

Abstract:

Financial Risk Management has generally focused on short run risks rather than long run risks and arguably this is an important component of the current financial crisis. Econometric approaches to measuring long run risk are investigated by testing for measures of long run skewness associated with asymmetric volatility models. This skewness in a market factor leads to default correlations even far in the future. Investors concerned about long run risks can hedge exposure as in the ICAPM. Such hedging will affect asset prices and can be tested directly with volatility models. Using estimates from VLAB, evidence is found for several types of hedge portfolios including volatility, long bonds, term spread, credit spread and gold.

Robert F. Engle

Biography:

Robert F. Engle is the Michael Armellino Professor of Finance at the NYU Stern School of Business, as well as the Chancellor's Associates Professor of Economics at the University of California, San Diego. He is a Fellow of the American Academy of Arts and Sciences, the Econometric Society, the American Statistical Association and the American Finance Association. He is a member of the U.S. National Academy of Sciences.

Professor Engle has recently given the invited Fisher-Schultz Lecture, as well as the William Phillips, Pareto, and Frank Paish Lectures. In 2003 Professor Engle was honored with the Nobel Prize in Economic Sciences for his work in methods of analyzing economic time series with time-varying volatility (ARCH). In addition to ARCH, his research has introduced some of the most influential concepts in modern econometrics - GARCH models, Cointegration, Weak Exogeneity, Band Spectrum Regression, Common Features, Autoregressive Conditional Duration (ACD), and, most recently, the CAViaR model.

In four books and well over 100 academic journal articles, Professor Engle has applied these methods to analyse equities, options, currencies and interest rates; his current research also includes an investigation of empirical market microstructure. He is a frequent speaker and consultant for financial institutions. He holds a Ph.D. in Economics and a M.S. in Physics from Cornell University, and is principal of Robert F. Engle Econometric Services. Before UCSD, he was Associate Professor of Economics at MIT.