



SCOR CHAIR

“Market Risk and Value Creation”

Activity report 2012

Head of the Chair Christian Gollier

Co- Head of the Chair Stéphane Villeneuve

Scientific Council

- M. André Lévy-Lang Président de la fondation du risque
- M Hervé Ossard Directeur IDEI
- M Jean-Charles Simon Directeur des affaires publiques et économiques, SCOR
- M Elyès Jouini Directeur de l'institut de Finance Dauphine
- M Louis Eeckhoudt Professeur IESEG school of Management Lille
- M Xavier Freixas Professeur Université Pompeu Fabra Barcelone

Last Meeting: Palais Brongniard, Paris December 18th 2012.

1. Objectives

The aim of the chair is to support the theoretical and applied research on Risk sharing mechanisms with the willingness to combine methodologies from financial economics, industrial organization and econometrics.

2. Researchers

- **Andrea Attar** IDEI Researcher, TSE
- **Christophe Bisière** Professor of Finance, TSE
- **Christian Bontemps** Professor of Economy, TSE
- **Sébastien Van Belleghem** Professor of Mathematics, TSE
- **Helmut Cremer** Professor of Economics, TSE
- **Jean-Paul Décamps** Professor of Mathematics, TSE
- **Philippe De Donder** Research Director CNRS
- **Christian Gollier** Professor of Economics, TSE
- **Augustin Landier** Professor of Economics, TSE
- **Jean-Marie Lozachmeur** CNRS Researcher
- **Thomas Mariotti** Research Director, CNRS
- **Nour Meddahi** Senior Researcher, TSE
- **Sébastien Pouget** Professor of Finance, TSE
- **Pierre Pestiau** Professor of Economy, Liege
- **Francois Salanié** Research Director INRA
- **Emmanuel Thibault** Professor of Economics, Perpignan University
- **Jean Tirole** Scientific Director, TSE
- **Nicolas Treich** Research Director INRA
- **Stéphane Villeneuve** Professor of Mathematics, TSE

3. Topics

The following topics have been kept moving during the year 2012

➤ **Risk Sharing Mechanism: Regulation, liquidity and solvency risks**

This research topic aims to understand the consequences of regulatory solvency requirement when market imperfections like asymmetry of information or moral hazard are taken into account. The researchers involved in this topic are A. Attar, J.P. Décamps, C. Gollier, F. Salanié, T. Mariotti, J. Tirole, N. Treich and S. Villeneuve.

➤ **Risk attitude: Ambiguity and Psychological Bias**

This research topic aims to understand the risk attitude towards ambiguous risks occurring when the probability distribution of losses are imperfectly known. Again in the year 2012 this research topic has also been tackled within the framework of experimental economics. The researchers involved in this topic are C. Bisière, J.P. Décamps, C. Gollier, S. Pouget, F. Salanié, N. Treich and S. Villeneuve.

➤ **Econometrics: Extreme Risks and Interdependence**

This research topic aims to study original econometrics methods for quantifying extreme risks and correlation between events. The researchers involved in this topic are C. Bontemps, S. van Bellegem and N. Meddahi.

➤ **Longevity risk, long term care and (social) insurance**

Social insurance has long been at the core of public concerns, in France and elsewhere. This has been reinforced lately by the increasing importance of the longevity risk, including in its long term care dimension. We study the various aspects of this topic by using tools from the risk theory, microeconomics analysis, macroeconomic dynamics, optimal taxation, political economy, public economics and/or insurance theory. The researchers pursuing this research agenda are H. Cremer, P. De Donder, J.M. Lozachmeur, P. Pestieau and E. Thibault

4. Summary of the activities of 2012

Meetings organized by the chair:

- « **Journée d'étude sur la dépendance** », SCOR / HEC – ULG, Liège, February 17, 2012.

- **CESifo Workshop on “The economics of long term care”**, Cremer H. and Pestieau P., Venice, July 18 – 19, 2012.¹
- **Second ERC-SCOR Conference on “Risk management and financial Market”**, Toulouse University, September 06-07, 2012.
- **Second Workshop on Long-term Care**, Toulouse University, November 22, 2012.
Ce workshop a pour objectif de présenter les dernières avancées économiques, aussi bien théoriques qu’empiriques, concernant l’articulation du financement entre public et privé et l’évolution du rôle des assureurs dans la prise en charge du risque de longévité et/ou de dépendance des personnes âgées; enjeux majeurs des prochaines années.

Prize and Grant:

- Christian Gollier Fellow of the Econometric Society
- Christian Gollier Member of the Academia Europaea
- Augustin Landier won the 2012 Europlace Finance Prize for "The best young researcher"
- Augustin Landier ERC Starting Grant: project SOLSYS (Grant n° 312503)

PhD Student and Internship:

- Berger, L., "*Essays on the Economics of Risk and Uncertainty*", thèse de doctorat.
- Villeneuve S. started this year the supervision of Lee Dinetan former student at the Ecole Normale Supérieure Lyon.

Publications and Working papers:

➤ **Topic Risk Attitude**

- Armantier, O. and Treich, N., (2011), "*Eliciting beliefs: Proper scoring rules: Incentives, stakes and hedging*", under revision European Economic review.
- Alary, D., Gollier, C., and Treich, N., (2011), "*The Effect of Ambiguity Aversion on insurance and self-protection*", forthcoming Economic Journal.
- Bisière, C., Décamps, J-P. and Lovo, S., (2011), « *Risk Attitude, Beliefs Updating and the Information Content of Trades : An Experiment* », under revision Management Science.

¹ A special issue of the B.E. journal of Economic Analysis & Policy in which the financial support of SCOR is gratefully acknowledged is forthcoming.

- Crémer, H., Gahvari, F. and Pestiau, P., (2012), “*Accidental Bequests: a curse for the rich and a boon for the poor*”, Scandinavian Journal of Economics Vol 114, 1437-1459.
- Gollier, C., (2012), “*Evaluation of long-dated investments under uncertain growth trend, volatility and catastrophes*”, Working Paper.
- Gollier, C., (2012), “*Asset pricing with uncertain betas: A long-term perspective*”, Working Paper.
- Pouget, S. and Villeneuve, S., (2011), “*A mind is a difficult thing to change: Confirmation Bias in Financial markets, formerly Price formation under Confirmation bias*”, IDEI working paper under revision review of Financial Studies.

➤ **Topic Market Mechanism: Regulation, Liquidity and Solvency risks**

- Attar, A., Mariotti, T. and Salanié, F., (2012), “*Non Exclusive Competition under Adverse Selection*”, forthcoming Theoretical Economics, 2012.
- Décamps, J-P. and Villeneuve, S., (2012), “*Rethinking dynamic capital Structure models with Roll-over debt*”, formerly “*On the modelling of debt maturity and endogenous default: a caveat*”, IDEI Working Paper, n°528, forthcoming in Mathematical Finance.
- Fahri, E. and Tirole, J., (2012), “*Bubbly Liquidity*”, The Review of Economic Studies, Vol. 79, 678-706.
- Fahri, E. and Tirole, J., (2012), “*Collective Moral Hazard, Maturity Mismatch and Systemic Bailout*”, The American Economic Review, Vol 102, 60-93.
- Fahri, E. and Tirole, J., (July 2012), “*Information, Tranching and Liquidity*”, IDEI Working Paper, n°736.
- He, X.Z. and Treich, N., (2012), “*Necessary and Sufficient conditions for prediction markets accuracy*”, IDEI working paper.
- Tirole, J., (2012), “*The Euro Crisis: Some Reflections on Institutional Reform*”, Financial Stability Review, 16: 225-242.

➤ **Topic Econometrics**

- Bontemps, C. and Meddahi, N., (September 2012), “*Testing Distributional Assumptions: a GMM approach*”, Journal of Applied Econometrics, vol. 27, n°6, p. 978-1012.
- Bontemps, C., (2012) “*Moment-based Tests for discrete distribution*”, IDEI working paper.
- Donovan, P., Goncalves, S. and Meddahi, N., (2012), “*Bootstrapping realized volatility measures*”, forthcoming Journal of Econometrics.

➤ **Topic Longevity risk, long term care and (social) insurance**

- Casamatta, G., Cremer, H. and Pestieau, P. (2012), *“Charities and the political support for estate taxation”*, Economics Letters, vol. 115, pp. 423-426.
- Canta, C. and Pestieau, P. (2012), *“Long term care insurance and family norms”*, CORE Discussion paper, num.17.
- Cremer, H., Lozachmeur, J-M. and Pestieau, P., (2012), *“The design of long term care insurance: lump sum or cost sharing?”*, IDEI working paper.
- Cremer, H. and Roeder, K., (2012), *“Long-term care policy, myopia and redistribution”*, IDEI working paper.
- Cremer, H., Pestieau, P., and Roeder, K., (November 2012), *“United but (un)equal: human capital, probability of divorce and the marriage contract”*, IDEI Working Paper, n°755.
- D'Albis, H. and Thibault, E., (2012), *“Optimal annuitization, uncertain survival probabilities, and maxmin preferences”*, Economics Letters, vol. 115, pp. 295-299.
- D'Albis, H. and Thibault, E., (2012), *“Ambiguous life expectancy and the demand for annuities”*, IDEI working paper, num.731.
- De Donder, P. and Pestieau, P., (2012) *“Private, social and self-insurance for long-term care: a political economy analysis”*, submitted to European Journal of Political Economy.
- De Donder, P. and Leroux, M.-L., (2012), *“Behavioral Biases and Long Term Care Annuities: A Political Economy Approach”*, submitted to B.E. Journal of Economic Analysis & Policy.

International Conferences and Seminars:

- Attar, A., (August 2012), *“Non-Exclusive Competition under Adverse Selection”*, EEA-ESEM meeting (Malaga).
- Attar, A., (October 2012), *“Non-Exclusive Competition under Adverse Selection”*, Columbia University (New York).
- Cremer, H., (April 12, 2012), *“Long-term care policy, myopia and redistribution”*, CESifo Publics Economics workshop (Munich).
- Cremer, H., (June 20, 2012), *“Long-term care policy, myopia and redistribution”*, journées Louis André Gérard-Varet (Marseille).
- Cremer, H., (June 16, 2012), *“Long-term care policy, myopia and redistribution”*, annual meeting of International Institute of Public Finance (Dresde).
- Cremer, H., (November 2, 2012), *“Uncertain altruism and the provision of long term care”*, meeting of

Canadian Public Economics Group, Concordia University (Montréal).

- Cremer, H., (November 22, 2012), “*Uncertain altruism and the provision of long term care*”, second workshop TSE/IDEI/SCOR on Long Term Care (Toulouse).
- Decamps, J-P., (April 2012) : “*A bayesian adaptive singular control problem arising in corporate finance*”, (Lisbon).
- De Donder, P., (May 18-20 2012), “*Private, social and self-insurance for long-term care: a political economy analysis*”, Vanderbilt Tax Theory Conference (Nashville, USA).
- De Donder, P., (September 7-8 2012), “*Private, social and self-insurance for long-term care: a political economy analysis*”, Longevity 8 Conference, University of Waterloo (Canada).
- De Donder, P., (July 2012), “*Behavioral Biases and Long Term Care Annuities: A Political Economy Approach*” (Verone).
- De Donder, P., (July 2012), “*Behavioral Biases and Long Term Care Annuities: A Political Economy Approach*”, CESifo Venice Summer Institute on Long-Term Care (Venise).
- De Donder, P., (September 2012), “*Behavioral Biases and Long Term Care Annuities: A Political Economy Approach*”, Longevity 8 Conference, University of Waterloo (Canada).
- Gollier, C., (March 2012), « *Quelle place pour les produits structurés dans l'épargne des particuliers?* », AFG (Paris).
- Gollier, C., (September, 2012), “*Ambiguity: Theory and Evidence*”, CEAR workshop, (Atlanta).
- Gollier, C., (October 3, 2012), “*The debate on discounting: Reconciling positivists and ethicists*”, Environmental Economics and Policy Seminar, Kennedy School of Governance (Harvard).
- Gollier, C., (December 3, 2012), “*Evaluation of long-dated investments under uncertain growth trend, volatility and catastrophes*”, Economic Theory seminar, Columbia University (New-York).
- Gollier, C., (December 4, 2012), “*Evaluation of long-dated investments under uncertain growth trend, volatility and catastrophes*”, The Fourth Joint WB/BIS Public Investors Conference, (Washington).
- Lozachmeur, J-M, (July 18), “*The design of Long Term Care Insurance: Lump Sum or Cost Sharing?*”, CESifo workshop on the economics of long term care (Venise).
- Lozachmeur, J-M, (July 18), “*The design of Long Term Care Insurance: Lump Sum or Cost Sharing?*”, second workshop TSE/IDEI/SCOR on Long Term Care (Toulouse).
- Pestieau, P., (October 12, 2012), “*The economics of long term care: A survey*”, Grande Conférence CIRPEE (Montréal).
- Pestieau, P., (November 22, 2012), “*The economics of long term care: A survey*”, second workshop TSE/IDEI/SCOR on Long Term Care (Toulouse).

- Pestieau, P., (February 27, 2012), “*The public economics of changing longevity*”, Université de Ca Foscari (Venise).
- Pestieau, P., (April 13, 2012), “*The public economics of changing longevity*”, CESifo Publics Economics Workshop (Munich).
- Pestieau, P., (May 15, 2012), “*The public economics of changing longevity*”, séminaire de démographie économique (Paris).
- Pestieau, P., (August 18, 2012), “*The public economics of changing longevity*”, annual meeting of International Institute of Public Finance (Dresde).
- Pestieau, P., (November 2, 2012), “*The public economics of changing longevity*”, lecture plénière, meeting of Canadian Public Economics Group, Concordia University (Montréal).
- Pouget, S. (May 2012), “*A mind is a difficult thing to change*”, (Maastricht).
- Thibault, E., (July 19, 2012), “*Physical Activity and Policy Recommendations: A Social Multiplier Approach*”, CESifo workshop on the economics of long term care (Venise).
- Villeneuve, S., (March 2012), “*Optimal liquidity management and hedging in the presence of a non-predictable investment opportunity*” (Freiburg).
- Villeneuve, S., (July 2012), “*Optimal liquidity management and hedging in the presence of a non-predictable investment opportunity*”, workshop on stochastic control in Finance (Warwick).

ANNEXES

Rules of the SCOR/IDEI Award

SCOR - EGRIE Young Economist Best Paper Award

Andréas Milidonis – Palma de Mallorca, September 17-19

SCOR - Geneva Risk and Insurance Review Best Paper Award

Christian Gollier – Palma de Mallorca, September 17-19

« Journée d'étude sur la dépendance »

SCOR / HEC – ULG, Liège, February 17, 2012

CESifo Workshop on “The economics of long term care”

Venice, July 18-19, 2012

Second ERC-SCOR Conference on “Risk management and financial Market”

Toulouse University, September 06-07, 2012

Second Workshop on Long-term Care,

Toulouse, November 2012

SCOR/IDEI/Dauphine Annual Award
for the best paper presented by a young economist at the annual seminar of the
European Group of Risk and Insurance Economists

SCOR, the Institut d'Economie Industrielle (IDEI), and The University of Paris-Dauphine are happy to announce the creation of the SCOR/IDEI Award for the best paper presented by a young economist at the annual seminar of the European Group of Risk and Insurance Economists (EGRIE).

The amount offered to the laureate of the award is **2000 Euro**. This award is organized under the supervision of the Chair "Risk Markets and Value creation" at IDEI and Dauphine University, which is sponsored by SCOR and the Fondation du Risque.

The selection committee is composed of five people representing the following institutions: EGRIE, SCOR, Fondation du Risque, Dauphine and IDEI.

Rules of the SCOR/IDEI Award:

1. To be eligible, the author and all the co-authors have to be **under 40**.
2. The Scientific Committee of the seminar nominates 3 papers among those selected for presentation at the conference.
3. Upon reception of the final version of the three nominated papers (no later than **August 20**), the selection committee will choose the award winning one.
4. The SCOR/IDEI/Dauphine Award will be announced and given during an official ceremony at the EGRIE seminar.

SCOR/IDEI/Dauphine Annual Award
for the best paper published in the *Geneva Risk and Insurance Review*

SCOR, the Institut d'Economie Industrielle (IDEI), and The University of Paris-Dauphine are happy to announce the creation of the SCOR/IDEI Award for the best paper of the year published in the *Geneva Risk and Insurance Review*.

The amount offered to the laureate of the award is **1000 Euro**. This award is organized under the supervision of the Chair "Risk Markets and Value creation" at IDEI and Dauphine University, which is sponsored by SCOR and the Fondation du Risque.

The selection committee, composed of the editors and associate editors of the *Geneva Risk and Insurance Review*, will choose and reward the best paper published the previous year.

The SCOR/IDEI/Dauphine Award will be announced during an official ceremony at the EGRIE seminar.

SCOR - EGRIE Young Economist Best Paper Award

**Award for the best paper presented by a young economist at the annual
Conference of the European Group of Risk and Insurance Economists**



Andréas Milidonis

**"Compensation Incentives of Credit Ratings Agencies and Predictability of Changes
in Bond Ratings and Financial Strength Ratings"**

Palma de Mallorca, 17-19 September 2012

SCOR - Geneva Risk and Insurance Review Best Paper Award

**Award for the best paper published
in the *Geneva Risk and Insurance Review* - Year 2011**



Christian Gollier

“On the underestimation of the precautionary effect in discounting”

Palma de Mallorca, 17-19 September 2012



Journée d'Etude sur la dépendance

Organisée par
le CREPP (Centre de Recherche en Economie Publique et de la Population)

Vendredi 17 février 2012
Salle du conseil (Campus du Sart Tilman, B31)

Programme

9.30 – 10.00	Que nous apprend SHARE sur la dépendance ? Intervenant : Jerome Schoenmaeckers , HEC-ULg
10.00 – 10.45	<i>Longévité et dépendance</i> Intervenant : Grégory Ponthière , Ecole d'Economie de Paris
10.45 – 11.15	Pause café
11.15 – 12.00	<i>Dépendance et redistribution</i> Intervenant : Helmut Cremer , Ecole d'Economie de Toulouse
12.00 – 12.45	<i>Dépendance et norme familiale</i> Intervenant : Chiara Canta , CORE
12.45 – 14.00	<i>Lunch</i>
14.00 – 14.45	<i>La demande d'assurance dépendance dans un cadre trivarié</i> Intervenant : Arnold Chassagnon , Université Paris-Dauphine
14.45 – 15.30	<i>Les caractéristiques de la demande d'assurance dépendance en France</i> Intervenants : Manuel Plisson , Université Paris-Dauphine
15.30 – 16.00	<i>Pause café</i>
16.00 – 17.30	<i>Table ronde animée par Alain Joustien</i> , HEC-ULg avec comme intervenants : Koen Vleminckx , Jef Breda et Freddy Falez
17.30	<i>Cloture</i> Intervenant : Pierre Pestieau

Inscriptions obligatoires auprès de Claudine Chmielewski C.Chmielewski@ulg.ac.be et/ou
Mathieu Lefebvre Mathieu.lefebvre@ulg.ac.be

Comité Organisateur :

Axel Gautier, HEC-ULg

Mathieu Lefebvre, HEC-ULg

Sergio Perelman, HEC-ULg

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Alain Jousten, HEC-ULg

Mathieu Lefebvre, HEC-ULg

Sergio Perelman, HEC-ULg

Pierre Pestieau, Université de Liège

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Koen Vleminckx,

Koen.Vleminckx@minsoc.fed.be

Lieu de la conférence: Salle du Conseil, Campus du Sart Tilman B31.

**VENICE SUMMER INSTITUTE
WORKSHOP ON
THE ECONOMICS OF
LONG-TERM CARE**

Venice International University, San Servolo, 18 – 19 July 2012

PROGRAMME

Wednesday, 18 July 2012

09:30 – 09:40 **Welcome**

09:40 – 10:40 **Keynote Lecture:**
The Economics of Long-Term Care
LUIGI SICILIANI (University of York)

Session 1
Family Relations and Aid
Chair: Pierre Pestieau

- 11:00 – 11:45 **Long Term Care Insurance and Family Norms**
CHIARA CANTA (CORE, Université Catholique de Louvain) and Pierre Pestieau
Discussant: Justina Klimaviciute (Toulouse School of Economics, University of Toulouse)
- 11:45 – 12:30 **Dynamic Modelling of Long-Term Care Decisions**
STEVEN STERN (University of Virginia) and Michelle Sovinsky
Discussant: Philippe De Donder (Toulouse School of Economics)
- 12:30 – 13:30 **Lunch**
- 13:30 – 14:15 **Uncertain Altruism and Long Term Care**
FIROUZ GAHVARI (University of Illinois at Urbana-Champaign) and Helmuth Cremer
Discussant: Gregory Ponthière (Ecole Normale Supérieure, Paris, and Paris School of Economics)
- 14:15 – 15:00 **Long-Term Care, Altruism and Socialization**
GREGORY PONTIÈRE (Ecole Normale Supérieure, Paris, and Paris School of Economics)
Discussant: Chiara Canta (CORE, Université Catholique de Louvain)
- 15:00 – 15:30 **Coffee Break**

Session 2
Empirical Issues
Chair: Eric Bonsang

- 15:30 – 16:15 **The Effect of Long-Term-Care Subsidies on Female Labor Supply and Fertility**
MATTHIAS WREDE (University of Erlangen-Nuremberg) and Evelyn Korn
Discussant: Eric Bonsang (Maastricht University – ROA)

**VENICE SUMMER INSTITUTE
WORKSHOP ON
THE ECONOMICS OF
LONG-TERM CARE**

Venice International University, San Servolo, 18 – 19 July 2012

- 16:15 – 17:00 **Do Local Governments Respond to (Perverse) Financial Incentives in Long-Term Care Funding Schemes?**
Henning Øien (University of Oslo)
Discussant: Catarina Goulão (Toulouse School of Economics)
- 19:30 Conference Dinner on San Servolo

Thursday, 19 July 2012

- 09:30 – 10:30 **Keynote Lecture:**
Informal Care and Inter-vivos Transfers:
Results from the National Longitudinal Survey of Mature Women
EDWARD C. NORTON (University of Michigan), Lauren H. Nicholas and
Sean Sheng-Hsui Huang
- 10:30 – 11:00 Coffee Break

**Session 3
Theoretical Issues
Chair: Helmuth Cremer**

- 11:00– 11:45 **Recommended Levels of Physical Activity: Good or Bad Idea?**
EMMANUEL THIBAUT (University of Perpignan and Toulouse School of Economics)
and Catarina Goulão
Discussant: David Bardey (Universidad de los Andes)
- 11:45 – 12:30 **The Design of Long-Term Care Insurance Contracts**
JEAN-MARIE LOZACHMEUR (Toulouse School of Economics), Helmuth Cremer and
Pierre Pestieau
Discussant: Francesca Barigozzi (University of Bologna)
- 12:30 – 13:30 Lunch
- 13:30 – 14:15 **A Political Economy Approach to Long-Term Care with Sophisticated or
(In)Consistently Myopic Voters**
MARIE-LOUISE LEROUX (Université du Québec à Montréal) and Philippe De Donder
Discussant: Gani Aldashev (University of Namur (FUNDP))
- 14:15 – 14:30 **Publication Briefing**
- 14:30 End of Conference and Lunch



Second Workshop on Long Term Care

Toulouse, November 22, 2012

Conference venue :

Toulouse School of Economics (TSE)
Manufacture des Tabacs - Auditorium Bât. S
1 rue des Amidonniers - 31000 Toulouse - France

Conference secretariat :

Martine Monier
Phone : +33 (0)5 61 12 85 18
E-mail : Martine.Monier@TSE-fr.eu

Speakers :

- Hippolyte d'Albis, Paris School of Economics, University Paris 1.
- Helmuth Cremer, TSE, GREMAQ, IDEI and IUF.
- Brigitte Dormont, University Paris Dauphine, LEDA-LEGOS.
- Jean Marie Lozachmeur, TSE, GREMAQ-CNRS and IDEI.
- Laure de Montesquieu, Responsible R&D Center – LTC of SCOR.
- Pierre Pestieau, CORE, CREPP and University of Liège.
- Luigi Siciliani, University of York and CEPR.

Time allocation :

45 minutes for presenter and 15 minutes for the audience.

Organized by :

Emmanuel Thibault, emmanuel.thibault@TSE-fr.eu



Second Workshop on Long Term Care

Toulouse, November 22, 2012

Auditorium - MS001

• 9h – 10h : **Pierre Pestieau** – *The economic of long term care. A survey of the issues.*

• 10h – 11h : **Jean Marie Lozachmeur** – *The design of long term care insurance contracts.*

⇒ 11h – 11h30 : COFFEE & TEA BREAK, MS002.

• 11h30 – 12h30 : **Laure de Montesquieu** – *Long term care insurance : some clarifications.*

⇒ 12h30 – 14h : LUNCH, MS002.

• 14h – 15h : **Luigi Siciliani** – *Long term care provision, hospital length of stay and discharge destination for hip fracture and stroke patients.*

• 15h – 16h : **Brigitte Dormont** – *Gender gap in subjective life expectancy.*

⇒ 16h – 16h30 : COFFEE & TEA BREAK, MS002.

• 16h30 – 17h30 : **Hippolyte d'Albis** – *Longevity increases and the age at retirement.*

• 17h30 – 18h30 : **Helmuth Cremer** – *Uncertain altruism and the provision of long term care.*

⇒ 20h : DINER, LE GENTY MAGRE.

PROGRAMME

Risk Management and Financial Markets

Conference sponsored by ERC & SCOR

Toulouse, September 6 - 7, 2012

Conference venue

Toulouse School of Economics (TSE)
Manufacture des Tabacs – Auditorium - Building S
21 allée de Brienne – 31000 Toulouse – France
http://idei.fr/conf_risk

Conference Secretariat

Valérie Nowaczyk
Phone: +33 (0)5 61 12 86 90
E-mail: erc.scor@tse-fr.eu

Conference : Auditorium – MS001
Coffee Break : Salle de Réception – MS002
Lunch : Salle de Réception – MS002

Thursday, September 6

9:00 - 9:30am *Registration*

9:30 - 12:30am **Session 1**

- 9:30 - 10:20am **“Dynamic Macro-prudential Regulation”**
Frédéric Malherbe (*London Business School*)
- 10:20 - 11:10am **“Deliberate Limits to Arbitrage”**
Guillaume Plantin (*Toulouse School of Economics*) (with I. Makarov)
- 11:10 - 11:40am *Coffee Break*
- 11:40 - 12:30pm **“Banking and Trading”**
Lev Ratnovski (*International Monetary Fund*)

12:30 - 1:30pm *Lunch*

1:30 - 4:30pm **Session 2**

- 1:30 - 2:20pm **“Information percolation in Segmented Markets”**
Semyon Malamud (*Ecole Polytechnique Fédérale de Lausanne*)
(with D. Duffie and G. Manso)
- 2:20 - 3:10pm **“Risk aversion of market makers and asymmetric information”**
Umut Cetin (*London School of Economics*) (with A. Danilova)
- 3:10 - 3:40am *Coffee Break*
- 3:40 - 4:30pm **“The (ir)resistible rise of agency rents”**
Bruno Biais (*Toulouse School of Economics*) (with A. Landier)
- 4:30 - 5:20pm **“Optimal Debt Maturity”**
Jean-Charles Rochet (*Toulouse School of Economics and University of Zürich*) (with R. Repullo and Q. Anh Thi Vo)

7:30 pm *Dinner (by invitation only)*

Conference : Auditorium – MS001
Coffee Break : Salle de Réception – MS002
Lunch : Salle de Réception – MS002

Friday, September 7

9:00 - 12:00am	Session 3
9:00 - 9:50am	“Capital Supply Uncertainty, Cash Holdings, and Investment” Julien Hugonnier (<i>Ecole Polytechnique Fédérale de Lausanne</i>) (with S. Malamud and E. Morellec)
9:50 - 10:40am	“Inefficient Investment Waves” Zhiguo He (<i>University of Chicago, Booth School of Business</i>) (with P. Kondor)
10:40 - 11:10am	Coffee Break
11:10 - 12:00pm	“Information tranching and Liquidity” Jean Tirole (<i>Toulouse School of Economics</i>) (with E. Fahri)
12:00 - 1:00pm	Lunch

There are 50 minutes for each paper. 40 minutes are for the speaker, allowing for clarification questions, which leaves 10 minutes for general discussion.

Capital Supply Uncertainty, Cash Holdings, and Investment^{*}

Julien Hugonnier[†] Semyon Malamud[‡] Erwan Morellec[§]

September 7, 2011

ABSTRACT

We develop a model of investment, payout, and financing policies in which firms face uncertainty regarding their ability to raise funds and have to search for investors when in need of capital. We show that capital supply uncertainty leads firms to value financial slack and to adjust their policies to the level of their cash reserves, notably when choosing between retention and payout, between internal or external financing of investment, and between speculation and hedging. In the model, investment and payout do not always increase with slack for constrained firms and the choice between internal and external funds does not follow a strict pecking order. In addition, the use of inside and outside cash are related to a number of firm characteristics, such as asset tangibility, cash flow volatility, access to capital markets, or agency costs.

Keywords: Capital supply; payout; investment; financing; risk management.

JEL Classification Numbers: D83; G24; G31; G32; G35.

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Risk aversion of market makers and asymmetric information

Umut Cetin and Albina Danilova

Abstract

We study Kyle's model in continuous time when the market makers have identical but risk averse preferences. It is shown that the risk aversion of the market makers forces the insider to reveal her existence as opposed to Kyle's model where the insider's trades are inconspicuous. Consequently, the equilibrium price has a drift and exhibits reversal with a magnitude depending on the common risk aversion parameter of the market makers. In contrast to Kyle's model insider bluffs in certain periods of her trading activity in the sense that she sells even if the asset is undervalued. It is shown that as the market makers become less risk averse or the number of market makers increase, the model converges to the equilibrium obtained by Kyle. Dependence of liquidity parameters and insider's total profits on the risk aversion are also analysed and it is found in particular that insider's profit is not monotone in the risk aversion parameter.

Information Percolation in Segmented Markets

Semyon Malamud (joint work with Darrell Duffie and Gustavo Manso)

Abstract

We calculate equilibria of dynamic over-the-counter markets in which agents are distinguished by their preferences and information. Over time, agents are privately informed by bids and offers. Investors differ with respect to information quality, including initial information precision as well as market ``connectivity," the expected frequency of their bilateral trading opportunities. We characterize endogenous information acquisition and show how learning externalities affect information gathering incentives. In particular, comparative statics for static and dynamic models may go in opposite directions. Information acquisition can be lower in more ``liquid" (active) dynamic markets.

Dynamic Macro-prudential Regulation

Frédéric Malherbe

Abstract

I propose a new dynamic general equilibrium framework, in which government guarantees induce financial institutions to take on too much risk through excessive leverage. In response, the regulator sets capital requirements to trade-off growth with financial stability (tax-payer exposure to a banking sector collapse). This trade-off depends on the state of the economy. Optimal capital requirements are therefore time varying. I solve the model numerically to characterize the optimal requirements and show that they should crucially react to aggregate bank capital and credit expansion. For most parameterization, optimal requirements are higher in good times, which resonates with the notion of “counter-cyclical capital buffers”. I also show that, in this set-up, the size of an individual financial institution is irrelevant. No extra-buffer is thus required for large institutions.

Finally, I compare the optimal policy to the (best possible) constant capital requirement and show that the latter generates not only excess volatility but also episodes of extremely excessive credit expansion. In such cases, there is no longer a trade-off: an increase in capital requirement would both be good for growth and improve financial stability.

Banking and Trading

Arnoud Boot (University of Amsterdam and CEPR) and Lev
Ratnovski (International Monetary Fund)

Abstract

We study the effects of a bank's engagement in trading. Traditional banking is relationship-based: not scalable, long-term oriented, with high implicit capital, and low risk (thanks to the law of large numbers). Trading is transactions-based: scalable, short-term, capital constrained, and with the ability to generate extreme risk from concentrated positions. When a bank engages in trading, it can use its 'spare' capital to profitably expand the scale of trading. However there are two inefficiencies. A bank may allocate too much capital to trading ex-post, compromising the incentives to build relationships ex-ante. And a bank may use trading for risk-shifting. Financial development augments the scalability of trading, which initially benefits conglomeration, but beyond some point inefficiencies dominate. The deepening of financial markets in recent decades leads trading in banks to become increasingly risky, so that problems in managing and regulating trading in banks will persist for the foreseeable future. The analysis has implications for capital regulation, subsidiarization, and scope and scale restrictions in banking.