

Modelling Risks in Financial Markets: Asset Return Correlations and Market Risk
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Abstract

Modelling of conditional volatilities and correlations across asset returns is an integral part of portfolio decision making and risk management. Over the past three decades there has been a trend towards increased asset return correlations across markets, a trend which has been accentuated during the recent financial crisis.

We shall examine the nature of asset return correlations using daily returns on futures markets and investigate the extent to which multivariate volatility models proposed in the literature can be used to formally characterise and quantify market risk. In particular, we ask how adequate these models are for modelling market risk at times of financial crisis. Can the changing patterns of asset return correlations be predicted?

Speaker bio

Hashem Pesaran is Professor of Economics at the University of Cambridge, John Elliott Chair at the University of Southern California, and a Professorial Fellow of Trinity College, Cambridge. Previously he has been the head of the Economic Research Department of the Central Bank of Iran, Professor of Economics at the University of California at Los Angeles, and a Vice President at the Tudor Investment Corporation.

Professor Pesaran is the founding editor of the Journal of Applied Econometrics and has served as a partner at GSA Capital. He has over 150 journal publications in the various areas of econometrics, empirical finance and macroeconomics, and the Iranian economy.