

Assignment 2

FINA 5250 Empirical Methods in Finance

LIU, Weiyang

wliuax@connect.ust.hk

Question 1

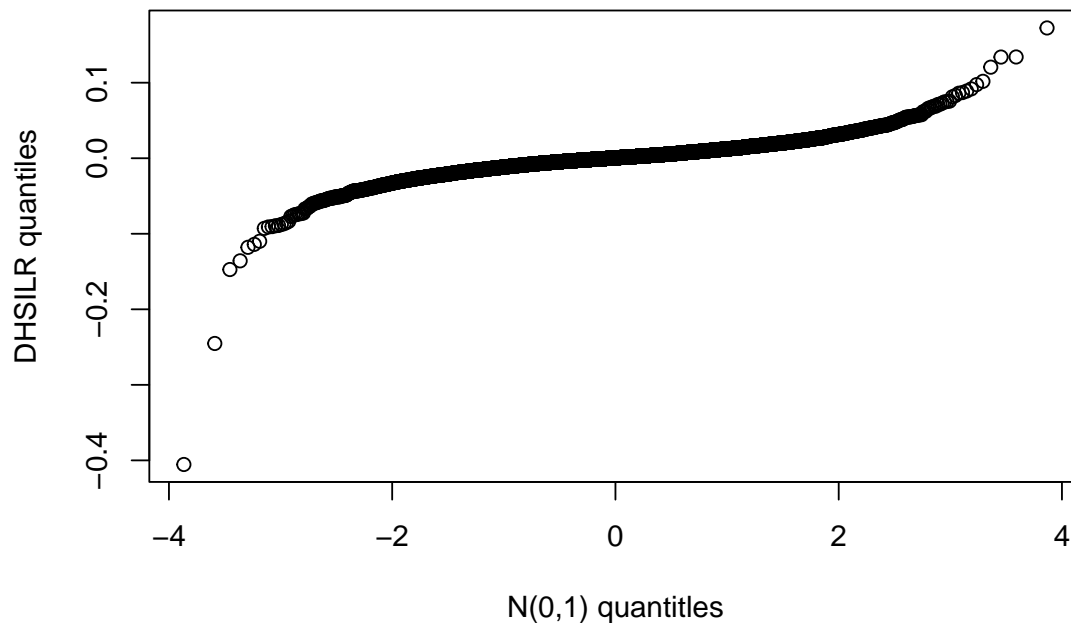
1.1

Compute VaR and expected shortfall under normal assumption for $q = 0.01$ and 0.001 .

```
## VaR(q=0.01) = 0.0379280773377616
## ES(q=0.01) = 0.0429785314825395
## VaR(q=0.001) = 0.0504536060267089
## ES(q=0.001) = 0.0550408994758187
```

1.2

Empirical QQ plot for DHSILR vs $N(0,1)$



The distribution of log returns has a heavier tail than normal distribution.

1.3

Compute empirical VaR and empirical expected shortfall for $q = 0.01$ and 0.001 .

```
## VaR(q=0.01) = 0.0432004501839053
## ES(q=0.01) = 0.0674977851182838
## VaR(q=0.001) = 0.0904547477271284
## ES(q=0.001) = 0.155001873334411
```

1.4

The normal model **underestimates** the risk.

Question 2

Plot 1

The tails of Y are **heavier** than the tails of the Gaussian distribution.

Plot 2

The upper tail of Z is **Gaussian**.

The lower tail of Z is **heavier than Gaussian**.