



The Actuarial Profession
making financial sense of the future

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June 2008

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Reading lists on individual subjects contain details of books and papers published within the last 3-5 years and available from the Libraries. They are also available for downloading from the profession's web site: www.actuaries.org.uk

THE HISTORICAL COLLECTION

The Institute's collection of historical material is housed at Staple Inn. This collection comprises all books published before 1870, those of historical interest published 1870 - 1959 and historical studies published subsequently. It also includes full sets of the Journal of the Institute of Actuaries, Journal of the Staple Inn Actuarial Society, Transactions of the Faculty of Actuaries, Transactions of the International Congress of Actuaries, the journals of many overseas actuarial bodies, copies of tuition material and a reference collection. Opening hours are 9.00am to 5.00pm. Prospective visitors are advised to telephone in advance.

Tottel's tax tables, 2006-07. - Tottel Publishing, **2006**. - 31 pages.
Shelved at: PFCC pam (Oxf) (Institute); [RKN: 36204]

Tottel's tax tables, 2007-08. - Tottel Publishing, **2007**. - 31 pages.
Shelved at: PFCC pam (Oxf) (Institute); [RKN: 37061]

Tottel's tax tables, 2008-09. - Tottel Publishing, **2008**. - 31 pages.
Shelved at: PFCC pam (Oxf) (Institute); [RKN: 38046]

World economic factbook 2007. - 14th ed. - Euromonitor, **2006**. - viii, 452 pages.
Shelved at: JA/735 (Oxf) (Institute); [RKN: 36635]

ABDUL-MUHMIN, ALHASSAN G.; UMAR, YAKUBU A.

Credit card ownership and usage behaviour in Saudi Arabia: The impact of demographics and attitudes toward debt.

Shelved at: JOU/FIN (Faculty) [RKN: 68971]

Journal of Financial Services Marketing (**2007**) 12 (3): 219-234.

Abstract: Because of the Islamic prohibition of interest, in Saudi Arabia, there has long been a debate about the acceptability of owning and using credit cards. Available industry statistics, however, suggest that card ownership and usage may be on the rise. In this study, we empirically examine the extent and nature of credit card ownership and usage in the country, and how these are impacted by consumer demographics and attitudes toward debt. Using data from a structured survey, we find inter alia that credit card penetration in the country is relatively low, female Saudis are more likely than males to own the cards, card usage tends to be selective, attitude toward debt is a significant determinant of card ownership but not usage behaviour, and evaluation of card attributes is fairly positive among cardholders. Theoretical, managerial, and public policy implications of the findings are discussed.

Keywords: Credit card ownership, credit card usage, credit card attitudes, attitude toward debt, credit card attributes, satisfaction with credit cards

Photocopy cost: 16 sheets = £3.20

AKKIZIDIS, IOANNIS; KHANDELWAL, SUNIL KUMAR

Financial risk management for Islamic banking and finance. - Finance and Capital Markets. - Palgrave Macmillan, **2008**. - 220 pages.

Shelved at: 332.1 AKK (Faculty) [RKN: 69112]

Contents includes: List of tables - x

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ALLEN, FRANKLIN; GALE, DOUGLAS

Understanding financial crises. - Clarendon Lectures in Finance. - Oxford University Press, **2007**. - x, 303 pages.

Shelved at: 332 ALL (Faculty) [RKN: 63671]

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ALMENDRAL, ARIEL; OOSTERLEE, CORNELIUS W

On American options under the variance gamma process.

Shelved at: [RKN: 37241]

Applied Mathematical Finance (**2007**) 14 (2): 131-152.

Abstract: American options are considered in a market where the underlying asset follows a Variance Gamma process. A sufficient condition is given for the failure of the smooth fit principle for finite horizon call options. A second-order accurate finite-difference method is proposed to find the American option price and the exercise boundary. The problem is formulated as a Linear Complementarity Problem and solved numerically by a convenient splitting. Computations have been accelerated with the help of the Fast Fourier Transform. A stability analysis shows that the scheme is conditionally stable, with a mild stability condition of the form $k = O(|\log(h)|^{-1})$. The theoretical results are verified numerically throughout a series of numerical experiments.

Photocopy cost: £2.40

ARMERIN, FREDRIK; JENSEN, BJARNE A; BJORK, TOMAS

Term structure models with parallel and proportional shifts.

Shelved at: [RKN: 37429]

Applied Mathematical Finance (**2007**) 14 (3): 243-260.

Abstract: The paper investigates the possibility of an arbitrage-free model for the term structure of interest rates where the yield curve only changes through a parallel shift. HJM type forward rate models driven by a multidimensional Wiener process and by a general marked point process are considered. Within this general framework it is shown that there does indeed exist a large variety of nontrivial parallel shift term structure models, and we also describe these in detail. It is also shown that there exists no nontrivial flat term structure model. The same analysis is repeated for a similar case, in which the yield curve only changes through proportional shifts.

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ASSASSI, LIBBY (ED); NESVETAILOVA, ANASTASIA (ED); WIGAN, DUNCAN; CENTRE FOR GLOBAL POLITICAL ECONOMY AT THE UNIVERSITY OF SUSSEX

Global finance in the new century; Beyond deregulation. - Palgrave Macmillan, **2007**. - x, 255 pages.

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ATKINSON, C; ALEXANDROPOULOS, C A

Pricing a European basket option in the presence of proportional transaction costs.

Shelved at: [RKN: 36489]

Applied Mathematical Finance (**2006**) 13 (3): 191-214.

Abstract: A crucial assumption in the Black-Scholes theory of options pricing is the no transaction costs assumption. However, following such a strategy in the presence of transaction costs would lead to immediate ruin. This paper presents a stochastic control approach to the pricing and hedging of a European basket option, dependent on primitive assets whose prices are modelled as lognormal diffusions, in the presence of costs proportional to the size of the transaction. Under certain assumptions on the individual preferences, it is able to reduce the dimensionality of the resulting control problem. This facilitates considerably the study of the value function and the characterisation of the optimal trading policy. For solution of the problem a perturbation analysis scheme is utilized to derive a non-trivial, asymptotically optimal result. The findings reveal that this result can be expressed by means of a small correction to the corresponding solution of the frictionless Black-Scholes type problem, resembling a multi-dimensional 'bandwidth' around the vanilla case, which, moreover, is readily tractable.

Photocopy cost: £4.80

BATEMAN, HAZEL (ED)

Retirement provision in scary markets. - Edward Elgar, **2007**. - vii, 244 pages.

Shelved at: C/EBC/JK (Oxf) (Institute); [RKN: 36799]

Abstract: This book presents the implications of a range of scary market scenarios, prescribing solutions. The book explores retirement incomes across a number of countries including the US, the UK, Japan and Australia, and examines uncertainties such as: extreme stock price volatility; discontinuous labour market participation; and, macroeconomic instability.

Contents includes: Retirement provision in scary markets: introduction, by Hazel Bateman
Who's afraid of the big bad bear? or, why investment in equities for retirement is not scary and why investing without equities is scary, by Ronald Bewley, Nick Ingram, Veronica Livera and Sheridan Thompson

Assessing the risks in global fixed interest portfolios, by Geoffrey Brianton

The role of index funds in retirement asset allocation, by David R Gallagher

Retirement wealth and lifetime earnings variability, by Olivia S Mitchell, John W R Phillips, Andrew Au and David McCarthy

How have older workers responded to scary markets, by Jonathan Gardner and Mike Orszag

Financial engineering for Australian annuitants, by Susan Thorp, Geoffrey Kingston and Hazel Bateman

Smoothing investment returns, by Anthony Asher

Ansett's superannuation fund : a case study in insolvency, by Shauna Ferris

Pension funds and retirement benefits in a depressed economy: experience and challenges in Japan, by Masaharu Usuki

The structure and regulation of the Brazilian private pension system, by Flavio Marcilio Rabelo

BENTH, FRED ESPEN; KALLSEN, JAN; MEYER-BRANDIS, THILO

A non-Gaussian Ornstein-Uhlenbeck process for electricity spot price modeling and derivatives pricing.

Shelved at: [RKN: 37242]

Applied Mathematical Finance (**2007**) 14 (2): 153-169.

Abstract: A mean-reverting model is proposed for the spot price dynamics of electricity which includes seasonality of the prices and spikes. The dynamics is a sum of non-Gaussian Ornstein-Uhlenbeck processes with jump processes giving the normal variations and spike behaviour of the prices. The amplitude and frequency of jumps may be seasonally dependent. The proposed dynamics ensures that spot prices are positive, and that the dynamics is simple enough to allow for analytical pricing of electricity forward and futures contracts. Electricity forward and futures contracts have the distinctive feature of delivery over a period rather than at a fixed point in time, which leads to quite complicated expressions when using the more traditional multiplicative models for spot price dynamics. In a simulation example it is demonstrated that the model seems to be sufficiently flexible to capture the observed dynamics of electricity spot prices. The pricing of European call and put options written on electricity forward contracts is also discussed.

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BENTH, FRED ESPEN; GROTH, MARTIN; KUFAKUNESU, RODWELL

Valuing volatility and variance swaps for a non-gaussian ornstein-uhlenbeck stochastic volatility model.

Shelved at: [RKN: 37729]

Applied Mathematical Finance (2007) 14 (4): 347-363.

Abstract: Following the increasing awareness of the risk from volatility fluctuations, the market for hedging contracts written on realized volatility has surged. Companies looking for means to secure against unexpected accumulation of market activity can find over-the-counter products written on volatility indices. Since the Black and Scholes model require a constant volatility the need to consider other models is obvious. Swaps written on powers of realized volatility in the stochastic volatility model proposed by Barndorff-Nielsen and Shephard are investigated. A key formula is derived for the realized variance able to represent the swap price dynamics in terms of Laplace transforms, which makes fast numerical inversion methods viable. An example using the fast Fourier transform is shown and compared with the approximation proposed by Brockhaus and Long.

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BLAKE, DAVID

Pension economics. - John Wiley, 2006. - 256 pages.

Shelved at: C/JM (Oxf) (Institute); 368.8 BLA (Faculty) [RKN: 63642]

Abstract: Provides information on the theory and practice of economics as it deals with pension matters. This book talks about the role of pensions in maximising individual lifetime welfare; in individual savings and retirement decisions; their consequences from the company's viewpoint; in promoting aggregate savings; and in overlapping generations models.

Contents includes: Individual pension decision making - 13

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Pensions in the Diamond-Samuelson Overlapping Generations Model with certain lifetimes - 89

Pensions in the Blanchard-Yaari Overlapping Generations Model with uncertain lifetimes - 137

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BLAKE, DAVID

Pension finance. - John Wiley, 2006. - xvii, 465 pages.

Shelved at: CM (Oxf) (Institute); 368.8 BLA (Faculty) [RKN: 63643]

Abstract: Discusses the financial implications of economic decision making in pension provision and the theory and practice of finance, including various types of investment assets; corporate pension finance; financial aspects of benefit pension plans, and more. This book covers the important aspects of the role of pension funds and pension fund management.

Contents includes: Investment assets held by pension funds - 1

Personal finance: the allocation of personal wealth to different asset classes - 67

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BOOKSTABER, RICHARD M

A demon of our own design; Markets, hedge funds, and the perils of financial innovation. - John Wiley & Sons, **2007**. - xii, 276 pages.

Shelved at: EB (Oxf) (Institute); 332.042 BOO (Faculty) [RKN: 37304]

Abstract: Why do markets keep crashing and why are financial crises greater than ever before? As the risk manager to some of the leading firms on Wall Street from Morgan Stanley to Salomon and Citigroup and a member of some of the world's largest hedge funds, from Moore Capital to Ziff Brothers and FrontPoint Partners, the author has seen the ghost inside the machine and vividly shows us a world that is even riskier than we think. The very things done to make markets safer, have, in fact, created a world that is far more dangerous. From the 1987 crash to Citigroup closing the Salomon Arb unit, from staggering losses at UBS to the demise of Long Term Capital Management, he gives readers a front row seat to the management decisions made by some of the most powerful financial figures in the world that led to catastrophe, and describes the impact of his own activities on markets and market crashes. Much of the innovation of the last 30 years has wreaked havoc on the markets and cost trillions of dollars. This book tells the story of man's attempt to manage market risk and what it has wrought. In the process of showing what we have done, the author shines a light on what the future holds for a world where capital and power have moved from Wall Street institutions to elite and highly leveraged hedge funds.

BPP PROFESSIONAL EDUCATION

UK financial services, regulation and ethics: 2006/07 tax year; Study text. - Financial Adviser Series 1. - BPP Professional Education, **2006**. - xiv, 324 pages.

Shelved at: EC/49 (Oxf) (Institute); [RKN: 36120]

BPP PROFESSIONAL EDUCATION

UK financial services, regulation and ethics: 2006/07 tax year; Passcards. - Financial Adviser Series 1. - BPP Professional Education, **2006**. - iii, 155 pages.

Shelved at: EC/49 (Oxf) (Institute); [RKN: 36121]

BRIGHAM, EUGENE F; HOUSTON, JOEL

Fundamentals of financial management. - 11th ed. - South-Western, **2006**. - 831, appendix, index pages.

Shelved at: EA (Oxf) (Institute); [RKN: 37922]

CASSIS, Y

Capitals of capital; A history of international financial centres, 1780-2006. - Cambridge University Press, **2006**. - 385 pages.

Shelved at: 900 CAS (Faculty) [RKN: 63653]

CHAKRABARTI, RAJESH

The financial sector in India: emerging issues. - Oxford University Press, **2006**. - xviii, 236 pages.

Shelved at: 332 CHA (Faculty) [RKN: 63657]

Abstract: The past decade of liberalization and globalization has instilled a considerable degree of professionalism and transparency in the style and functioning of financial market analysts and practitioners.

This volume studies some major recent developments and trends in the Indian financial sector. It looks at how rapid globalization is transforming Indian equity markets as well as the emergence and role of equity analysts in India. Presenting rigorous empirical research in an accessible manner it analyses:

growing interlinkages between Indian and global markets

effects of portfolio flows to Indian bourses

transformation of the banking sector in India since liberalization

changes in the foreign exchange market and the emergence of derivatives

corporate governance in India

(from publisher's blurb)

CHIARELLA, CARL; SKLIBOSIOS, CHRISTINA NIKITPOULOS; SCHLOGL, ERIK

A control variate method for Monte Carlo simulations of Heath-Jarrow-Morton models with jumps.

Shelved at: [RKN: 37956]

Applied Mathematical Finance (**2007**) 14 (5): 365-399.

Abstract: This paper examines the pricing of interest rate derivatives when the interest rate dynamics experience infrequent jump shocks modelled as a Poisson process. The pricing framework adapted was developed by Chiarella and Nikitopoulos to provide an extension of the Heath, Jarrow and Morton model to jump-diffusions and achieves Markovian structures under certain volatility specifications. Fourier Transform solutions for the price of a bond option under deterministic volatility specifications are derived and a control variate numerical method is developed under a more general state dependent volatility structure, a case in which closed form solutions are generally not possible. In doing so, a novel perspective is provided on control variate methods by going outside a given complex model to a simpler more tractable setting to provide the control variates.

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CLARKE, DANIEL J

Ambiguity aversion and insurance. - Specialist Applications Dissertation. **2007**. - 32 pages.

Shelved at: EC/TK (Oxf) (Institute); [RKN: 37832]

Abstract: This paper considers financial markets for uncertain cashflow streams when participants are averse to model or parameter uncertainty, or more generally averse to ambiguity. Motivated by the desire to better understand why it is difficult to sell rainfall insurance in the developing world, this paper provides theoretical foundations for a type of constraint on private insurance markets intuitively understood by practitioners but not yet satisfactorily incorporated into theory. It is argued that prudential requirements and information asymmetries cause financial institutions to be better modelled as ambiguity averse decision makers than expected profit maximisers. The model presented also offers explanations for the almost exclusive use of traditional insurance policies which closely match the risk to be insured, and the absence of indexes products as suggested by Shiller (2002).

DEMBINSKI, PAUL H (ED); LAGER, CAROLE (ED); CORNFORD, ANDREW (ED); BONVIN, JEAN-MICHEL (ED)

Enron and world finance; A case study in ethics. - Palgrave Macmillan Observatoire de la Finance, **2006**.
Shelved at: 332 DEM (Faculty) [RKN: 63602]

Abstract: Using the collapse of Enron as a case study, this book not only shows how and where ethics came into play, but also draws lessons and discusses possible remedies that may prevent the whole financial system from falling apart as a result of either excessive greed or over-regulation.

DOKUCHAEV, NIKOLAI G

Mean-reverting market model: speculative opportunities and non-arbitrage.

Shelved at: [RKN: 37532]

Applied Mathematical Finance (**2007**) 14 (4): 319-337.

Abstract: The paper studies arbitrage opportunities and possible speculative opportunities for diffusion mean-reverting market models. It is shown that the Novikov condition is satisfied for any time interval and for any set of parameters. It is non-trivial because the appreciation rate has Gaussian distribution converging to a stationary limit. It follows that the mean-reverting model is arbitrage-free for any finite time interval. Further, it is shown that this model still allows some speculative opportunities: a gain for a wide enough set of expected utilities can be achieved for a strategy that does not require any hypothesis on market parameters and does not use estimation of these parameters.

Photocopy cost: £3.80

DURRELL, FERNANDO J

Optimum constrained portfolio rules in a diffusion market.

Shelved at: [RKN: 36791]

Applied Mathematical Finance (**2006**) 13 (4): 285-307.

Abstract: A portfolio selection model is derived for diffusions where inequality constraints are imposed on portfolio security weights. Using the method of stochastic dynamic programming Hamilton–Jacobi–Bellman (HJB) equations are obtained for the problem of maximizing the expected utility of terminal wealth over a finite time horizon. Optimal portfolio weights are given in feedback form in terms of the solution of the HJB equations and its partial derivatives. An analysis of the no-constraining (NC) region of a portfolio is also conducted.

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EBERLEIN, E; LIINEV, JAN

The Lévy swap market model.

Shelved at: [RKN: 37243]

Applied Mathematical Finance (**2007**) 14 (2): 171-196.

Abstract: Models driven by Lévy processes are attractive since they allow for better statistical fitting than classical diffusion models. The dynamics of the forward swap rate process is derived in a semimartingale setting and a Lévy swap market model is introduced. In order to guarantee positive rates, the swap rates are modelled as ordinary exponentials. The model starts with the most distant rate, which is driven by a non-homogeneous Lévy process. Via backward induction the remaining swap rates are constructed such that they become martingales under the corresponding forward swap measures. Finally it is shown how swaptions can be priced using bilateral Laplace transforms.

Photocopy cost: £2.80

THE ECONOMIST

Guide to economic indicators: making sense of economics. - 6th ed. - Economist Books, **2006**. - xi, 244 pages.

Shelved at: JMGF (Oxf) (Institute); [RKN: 37584]

Abstract: It is essential in business and many professions today to have a thorough understanding of economic information. Written for the non-specialist, this highly accessible guide provides the keys to understanding all the major and many lesser economic indicators: what they are, the areas they cover, their reliability, and how and why to interpret them. It contains chapters covering: GDP (Gross Domestic Product), GNP (Gross National Product) and GNI (Gross National Income); Growth, trends and cycles; Population, employment, unemployment; Government; Consumers; Investment and savings; Industry and commerce; Balance of payments; Exchange rates; Money and financial markets.

EL-GAMAL, MAHMOUD A

Islamic finance; Law, economics, and practice. - Cambridge University Press, **2006**. - xvii, 221 pages.

Shelved at: 332 ELG (Faculty) [RKN: 63654]

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ELLIOTT, ROBERT J; SIU, TAK KUEN; CHAN, LEUNGLUNG

Pricing volatility swaps under Heston's stochastic volatility model with regime switching.

Shelved at: [RKN: 37341]

Applied Mathematical Finance (**2007**) 14 (1): 41-62.

Abstract: A model is developed for pricing volatility derivatives, such as variance swaps and volatility swaps under a continuous-time Markov-modulated version of the stochastic volatility (SV) model developed by Heston. In particular, it is supposed that the parameters of this version of Heston's SV model depend on the states of a continuous-time observable Markov chain process, which can be interpreted as the states of an observable macroeconomic factor. The market considered is incomplete in general, and hence, there is more than one equivalent martingale pricing measure. The regime switching Esscher transform used by Elliott et al. is adopted to determine a martingale pricing measure for the valuation of variance and volatility swaps in this incomplete market. Both probabilistic and partial differential equation (PDE) approaches are considered for the valuation of volatility derivatives.

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EXLEY, JON; SMITH, ANDREW D

The cost of capital for financial firms.

Shelved at: Per: BAJ (Oxf); Per: BAJ (Lon) (Institute); BRI/ACT (Faculty) [RKN: 35848]

BAJ (2006) 12(1): 229-301.

Abstract: Most businesses have assets financed by capital providers. The cost of capital is a measure of the returns required by those capital providers. Its main use is to set a target for the profits, which must be achieved on the firm's assets in order to satisfy equity and bond holders.

This paper describes the classical theory of the cost of capital, and then applies it to the special case of banking and insurance firms. We develop implications for product pricing, performance measurement and capital structure optimisation.

Available for downloading from: <http://www.actuaries.org.uk/knowledge/publications/baj>

FERGUSSON, KEVIN; PLATEN, ECKHARD

On the distributional characterization of daily log-returns of a world stock index.

Shelved at: [RKN: 36227]

Applied Mathematical Finance (2006) 13 (1): 19-38.

Abstract: In this paper distributions are identified which suitably fit log-returns of the world stock index when these are expressed in units of different currencies. By searching for a best fit in the class of symmetric generalized hyperbolic distributions the maximum likelihood estimates appear to cluster in the neighbourhood of those of the Student t distribution. This is confirmed at a high significance level under the likelihood ratio test. Finally, the paper derives the minimal market model, which explains the empirical findings as a consequence of the optimal market dynamics.

Photocopy cost: £2.20

FOUQUE, JEAN-PIERRE; SIRCAR, K RONNIE; SØLNA, KNUT

Stochastic volatility effects on defaultable bonds.

Shelved at: [RKN: 36490]

Applied Mathematical Finance (2006) 13 (3): 215-244.

Abstract: This paper studies the effect of introducing stochastic volatility in the first-passage structural approach to default risk. The impact of volatility time scales on the yield spread curve is analyzed. In particular it is shown that the presence of a short time scale in the volatility raises the yield spreads at short maturities. It is argued that combining first passage default modelling with multiscale stochastic volatility produces more realistic yield spreads. Moreover, this framework enables the use of perturbation techniques to derive explicit approximations which facilitate the complicated issue of calibration of parameters.

Photocopy cost: £6.00

GAMBA, ANDREA; TRIGEORGIS, LENOS

An improved binomial lattice method for multi-dimensional options.

Shelved at: [RKN: 37959]

Applied Mathematical Finance (2007) 14 (5): 453-475.

Abstract: A binomial lattice approach is proposed for valuing options whose payoff depends on multiple state variables following correlated geometric Brownian processes. The proposed approach relies on two simple ideas: a log-transformation of the underlying processes, which is step by step consistent with the continuous-time diffusions, and a change of basis of the asset span, to transform asset prices into uncorrelated processes. An additional transformation is applied to approximate driftless dynamics. Even if these features are simple and straightforward to implement, it is shown that they significantly improve the efficiency of the multi-dimensional binomial algorithm. A thorough test of efficiency is provided compared with most popular binomial and trinomial lattice approaches for multi-dimensional diffusions. Although the order of convergence is the same for all lattice approaches, the proposed method shows improved efficiency.

Photocopy cost: £4.60

GLOBAL RISK NETWORK; WORLD ECONOMIC FORUM; CITIGROUP; MARSH & MCLENNAN COMPANIES; SWISS RE; WHARTON SCHOOL RISK CENTER; ZURICH FINANCIAL SERVICES
Global Risks 2008; A Global Risk Network Report. - World Economic Forum, 2008. - 54 pages.

Shelved at: online only (Institute); online only (Faculty) [RKN: 69132]

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Available for downloading from: <http://www.weforum.org/pdf/globalrisk/report2008.pdf>

GOARD, JOANNA

Using utility functions to model risky bonds.

Shelved at: [RKN: 37430]

Applied Mathematical Finance (2007) 14 (3): 261-289.

Abstract: This paper prices defaultable bonds by incorporating inherent risks with the use of utility functions. By allowing risk preferences into the valuation of bonds, nonlinearity is introduced in their pricing. The utility-function approach affords the advantage of yielding exact solutions to the risky bond pricing equation when familiar stochastic models are used for interest rates. This can be achieved even when the default probability parameter is itself a stochastic variable. Valuations are found for the power-law and log utility functions under the interest-rate dynamics of the extended Vasicek and CIR models.

Photocopy cost: £3.00

GOKHALE, JAGADEESH; SMETTERS, KENT

Do the markets care about the \$2.4 trillion U.S. deficit?

Shelved at: Per: FAJ (Oxf) (Institute); [RKN: 37088]

Financial Analysts Journal (2007) March/April: 37-47.

Abstract: If the U.S. federal government properly accounted for its explicit and promised liabilities, it would record a national debt of \$64 trillion and a national deficit of \$2.4 trillion in 2006. Although capital markets seem to care about the officially reported budget deficit—a metric that is backward looking and quite misleading—the markets have done little more than yawn at the federal government's mammoth, and growing, forward-looking budget imbalance. Are investors uninformed? They should remember that the common belief that capital markets cannot fail is precisely the reason why they can.

Photocopy cost: £2.20

GOURIEROUX, CHRISTIAN; JASIAK, JOHANN

The econometrics of individual risk; Credit, insurance, and marketing. - Princeton University Press, 2007. - xii, 241 pages.

Shelved at: JM/UHG (Oxf) (Institute); [RKN: 36961]

Abstract: The individual risks faced by banks, insurers, and marketers are less well understood than aggregate risks such as market-price changes. But the risks incurred or carried by individual people, companies, insurance policies, or credit agreements can be just as devastating as macroevents such as share-price fluctuations. A comprehensive introduction, this is the first book to provide a complete econometric methodology for quantifying and managing this underappreciated but important variety of risk. The book presents a course in the econometric theory of individual risk illustrated by empirical examples. And, unlike other texts, it is focused entirely on solving the actual individual risk problems businesses confront today. The authors emphasize the microeconomic aspect of risk analysis by extensively discussing practical problems such as retail credit scoring, credit card transaction dynamics, and profit maximization in promotional mailing. They address regulatory issues in sections on computing the minimum capital reserve for coverage of potential losses, and on the credit-risk measure CreditVar. The book will interest graduate students in economics, business, finance, and actuarial studies, as well as actuaries and financial analysts.

GRASSELLI, M R; HURD, T R

Indifference pricing and hedging for volatility derivatives.

Shelved at: [RKN: 37531]

Applied Mathematical Finance (2007) 14 (4): 303-317.

Abstract: Utility based indifference pricing and hedging are now considered to be an economically natural method for valuing contingent claims in incomplete markets. However, acceptance of these concepts by the wide financial community has been hampered by the computational and conceptual difficulty of the approach. This paper focuses on the problem of computing indifference prices for derivative securities in a class of incomplete stochastic volatility models general enough to include important examples. A rigorous development is presented based on identifying the natural martingales in the model, leading to a nonlinear Feynman-Kac representation for the indifference price of contingent claims on volatility. To illustrate the power of this representation, closed form solutions are given for the indifference price of a variance swap in the standard Heston model and in a new "reciprocal Heston" model. These are the first known explicit formulas for the indifference price for a class of derivatives that is important to the finance industry.

Photocopy cost: £3.00

GRAY, JOANNA; HAMILTON, JENNY

Implementing financial regulation; Theory and practice. - Wiley Finance. - John Wiley & Sons Ltd, 2006. - xi, 271 pages.

Shelved at: 344.01 GRA (Faculty) [RKN: 63660]

Contents includes: Preface - ix

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The wider regulatory and legal context for senior management - 143

Regulation and the emergence of the financial citizen - 187

An illustrated critique of meta regulation and concluding comments - 227

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GREENSPAN, ALAN

The age of turbulence; Adventures in a new world. - Allen Lane, 2007. - 531 pages.

Shelved at: JA (Oxf) (Institute); [RKN: 37882]

Abstract: The most remarkable thing that happened to the world economy after 9/11 was ...nothing. What would have once meant a crippling shock to the system was absorbed astonishingly quickly, partly due to the efforts of the then Chairman of the Federal Reserve Board, Alan Greenspan. The post 9/11 global economy is a new and turbulent system - vastly more flexible, resilient, open, self-directing, and fast-changing than it was even twenty years ago. The Age of Turbulence is an incomparable reckoning with the nature of this new world - how we got here, what we're living through, and what lies over the horizon, for good or ill, channelled through Greenspan's own experiences working in the command room of the global economy for longer and with greater effect than any other single living figure. He will share the story of his life to convey to readers the full flavour of the extraordinary years he has experienced and shaped, taking full measure of the individuals who made strong impressions on him, including every US President from Nixon to George W. Bush, and Prime Ministers Thatcher and Blair, and the great crises and challenges that they faced. His other goal is to draw readers along the same learning curve he followed, so they have a grasp of his own

clear-sighted and hard-won understanding of the dynamics that drive world events. The distillation of a life's worth of wisdom and insight into an elegant expression of a coherent worldview, this book will stand as Alan Greenspan's personal and intellectual legacy.

GUO, JIA-HAU; HUNG, MAO-WEI

A note on the discontinuity problem in Heston's stochastic volatility model.

Shelved at: [RKN: 37533]

Applied Mathematical Finance (2007) 14 (4): 339-345.

Abstract: Although quasi-analytic formulas can be derived for European-style financial claims in Heston's stochastic volatility model, the inverse Fourier integration involved makes the calculation somewhat complicated. This challenge has puzzled practitioners for many years because most implementations of Heston's formula are not robust, even for customarily-used Heston parameters, as time to maturity is increased. In this article, a simplified approach is proposed to solve the numerical instability problem inherent to the fundamental solution of the Heston model. Specifically, the solution does not require any additional function or a particular mechanism for most software packages or programming library routines to correctly evaluate Heston's analytics.

Photocopy cost: £1.40

GURENKO, EUGENE

Climate change and insurance; Disaster risk financing in developing countries. - Earthscan, 2007. - 88 pages.

Shelved at: JNE/BU (Oxf) (Institute); [RKN: 37587]

Abstract: Climate change brings about a new set of major economic risks arising from changing weather patterns, extreme weather events and rising sea levels. Those most at risk are developing countries, which have been bearing the major brunt of disaster-related losses, despite considerable post-disaster donor aid. One adaptation solution that is rapidly gaining the support of countries and international donors is a risk transfer to the global reinsurance and capital markets. This volume, a special issue of Climate Policy journal, explores the role that insurance-based mechanisms can play in helping developing countries to prepare for climate change. It offers a unique and comprehensive perspective on the potential role of insurance solutions in global adaptation to climate change

Contents includes: Introduction

Scientific and economic rationales for innovative climate insurance solutions

Insurance for assisting adaptation to climate change in developing countries: a proposed strategy

Insuring the uninsurable: design options for a climate change funding mechanism

Role of the private market in catastrophe insurance

The Indian insurance industry and climate change: exposure, opportunities and strategies ahead

Can insurance deal with negative effects arising from climate policy measures?

Conclusions and recommendations

HAGAN, PATRICK S; WEST, GRAEME

Interpolation methods for curve construction.

Shelved at: [RKN: 36282]

Applied Mathematical Finance (2006) 13 (2): 89-129.

Abstract: This paper surveys a wide selection of the interpolation algorithms that are in use in financial markets for construction of curves such as forward curves, basis curves, and most importantly, yield curves. In the case of yield curves the issue of bootstrapping is reviewed and how the interpolation algorithm should be intimately connected to the bootstrap itself is discussed. The criterion for inclusion in this survey is that the method has been implemented by a software vendor (or indeed an inhouse developer) as a viable option for yield curve interpolation. As will be seen, many of these methods suffer from problems: they posit unreasonable expectations, or are not even necessarily arbitrage free. Moreover, many methods lead one to derive hedging strategies that are not intuitively reasonable. In the last sections, two new interpolation methods (the monotone convex method and the minimal method) are introduced, which it is believed overcome many of the problems highlighted with the other methods discussed in the earlier sections.

Photocopy cost: £4.20

HENRARD, MARC

A semi-explicit approach to Canary swaptions in HJM one-factor model.

Shelved at: [RKN: 36226]

Applied Mathematical Finance (2006) 13 (1): 1-18.

Abstract: Leveraging the explicit formula for European swaptions and coupon-bond options in the HJM one-factor model, a semi-explicit formula for 2-Bermudan options (also called Canary options) is developed. The European swaption formula is extended to future times. So equipped, one is able to reduce the valuation of a 2-Bermudan swaption to a single numerical integration at the first expiry date. In that integration the most complex part of the embedded European swaptions valuation has been simplified to perform it only once and not for every point. In a special but very common in practice case, a semi-explicit formula is provided. Those results lead to a significantly faster and more precise implementation of swaption valuation. The improvements extend even more favourably to sensitivity calculations.

Photocopy cost: £2.00

HOLAHAN, WILLIAM L; KRONCKE, CHARLES O

Social security bonds and the concept of reciprocal responsibility.

Shelved at: RIS/MAN (Faculty) [RKN: 69048]

Risk Management and Insurance Review (2007) 10 (1): 87-92.

Abstract: The current debate and parallel monologues about Social Security suffer from a failure to distinguish between money and bonds. Consequently, it is impossible to discuss intelligently the solvency or affordability of the Social Security system. In this article, we present a new graph that clarifies this crucial distinction. Bonds are evidence of loans to be repaid on a schedule. These loans can be strictly monetary, as in the private sector, or a mix of monetary and moral, as in the intergenerational reciprocity of obligations. To treat public sector bonds as strictly monetary is economic error as fundamental as denying the existence of public goods.

Photocopy cost: 6 sheets = £1.20

HOWISON, SAM; STEINBERG, MARIO

A matched asymptotic expansions approach to continuity corrections for discretely sampled options. Part 1: Barrier options.

Shelved at: [RKN: 37342]

Applied Mathematical Finance (2007) 14 (1): 63-89.

Abstract: This paper discusses the 'continuity correction' that should be applied to relate the prices of discretely sampled barrier options and their continuously-sampled equivalents. Using a matched asymptotic expansions approach it is shown that the correction of Broadie, Glasserman & Kou (Mathematical Finance 7, 325 (1997)) can be applied in a very wide variety of cases. The correction to higher order is calculated in terms of the expansion parameter (the scaled time between resets) and it is shown how to apply the correction in jump-diffusion and local volatility models.

Photocopy cost: £5.40

HOWISON, SAM

A matched asymptotic expansions approach to continuity corrections for discretely sampled options. Part 2: Bermudan options.

Shelved at: [RKN: 37343]

Applied Mathematical Finance (2007) 14 (1): 91-104.

Abstract: The paper discusses the 'continuity correction' that should be applied to connect the prices of discretely sampled American put options (i.e. Bermudan options) and their continuously-sampled equivalents. Using a matched asymptotic expansions approach the correction is computed and related to that discussed by Broadie, Glasserman & Kou (1997) (Mathematical Finance, 7, p.325) for barrier options. In the Bermudan case, the continuity correction is an order of magnitude smaller than in the corresponding barrier problem. It is also shown that the optimal exercise boundary in the discrete case is slightly higher than in the continuously sampled case.

Photocopy cost: £2.80

JONES, ANDREW

Applied econometrics for health economists: a practical guide. - 2nd ed. - Radcliffe Publishing Office of Health Economics, 2007. - vii, 120 pages.

Shelved at: 330.1 JON (Faculty) [RKN: 63645]

Abstract: Given the extensive use of individual-level survey data in health economics, it is important to understand the econometric techniques available to applied researchers. This book aims to introduce readers to the appropriate econometric techniques for use with different forms of survey data - known collectively as microeconometrics.

Contents includes: Introduction - the evaluation problem and linear regression - 1

The health and lifestyle survey - 4

Binary dependent variables - 10

The ordered probit model - 22

Multinomial models - 26

The bivariate probit model - 31

The selection problem - 35

Endogenous regressors - the evaluation problem revisited - 41

Count data regression - 49

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Panel data models - 71

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Software appendix: full Stata code
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JOSHI, MARK S

A simple derivation of and improvements to Jamshidian's and Rogers' upper bound methods for Bermudan options.

Shelved at: [RKN: 37426]

Applied Mathematical Finance (**2007**) 14 (3): 197-205.

Abstract: The additive method for upper bounds for Bermudan options is rephrased in terms of buyer's and seller's prices. It is shown how to deduce Jamshidian's upper bound result in a simple fashion from the additive method, including the case of possibly zero final pay-off. Both methods are improved by ruling out exercise at sub-optimal points. It is also shown that it is possible to use sub-Monte Carlo simulations to estimate the value of the hedging portfolio at intermediate points in the Jamshidian method without jeopardizing its status as upper bound.

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KLEBANER, FIMA; LE, TRUC; LIPTSER, ROBERT

On estimation of volatility surface and prediction of future spot volatility.

Shelved at: [RKN: 36491]

Applied Mathematical Finance (**2006**) 13 (3): 245-263.

Abstract: A stochastic process $v(t)$ is considered as a model for asset's spot volatility. A new approach is introduced for predicting future spot volatility and future volatility surface using a finite set of observed option prices. When the volatility parameter σ in the Black-Scholes formula [formula] is represented by the integrated volatility [formula], then the local volatility surface can be estimated. The main idea is to linearize the expressions for implied volatility by using a result on Normal correlation. This linearization is obtained by introducing various ad hoc approximations.

Photocopy cost: £3.80

KOOP, GARY

Analysis of financial data. - John Wiley & Sons, **2006**. - 240 pages.

Shelved at: 332.01 KOO (Faculty) [RKN: 63605]

Abstract: Teaches basic methods and techniques of data analysis to finance students. It covers tools used by the financial economist. It shows students how to apply the techniques in the context of real-world empirical problems. It adopts a largely non-mathematical approach relying on verbal and graphical intuition and contains use of real data examples.

KRETZSCHMAR, GAVIN L; MOLES, PETER

The impact of tax shocks and oil price volatility on risk - a study of North Sea oilfield projects. - Centre for Financial Markets Research Working Paper 06.01. - University of Edinburgh, School of Management, **2006**. - 29 pages.

Shelved at: EENA/UHG pam (Oxf) (Institute); EDI/UNI (Faculty) [RKN: 36582]

Abstract: We examine the impact of market volatility and increased fiscal take on risk in strategic natural resource projects. An increase in 2006 UK oilfield taxation is used as a natural experiment for assessing the impact of a fiscal increase on oilfield projects comprising 73% of UK reserves. Stochastic cash flow at risk models combine market volatility and tax-take at the oilfield level to extend earlier North Sea studies. We demonstrate that a 10% Secondary tax increase in a composite UKCS fiscal system with a-priori nonlinearity directly increases overall cost structures, resulting in a 14% decrease in project values, and significantly, a 67% risk increase for UK Oilfields. Risk effects are asymmetrical across the size varying sample, marginal prospects are most affected.

Available for downloading from:

http://webdb.ucs.ed.ac.uk/management/school_new/research/working_papers/cfm/2006/paper_061.pdf.pdf

KRIPPNER, LEO

A theoretically consistent version of the Nelson and Siegel class of yield curve models.

Shelved at: [RKN: 36228]

Applied Mathematical Finance (**2006**) 13 (1): 39-59.

Abstract: A popular class of yield curve models is based on the Nelson and Siegel approach of 'fitting' yield curve data with simple functions of maturity. However, such models cannot be consistent across time. This article addresses that deficiency by deriving an intertemporally consistent and arbitrage-free version of the Nelson and Siegel model. Adding this theoretical consistency expands the potential applications of the Nelson and Siegel approach to exercises involving a time-series context, such as forecasting the yield curve and pricing interest rate derivatives. As a practical example, the intertemporal consistency of the model is exploited to derive a theoretical framework for forecasting the yield curve. The empirical application of that framework to United States data results in out-of-sample forecasts that outperform the random walk over the sample period of almost 50 years, for forecast horizons ranging from six months to three years.

Photocopy cost: £2.20

KRUGMAN, PAUL; WELLS, ROBIN; GRADDY, KATHRYN

Economics (European ed.) - Worth, **2007**.

Shelved at: JA (Oxf) (Institute); [RKN: 37924]

KU, HYEJIN

Liquidity risk with coherent risk measures.

Shelved at: [RKN: 36283]

Applied Mathematical Finance (**2006**) 13 (2): 131-141.

Abstract: This paper concerns questions related to the regulation of liquidity risk, and proposes a definition of an acceptable portfolio. Because the concern is with risk management, the paper considers processes under the physical (rather than the martingale) measure. Basically, a portfolio is 'acceptable' provided there is a trading strategy (satisfying some limitations on market liquidity) which, as some fixed date in the future, produces a cash-

only position, (possibly) having positive future cash flows, which is required to satisfy a 'convex risk measure constraint'.

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KWON, OH KANG

Mean reversion level extensions of time-homogeneous affine term structure models.

Shelved at: [RKN: 37530]

Applied Mathematical Finance (2007) 14 (4): 291-302.

Abstract: It is well-known that time-homogeneous affine term structure models are incompatible with most observed initial forward rate curves. For the Vasiek (1977) and Cox et al. (1985) models, time-inhomogeneous extensions capable of fitting any given initial forward rate curve were introduced in Hull and White (1990), and similar extensions, for short rate models in general, were introduced in Björk and Hyll (2000), Brigo and Mercurio (2001), and Kwon (2004). In this paper, we introduce a general and systematic method for obtaining time-inhomogeneous extensions of affine term structure models that are compatible with any observed initial forward rate curve. These extensions are minimal in the sense that the system of Riccati equations determining the bond prices remain essentially unchanged under the extension. Moreover, the extensions considered in Björk and Hyll (2000), Brigo and Mercurio (2001), and Kwon (2004), for time-homogeneous affine term structure models, are all special cases of the extensions introduced in this paper.

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LORD, ROGER; PELSSER, ANTOON

Level-Slope-Curvature - fact or artefact?

Shelved at: [RKN: 37240]

Applied Mathematical Finance (2007) 14 (2): 105-130.

Abstract: The first three factors resulting from a principal components analysis of term structure data are, in the literature, typically interpreted as driving the level, slope and curvature of the term structure. Using slight generalizations of theorems from total positivity, we present sufficient conditions under which level, slope and curvature are present. These conditions have the nice interpretation of restricting the level, slope and curvature of the correlation surface. It is proven that the Schoenmakers-Coffey correlation matrix also brings along such factors. Finally, we formulate and corroborate a conjecture that the order present in correlation matrices cause slope.

Photocopy cost: £2.80

MADRIAN, BRIGITTE (ED); MITCHELL, OLIVIA S (ED); SOLDI, BETH J (ED)

Redefining retirement; How will Boomers fare? - Oxford University Press, 2007. - xxiii, 321 pages.

Shelved at: 368.43 MAD (Faculty) [RKN: 63879]

Abstract: As the leading edge of the 'Baby Boom' generation attains age 60, members of this unusually large cohort born 1946-66 are poised to redefine retirement - just as they have restructured educational, housing, and labor markets in prior days. Looking ahead, their numbers and energy are sure to have a major impact on national pensions, healthcare, and social safety nets. Contributors to this volume note that 'Boomers' will be better off than their predecessors in many ways, having benefited from the long run-up in housing prices, dramatic improvements in healthcare, and the expanding economy. On the other hand, the generation's sheer size will surely squeeze resources and require new approaches to retirement risk management. This volume paints a complex and fascinating picture as

Boomers move into retirement. On average they are in better financial and physical health than prior cohorts, and they can be anticipated to fare better than current retirees in absolute terms. Yet the distribution of retiree income and wealth will be less equal than in earlier years, and in relative terms, many Boomers will be less well off than their forebears. Contributors to the volume use many invaluable models and datasets, including the incomparable Health and Retirement Study (HRS) which affords unique insights into the status of mature adults surveyed at the same age and hence same point in their life cycles, but at three different time periods. Analysts offer new evidence about prospects for health and income during retirement, as well as pensions and housing equity, health, portfolio allocation, and financial literacy. This book offers readers an invaluable and first book-length study of Boomers as they march into retirement. As such, it represents an invaluable addition to the Pension Research Council/Oxford University Press series. It will be especially useful for scholars and policymakers seeking to understand retirement preparedness, to actuaries and tax specialists (Dawsons)

Contents includes: PART I: PROSPECTS FOR BABY BOOMER RETIREMENT; Will Boomers Redefine Retirement?; Cross-Cohort Differences in Retirement Expectations and Realizations; The Sufficiency of Retirement Savings: Comparing Cohorts at the Time of Retirement; Understanding Baby Boomers' Retirement Prospects; PART II: CHANGING HEALTH STATUS AND HEALTH INSURANCE; Are Boomers Living Well Longer?; Baby Boomers vs Their Parents: Economic Well-Being and Health Status; Cross-Cohort Differences in Health on the Verge of Retirement; Health Insurance Patterns Nearing Retirement; PART III: NEW ROLES FOR RETIREMENT ASSETS; The Impact of Pensions on Non-pension Investment Choices; Measuring Pension Wealth; Trends in Pension Values around Retirement; Pension Portfolio Choice and Menu Exposure; Saving Between Cohorts: The Role of Planning; Retiring on the House? Cross-Cohort Differences in Housing Wealth

MANKIW, N GREGORY; TAYLOR, MARK P

Economics. - Thomson, **2006**. - xxxiv, 830 pages.

Shelved at: JA (Oxf) (Institute); [RKN: 36807]

MARI, CARLO; RENÒ, ROBERTO

Arbitrary initial term structure within the CIR model: a perturbative solution.

Shelved at: [RKN: 36284]

Applied Mathematical Finance (**2006**) 13 (2): 143-153.

Abstract: Single-factor interest rate models with constant coefficients are not consistent with arbitrary initial term structures. An extension which allows both arbitrary initial term structure and analytical tractability has been provided only in the Gaussian case. In this paper, within the context of the HJM methodology, an extension of the CIR model is provided which admits arbitrary initial term structure. It is shown how to calculate bond prices via a perturbative approach, and closed formulas are provided at every order. Since the parameter selected for the expansion is typically estimated to be small, the perturbative approach turns out to be adequate to our purpose. Using results on affine models, the extended CIR model is estimated via maximum likelihood on a time series of daily interest rate yields. Results show that the CIR model provides a more flexible characterization of the link between risk neutral and natural probability.

Photocopy cost: £1.20

MILLS, TERENCE C; MARKELLOS, RAPHAEL N

The econometric modelling of financial time series. - 3rd ed. - Cambridge University Press, **2008**. - xiii, 456 pages.

Shelved at: UGF/JM (Oxf) (Institute); [RKN: 37954]

Contents includes: Univariate linear stochastic models: basic concepts
Univariate linear stochastic models: testing for unit roots and alternative trend specifications
Univariate linear stochastic models: further topics
Univariate non-linear stochastic models
Modelling return distributions
Regression techniques for non-integrated financial time series
Regression techniques for integrated financial time series
Further topics in the analysis of integrated financial time series

MINNS, RICHARD

'Estafa': Dictatorship, debt, weapons and pensions in Argentina - An alternative perspective on pension 'reform' in Latin America.

Shelved at: PENSIO (Faculty) [RKN: 68959]

Pensions: An International Journal (**2007**) 12 (4): 199-205.

Abstract: Analysis of pension reforms in Latin America does not take into account the role of international debt and the reasons for it. Taking Argentina as an important case study, the paper explains how enormous external debt was incurred to buy financially unproductive weapons during the 1976–1983 military junta and suggests that state pensions were decimated to pay for it. The subsequent introduction of a part-private system was not based on conventional actuarial concerns but was the result of a military build-up supported by 'the West', which attributed pension failure to local issues. Argentina later introduced measures to reconstruct a state system.

Keywords: Argentina, debt, pension reform, the military, weapons

Photocopy cost: 15 sheets = £3.00

MORINI, MASSIMO; WEBBER, NICK

An EZI method to reduce the rank of a correlation matrix in financial modelling.

Shelved at: [RKN: 36792]

Applied Mathematical Finance (**2006**) 13 (4): 309-331.

Abstract: Reducing the number of factors in a model by reducing the rank of a correlation matrix is a problem that often arises in finance, for instance in pricing interest rate derivatives with Libor market models. A simple iterative algorithm for correlation rank reduction is introduced, the eigenvalue zeroing by iteration, EZI, algorithm. Its convergence is investigated and extension presented with particular optimality properties. The performance of EZI is compared with those of other common methods. Different data sets are considered including empirical data from the interest rate market, different possible market cases and criteria, and a calibration case. The EZI algorithm is extremely fast even in computationally complex situations, and achieves a very high level of precision. From these results, the EZI algorithm for financial application has superior performance to the main methods in current use.

Photocopy cost: £4.60

MUROI, YOSHIFUMI

Pricing lookback options with knock-out boundaries.

Shelved at: [RKN: 36285]

Applied Mathematical Finance (2006) 13 (2): 155-190.

Abstract: In the last decade, many kinds of exotic options have been traded and introduced in the financial market. This paper describes a new kind of exotic option, lookback options with knock-out boundaries. These options are knock-out options whose pay-offs depend on the extrema of a given securities price over a certain period of time. Closed form expressions for the price of seven kinds of lookback options with knock-out boundaries are obtained in this article. The numerical studies have also been presented.

Photocopy cost: £3.80

NAGANO, SATOSHI

Lessons learnt from the mounting non-performing loans in Japan after the 1990s.

Shelved at: JOU/FIN (Faculty) [RKN: 63869]

Journal of Financial Services Marketing (2006) 11 (2): 180-189.

Abstract: When the property bubble burst in the 1990s, the corporate and banking sectors in Japan suffered from historically huge losses that resulted in a sluggish economy that lasted nearly 15 years. In 2002, the economy finally bottomed out. By going through this process, Japan learnt many lessons in the fields of economics, sociology, and politics. Two critical lessons that the financial authorities gleaned from this experience are: (1) Disclosure of the current conditions of financial institutions in the early stages is of the utmost importance. Once losses start to mount, disclosure and one-time compensation should trigger a systemic risk. (2) At times when a country is going through a strong economic period, it is important to make preparations for economic stagnation. To ensure that this is successful, the first step is for the public sector to share the understanding of the current economic conditions and the forecasts for its seeable future. It is also important that they disclose this knowledge to other authorities and people to ensure transparency. Those lessons are not so special, rather ordinary. But it is difficult to practice them. The mechanism of the bubble economy and how it burst is not clear yet in economics. But history shows such situations repeat themselves in different ways. In the process of globalisation, excess liquidity in the financial market is invested into too illiquid assets all over the world, especially in the emerging countries and real property market. To know what is happening is critical. But the domestic authorities who supervise financial institutions in the mother market face two difficulties to do it. Owing to the development of IT, the boundary between financial institutions and funds becomes vague and investment money will go freely over cross-border

Photocopy cost: 10 sheets = £2.00

OFFICE FOR NATIONAL STATISTICS

Annual Abstract of Statistics 2007. - The Stationery Office, 2007. Holding: Inst and Fac: 1990-

Shelved at: 511/735 (Institute); Reference (Faculty) [RKN: 1605]

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

OECD factbook 2007; Economic, environmental and social statistics. - OECD, **2007**. - 275 pages.

Shelved at: JA/735 (Oxf) (Institute); [RKN: 37589]

Abstract: This is a comprehensive and dynamic statistical annual from the OECD. More than 100 indicators cover a wide range of areas: economy, agriculture, education, energy, environment, foreign aid, health and quality of life, industry, information and communications, population/labor force, trade and investment, taxation, public expenditure, and R&D.

PARKIN, MICHAEL; POWELL, MELANIE; MATTHEWS, KENT

Economics. - 7th ed. - Pearson Education, **2007**. - xli, 833 pages.

Shelved at: JA (Oxf) (Institute); [RKN: 37923]

POLE, ANDREW

Statistical arbitrage; Algorithmic trading insights and techniques. - John Wiley & Sons, **2007**. - xxiii, 230 pages.

Shelved at: EBBB/UN (Oxf) (Institute); [RKN: 37815]

Abstract: While statistical arbitrage has faced some tough times as markets experienced dramatic changes in dynamics beginning in 2000 new developments in algorithmic trading have allowed it to rise from the ashes of that fire. Based on the results of the author's own research and experience running a statistical arbitrage hedge fund for eight years, in partnership with a group whose own history stretches back to the dawn of what was first called pairs trading, this unique guide provides detailed insights into the nuances of a proven investment strategy. Filled with in-depth insights and expert advice, the book contains comprehensive analysis that will appeal to both investors looking for an overview of this discipline, as well as quants looking for critical insights into modeling, risk management, and implementation of the strategy.

Contents includes: Monte Carlo or bust

Statistical arbitrage

Structural models

Law of reversion

Gauss is not the god of reversion

Interstock volatility

Quantifying reversion opportunities

Nobel difficulties

Trinity troubles

Arise black boxes

Statistical arbitrage rising

Appendix: Understanding the cuscure

PRIMBS, JAMES A; RATHINAM, MURUHAN; YAMADA, YUJI

Option pricing with a pentanomial lattice model that incorporates skewness and kurtosis.

Shelved at: [RKN: 37339]

Applied Mathematical Finance (2007) 14 (1): 1-17.

Abstract: This paper analyzes a pentanomial lattice model for option pricing that incorporates skewness and kurtosis of the underlying asset. The lattice is constructed using a moment matching procedure, and explicit positivity conditions for branch probabilities are provided in terms of skewness and kurtosis. We also explore the limiting distribution of this lattice, which is compound Poisson, and give a Fourier transform based formula that can be used to more efficiently price European call and put options. An example illustrates some of the features of this model in capturing volatility smiles and smirks.

Photocopy cost: £3.60

RIBEIRO, CLAUDIA; WEBBER, NICK

Correcting for simulation bias in Monte Carlo methods to value exotic options in models driven by Lévy processes.

Shelved at: [RKN: 36793]

Applied Mathematical Finance (2006) 13 (4): 333-352.

Abstract: Lévy processes can be used to model asset return's distributions. Monte Carlo methods must frequently be used to value path dependent options in these models, but Monte Carlo methods can be prone to considerable simulation bias when valuing options with continuous reset conditions. This paper shows how to correct for this bias for a range of options by generating a sample from the extremes distribution of the Lévy process on subintervals. The method uses variance-gamma and normal inverse Gaussian processes. The method gives considerable reductions in bias, so that it becomes feasible to apply variance reduction methods. The method seems to be a very fruitful approach in a framework in which many options do not have analytical solutions.

Photocopy cost: £4.00

ROBINSON, J; BARTON, J; DOSWELL, C; HEYDON, M; MILTON, L

Climate change law: emissions trading in the EU and UK. - Cameron May Ltd, 2007. - 927 pages.

Shelved at: P/JNE (Oxf) (Institute); [RKN: 36964]

Abstract: This book is the first comprehensive analysis of the regulatory framework for carbon trading in Europe. It brings together in one volume the first full legal analysis of EU and UK law relating to the EU emissions trading scheme, and all the legislative materials necessary to understand this innovative and complex area of environmental law.

It also includes the first published legal account of the UK's ground-breaking use of market-based instruments to address climate change: the Climate Change Agreements and the UK Emissions Trading Scheme.

There has been an exponential growth in international interest and investment in carbon finance since the launch of the EU emissions trading scheme in 2005. In 2005 alone, the value of the European carbon market is estimated to have been more than €5bn. With emissions trading schemes under development across the world, the EU scheme will act not only as the prototype for the design of other schemes but is also emerging as the centre of the global carbon market.

This book provides both practitioners and policy makers with the comprehensive materials necessary to gain a full understanding of the EU scheme and related UK domestic instruments. It is an essential companion for any professional advising on carbon trading in the UK or EU and a user-friendly reference tool for lawyers, carbon traders, and those

working in regulated industries and financial institutions with an interest in carbon finance. It also provides an invaluable set of materials and lessons learned for policy makers and industry in jurisdictions where carbon trading are under development and for those with an interest in the use of market-based mechanisms to address other environmental problems.

ROSALIE, JOSEPH; KAH, BLAISE; DINEEN, SEAN

FAS 123R; Time to get to work.

Shelved at: PENSIO (Faculty) [RKN: 63844]

Pensions: An International Journal (2006) 12 (1): 18-23.

Abstract: This paper provides a comprehensive perspective of the overlapping requirements of FAS 123R, the American Jobs Creation Act (AJCA) and Sarbanes-Oxley. It details the Deloitte approach to compliance and how this process can generate programme and process improvements that can lead to a competitive advantage.

Photocopy cost: 6 sheets = £1.20

ROSS, STEPHEN A; WESTERFIELD, RANDOLPH W; JORDAN, BRADFORD D

Fundamentals of corporate finance. - 8th ed. - McGraw Hill, 2007. - xxxvii, 753 pages.

Shelved at: EC (Oxf) (Institute); [RKN: 36963]

RUDLOFF, BIRGIT

Convex hedging in incomplete markets.

Shelved at: [RKN: 37958]

Applied Mathematical Finance (2007) 14 (5): 437-452.

Abstract: In incomplete financial markets not every contingent claim can be replicated by a self-financing strategy. The risk of the resulting shortfall can be measured by convex risk measures, recently introduced by Föllmer and Schied (2002). The dynamic optimization problem of finding a self-financing strategy that minimizes the convex risk of the shortfall can be split into a static optimization problem and a representation problem. It follows that the optimal strategy consists in superhedging the modified claim $[H]$, where H is the payoff of the claim and $[]$ is a solution of the static optimization problem, an optimal randomized test. In this paper, necessary and sufficient optimality conditions are deduced for the static problem using convex duality methods. The solution of the static optimization problem turns out to be a randomized test with a typical 0-1-structure.

Photocopy cost: £3.20

SABALOT, DEBORAH (ED)

Butterworths financial services law handbook. - 8th ed. - Butterworths, 2007. - xiv, 2556 pages.

Shelved at: CC/P (Lon) (Institute); [RKN: 37277]

Abstract: This book is published annually and brings together in a single volume the primary, secondary and European legislation which forms the regulatory framework for the financial services industry. All of the relevant statutory instruments made under FSMA 2000 are set out as amended in Sections A and B of Part III. The last edition saw the inclusion of a new Appendix listing every UK statutory instrument made under FSMA 2000 with a brief summary of its effect. Other relevant secondary legislation is also included covering areas such as the Proceeds of Crime Act 2002 and anti-money laundering regulations. Part IV (European material) has been greatly expanded in the last two editions. To complete this comprehensive work, lists or tables of all amending enactments are included at the beginning of each Act, statutory instrument and European Directive and Regulation. 2007 is an important year in the

field of financial services. The Capital Requirements Directive, the Transparency Directive, and the Markets in Financial Instrument Directive all require transposition into UK law in December 2006 and January 2007.

SABALOT, DEBORAH (ED)

Butterworths financial services law handbook. - 9th ed. - Butterworths, **2008**. - xiv, 2556 pages.

Shelved at: CC/P (Oxf) (Institute); [RKN: 38031]

Abstract: This book is published annually and brings together in a single volume the primary, secondary and European legislation which forms the regulatory framework for the financial services industry. All of the relevant statutory instruments made under FSMA 2000 are set out as amended in Sections A and B of Part III. The last edition saw the inclusion of a new Appendix listing every UK statutory instrument made under FSMA 2000 with a brief summary of its effect. Other relevant secondary legislation is also included covering areas such as the Proceeds of Crime Act 2002 and anti-money laundering regulations. Part IV (European material) has been greatly expanded in the last two editions. To complete this comprehensive work, lists or tables of all amending enactments are included at the beginning of each Act, statutory instrument and European Directive and Regulation. The 9th edition is the culmination of a significant period of change for the regulatory framework for financial services. The last year has seen the transposition into UK law of the provisions of the Markets in Financial Instruments Directive (MiFID), but yet more change, both in the UK and in Europe, remains on the cards.

SANCETTA, ALESSIO; SATCHELL, STEPHEN E

Changing correlation and equity portfolio diversification failure for linear factor models during market declines.

Shelved at: [RKN: 37428]

Applied Mathematical Finance (**2007**) 14 (3): 227-242.

Abstract: The paper considers a linear factor model (LFM) to study the behaviour of the correlation coefficient between various stock returns during a downturn. Changing correlation is related to the tail distribution of the driving factors, which is the market for Sharpe's one-factor model. General classes of distribution functions are considered and asymptotic conditions found on the tails of the distribution, which determine whether diversification will succeed or fail during a market decline.

Photocopy cost: £1.80

SINGLETON, KENNETH J

Empirical dynamic asset pricing; Model specification and econometric assessment. - Princeton University Press, **2006**. - xiv, 480 pages.

Shelved at: 332.6 SIN (Faculty) [RKN: 63663]

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SLOMAN, JOHN

Economics. - 6th ed. - FT Prentice Hall, **2006**. - xxvi, 750 pages.

Shelved at: JA (Oxf) (Institute); [RKN: 36805]

SLOMAN, JOHN

Essentials of economics. - 4th ed. - FT Prentice Hall, **2007**. - xxiii, 473 pages.

Shelved at: JA (Oxf) (Institute); [RKN: 36806]

STERN, NICHOLAS

The economics of climate change; The Stern Review. - Cambridge University Press, **2007**. - xix, 692 pages.

Shelved at: 363.7 STE (Faculty) [RKN: 63695]

Abstract: 'There is now clear scientific evidence that emissions from economic activity are causing changes to Earth's climate. The Stern Review is an accessible, independent, and comprehensive analysis of the economic aspects of this crucial issue. It has been conducted by Sir Nicholas Stern, Head of the UK Government Economic Service, and a former Chief Economist of the World Bank. This book will be invaluable for anyone interested in the economics and policy implications of climate change, and students, economists, scientists and policy makers involved in all aspects of climate change' - publisher's blurb.

STOYANOV S V; RACHEV, S T; FABOZZI, FRANK J

Optimal financial portfolios.

Shelved at: [RKN: 37957]

Applied Mathematical Finance (**2007**) 14 (5): 401-436.

Abstract: The classes of reward-risk optimization problems that arise from different choices of reward and risk measures are considered. In certain examples the generic problem reduces to linear or quadratic programming problems. An algorithm based on a sequence of convex feasibility problems is given for the general quasi-concave ratio problem. Reward-risk ratios that are appropriate in particular for non-normal assets return distributions and are not quasi-concave are also considered.

Photocopy cost: £7.20

TCHUINDJO, LEONARD

Pricing of multi-defaultable bonds with a two-correlated-factor Hull-White model.

Shelved at: [RKN: 37340]

Applied Mathematical Finance (2007) 14 (1): 19-39.

Abstract: This research attempts to propose closed-form solutions for prices of credit-risky bonds, assuming a nonzero correlation between interest rates and credit spreads. The times of default of a credit-risky bond are modelled as the jump times of a Cox process, following the method of Lando, with an intensity that follows a Hull and White model, correlated with a similar model of the risk-free interest rate. Under the fractional recovery of market value assumption of Duffie and Singleton, the partial differential equation (PDE) for the price of the zero-coupon credit-risky bond is derived. Then this PDE is analytically solved, using the method of separation of variables, and easy-to-implement closed-form solutions are found. Finally, numerical examples are presented to show how these closed-form solutions can identify the magnitude and the direction of the credit-risky bond mispricing under different parameter assumptions.

Photocopy cost: £4.20

TOURRUCÔO, FABRICIO; HAGAN, PATRICK S; SCHLEINIGER, GILBERTO F

Approximate formulas for zero-coupon bonds.

Shelved at: [RKN: 37427]

Applied Mathematical Finance (2007) 14 (3): 207-226.

Abstract: Using perturbation methods, approximate formulas are obtained for zero-coupon bonds under the generalized Black-Karasinski model. The formulas perform well regarding accuracy and calibration to available data. For a special case, which corresponds to the Hull-White model, the approximation actually yields an exact solution. Numerical simulations are presented that partially validate the asymptotic approximation. A calibration strategy is investigated in order to fit the model to given data on discount rates.

Photocopy cost: £2.20

VANDEN, JOEL M.

Exact superreplication strategies for a class of derivative assets.

Shelved at: [RKN: 36229]

Applied Mathematical Finance (2006) 13 (1): 61-87.

Abstract: A superreplicating hedging strategy is commonly used when delta hedging is infeasible or is too expensive. This article provides an exact analytical solution to the superreplication problem for a class of derivative asset payoffs. The class contains common payoffs that are neither uniformly convex nor concave. A digital option, a bull spread, a bear spread, and some portfolios of bull spreads or bear spreads, are all included as special cases. The problem is approached by first solving for the transition density of a process that has a two-valued volatility. Using this process to model the underlying asset and identifying the two volatility values as s_{min} and s_{max} , the value function for any derivative asset in the class is shown to solve the Black-Scholes-Barenblatt equation. The subreplication problem and several related extensions, such as option pricing with transaction costs, calculating superreplicating bounds, and superreplication with multiple risky assets, are also addressed.

Photocopy cost: £2.80

VELLEKOOP, M H; NIEUWENHUIS, J W

Efficient pricing of derivatives on assets with discrete dividends.

Shelved at: [RKN: 36492]

Applied Mathematical Finance (2006) 13 (3): 265-284.

Abstract: It is argued that due to inconsistencies in existing methods to approximate the prices of equity options on assets which pay out fixed cash dividends at future dates, a new approach to this problem may be useful. Logically consistent methods which are guaranteed to exclude arbitrage exist, but they are not very popular in practice due to their computational complexity. An algorithm is defined which is easy to understand, computationally efficient, and which guarantees to generate prices which exclude arbitrage possibilities. It is shown that for the method to work a mild uniform convergence condition must be satisfied and this condition is indeed satisfied for standard European and American options. Numerical results testify to the accuracy and flexibility of the method.

Photocopy cost: £4.00

WINDCLIFF, H A; FORSYTH, P A; VETZAL, K R

Numerical methods and volatility models for valuing cliquet options.

Shelved at: [RKN: 36794]

Applied Mathematical Finance (2006) 13 (4): 353-386.

Abstract: Several numerical issues for valuing cliquet options using PDE methods are investigated. The use of a running sum of returns formulation is compared to an average return formulation. Methods for grid construction, interpolation of jump conditions, and application of boundary conditions are compared. The effect of various volatility modelling assumptions on the value of cliquet options is also studied. Numerical results are reported for jump diffusion models, calibrated volatility surface models, and uncertain volatility models.

Photocopy cost: £6.80

WOODS, MARGARET (ED); KAJUTER, PETER (ED); LINSLEY, PHILIP (ED)

International risk management; Systems, internal control and corporate governance. - CIMA, 2008. - xi, 212 pages.

Shelved at: UHG/AA/50 (Oxf) (Institute); [RKN: 37809]

Abstract: This book is very practical in its international usefulness (because current risk practice and understanding is not equal across international boundaries). For example, an accountant in Belgium would want to know what the governance regulations are in that country and what the risk issues are that he/she needs to be aware of. This book covers the international aspect of risk management systems, risk and governance, and risk and accounting. In doing so the book covers topics such as: internal control and corporate governance; risk management systems; integrating risk into performance management systems; risk and audit; governance structures; risk management of pensions; pension scheme risks e.g. hedging derivatives, longevity bonds etc; risk reporting; and the role of the accountant in risk management. There are the case studies through out the book which illustrate by way of concrete practical examples the major themes contained in the book. The book includes highly topical areas such as the Sarbanes Oxley Act and pension risk management. It provides a cross European perspective (because current practice and understanding is not equal across international boundaries) on the key issues of risk management, internal control and governance. It covers the implications of Sarbanes Oxley Act for European companies and the associated risks. It explains what the current risk reporting practices are and what the analysts are really looking for. It looks at the key issues you need to address in order to manage your company's pension risk.