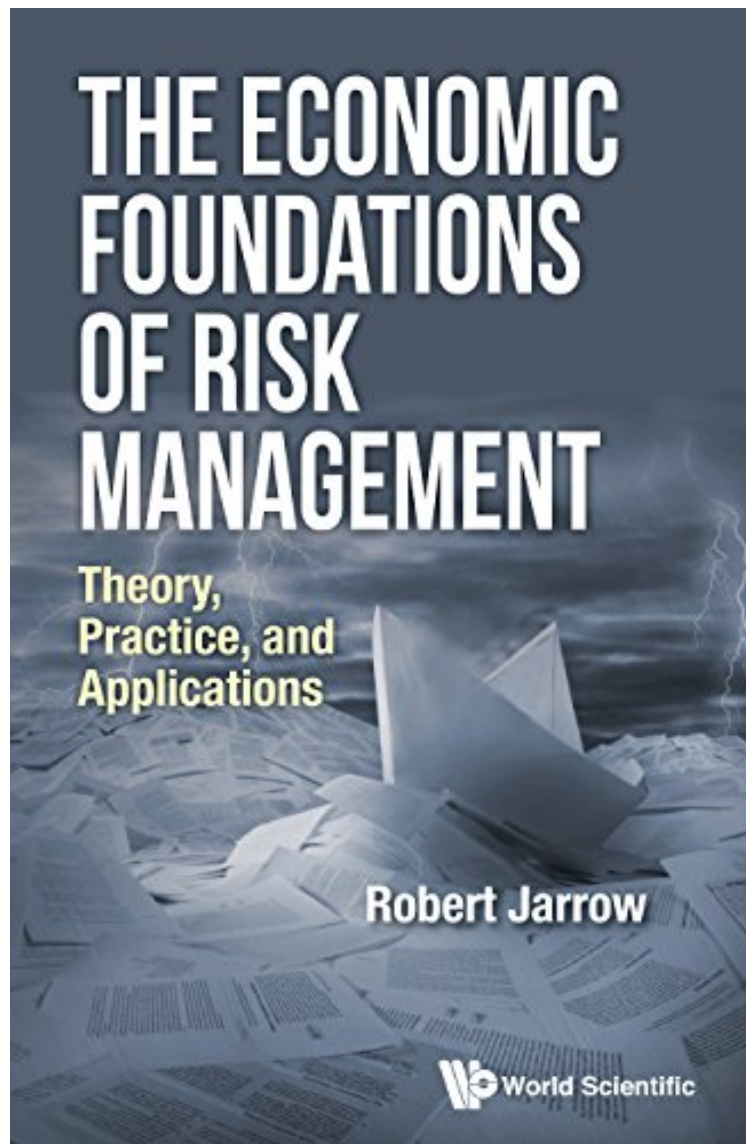


The Economic Foundations of Risk Management:Theory, Practice, and Applications

Robert Jarrow

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Robert Jarrow : The Economic Foundations of Risk Management:Theory, Practice, and Applications before purchasing it in order to gage whether or not it would be worth my time, and all praised The Economic Foundations of Risk Management:Theory, Practice, and Applications:

0 of 0 people found the following review helpful. An academic perspectiveBy Bernd KotzRobert Jarrow wrote a beautiful book about the risk management. It has a clear structure and it is applied to the case studies at the end. You

can find in the book the economics of risk management. The mathematics is very ambitious but if you are familiar with option pricing you can cope with it. It begins with the markets and the instruments you need for the concept. The different risks are explained. The modelling of the risk model is based on no arbitrage market conditions and state price density valuation. He builds a no arbitrage market portfolio without cost. The strategy goes to match it with the market risk and explains how it is applied. The risk management is based on a set of risky assets for individuals, firms and banks. A mean variance approach and hedging with Greeks. The risk management failures are explained in the case studies. It starts with Penn Square Bank, Metallgesellschaft, Barings, LTCM and goes to the last financial crises.

The Economic Foundations of Risk Management presents the theory, the practice, and applies this knowledge to provide a forensic analysis of some well-known risk management failures. By doing so, this book introduces a unified framework for understanding how to manage the risk of an individual's or corporation's or financial institution's assets and liabilities. The book is divided into five parts. The first part studies the markets and the assets and liabilities that trade therein. Markets are differentiated based on whether they are competitive or not, frictionless or not (and the type of friction), and actively traded or not. Assets are divided into two types: primary assets and financial derivatives. The second part studies models for determining the risks of the traded assets. Models provided include the Black-Scholes-Merton, the Heath-Jarrow-Morton, and the reduced form model for credit risk. Liquidity risk, operational risk, and trading constraint models are also contained therein. The third part studies the conceptual solution to an individual's, firm's, and bank's risk management problem. This formulation involves solving a complex dynamic programming problem that cannot be applied in practice. Consequently, Part IV investigates how risk management is actually done in practice via the use of diversification, static hedging, and dynamic hedging. Finally, Part V applies these collective insights to six case studies, which are famous risk management failures. These are Penn Square Bank, Metallgesellschaft, Orange County, Barings Bank, Long Term Capital Management, and Washington Mutual. The credit crisis is also discussed to understand how risk management failed for many institutions and why.

From the Inside Flap
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