al. "FNet: Mixing Tokens with Fourier Transforms". In: arXiv:2105.03824 [cs] (May 2022). URL: https://arxiv.org/abs/2105.03824.
- [19] Shuaiqiang Liu, Cornelis Oosterlee, and Sander Bohte. "Pricing Options and Computing Implied Volatilities using Neural Networks". In: Risks 7 (Feb. 2019), p. 16. DOI: 10.3390/risks7010016.
- [20] Matthias Nadler and Fabian Schär. Tornado Cash and Blockchain Privacy: A Primer for Economists and Policymakers. Ssrn.com, 2023. URL: https://papers.ssrn.com/sol3/papers.cfm?abstract\_id=4352337.
- [21] Terence Parr and James D. Wilson. "Partial dependence through stratification". In: *Machine Learning with Applications* 6 (Dec. 2021), p. 100146.

  DOI: 10.1016/j.mlwa.2021.100146.
- [22] Alexey Pertsev, Roman Semenov, and Roman Storm. *Tornado Cash Privacy Solution Version 1.4.* 2019. URL: https://berkeley-defi.github.io/assets/material/Tornado%20Cash%20Whitepaper.pdf.
- [23] Robert R Reitano. Introduction to quantitative finance: a math tool kit. Mit Press, 2010.

- [24] Philipp J. Schönbucher. "A Market Model for Stochastic Implied Volatility". In: SSRN Electronic Journal 21 (1999). DOI: 10.2139/ssrn. 182775.
- [25] Bo Yuan et al. Deep learning interpretability for rough volatility. arXiv.org, 2024. URL: https://arxiv.org/abs/2411.19317 (visited on 12/15/2024).
- [26] Zixuan Zhang et al. "Bi-level optimisation of subsidy and capacity investment under competition and uncertainty". In: *European Journal of Operational Research* 318 (Mar. 2024), pp. 327–340. DOI: 10.1016/j.ejor.2024.03.028. (Visited on 11/26/2024).
- [27] Alesia Zhuk. "Applying blockchain to the modern legal system: Kleros as a decentralised dispute resolution system". In: *International Cybersecurity Law Review* 4 (Apr. 2023). DOI: 10.1365/s43439-023-00086-x.