Asymptotix

Stress Tests - A New Modeling Paradigm & a Pragmatic Approach

☒Stress Tests - A New Modeling Paradigm & a Pragmatic Approach

☒ Tuesday, 24 July 2012 | ☒ John A Morrison

SUERF

the sequence of items from asymptotix which tie together sequentially the pragmatic approach to adapting legacy New-Keynesian models towards Macro-financial analytics and real stress testing in a Crowded Out world.....

I have been reviewing the papers from a recent conference;-

The ESRB at 1

SUERF/Deutsche Bundesbank/IMFS Conference [1]

& I think there is a crystallisation of a theme at that conference reflected in one particular presentation which articulates a narrative that we have been developing here on asymptotix in regard to Stress testing over the last 2 or 3 years.

The SUERF presentation which I think articulates my own theme better than me is;-
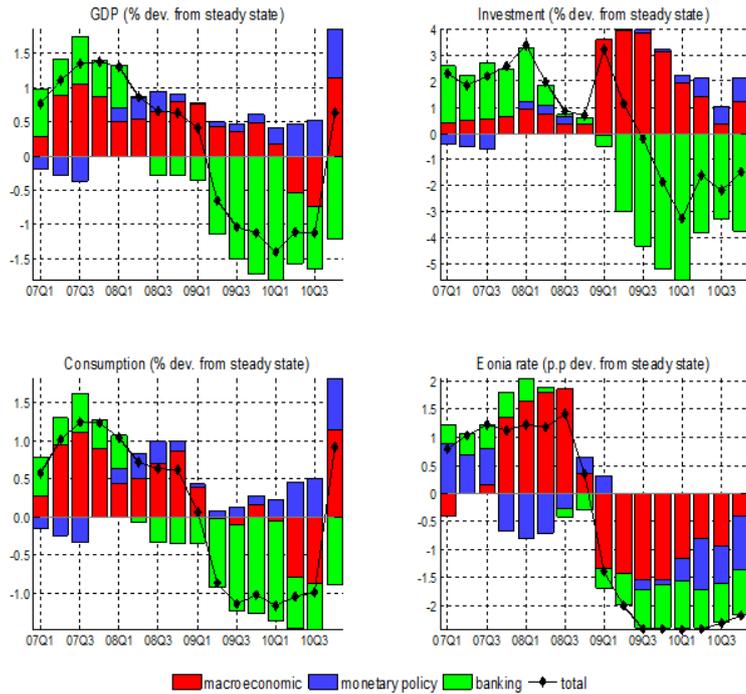
Financial intermediation and the real economy: implications for monetary and macroprudential policies

by Stefano Neri / Banca d?Italia.

for impact, if you are considering questions like this (below) in your Stress Testing programme

Stefano draws the following conclusions

Conclusions

- DSGE models have undergone severe criticism
- No doubt that models must be improved, but working alternative missing
- Intensive research ongoing
- Modeling systemic risk is key
- Meanwhile, we can adapt current models with a role for financial intermediation to address questions related to monetary and macroprudential policies

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below I re-present a collation of asymptotix posts a sequence of steps which develops the same story. Its nice to have some validation! Essentially I agree with Stefano and this sequence of asymptotix posts below reveals the development of what Stefano describes as;-

?Meanwhile we must adapt the legacy models?

or words to that effect, in essence within the financial institution the elderly DSGE models can provide inputs to hybrid Reduced Form, Dynamic Factor (whatever flavour you like really) models for Stress Testing purposes.

The support of the ECB for the Macro-Financial approach is crucial, it is referred below, it?s a big step away from the Lucas demolished ?Punk-Keynesian? models, the last remaining user of which seems to Cion DG ECFIN!? The ECB has given up! But if you integrate into the Macro-Financial necessity the conclusion that risk capital has to be predicated on the Business Cycle (under Basel III, if only between the lines) and you accept that Crowding Out is a real phenomenon (ANTI-Keynesian) then in my view modelling risk capital for the foreseeable future will be entirely a matter of ?poking around? and ?peering into? Monetary Aggregates and the Reaction Function of a hybrid definition of Central Authorities. That is another story altogether (which I am working on); OK here below the sequence of items from asymptotix which tie together sequentially the pragmatic approach to adapting legacy New-Keynesian models towards Macro-financial analytics and real stress testing in a Crowded Out world.

Academic & Central Bank Papers on the topic of Risk Management

[2]

A method to incorporate information from Dynamic Stochastic General Equilibrium (DSGE) models into Dynamic Factor Analysis [3]

DP6838 Testing a DSGE Model of the EU Using Indirect Inference [4]

Macroeconomic Models of the Euro area at the European Central Bank [5]

Economic (Risk) Capital - How To - References [6]

Comparison and Pooling of MacroEconomic Forecasts [7]

The Point About Stress Tests [8]

The Business Cycle and Basel III [9]

A Developing issue in Macro-Econometric Modeling: Stress Testing [10]

Chart Anorak Corner on asymptotix [11]

Visualizing Uncertainty - the Fan Chart [12]

Transparency Analytics and Big Data [13]

❌ Tags: Basel III [15], ECB [16], ECFIN [17], ESRB [18], macro-financial [19], macroprudential [20], stress test [21]

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Links:
[1] http://www.suerf.org/index.php?option=com_k2&view=item&id=138
[2] http://www.asymptotix.eu/node/88
[3] http://www.asymptotix.eu/node/226
[4]

http://www.asymptotix.eu/DP6838%20Testing%20a%20DSGE%20Model%20of%20the%20EU%20Using%20Indire

[5] http://www.asymptotix.eu/news/macroeconomic-models-euro-area-european-central-bank

[6] http://www.asymptotix.eu/content/economic-risk-capital-how-references

[7] http://www.asymptotix.eu/news/comparison-and-pooling-macroeconomic-forecasts-2-interesting-papers

[8] http://www.asymptotix.eu/node/425

[9] http://www.asymptotix.eu/news/business-cycle-and-basel-iii

[10] http://www.asymptotix.eu/content/developing-issue-macro-econometric-modeling-stress-testing

[11] http://www.asymptotix.eu/news/chart-anorak-corner-asymptotix

[12] http://www.asymptotix.eu/news/visualizing-uncertainty-fan-chart

[13] http://www.asymptotix.eu/news/financial-services-regulation-supervision-future-transparency-analytics-and-big-data

[14] http://asymptotix.disqus.com/?url=http%3A%2F%2Fwww.asymptotix.eu%2Fnews%2Fstress-tests-new-modeling-paradigm-pragmatic-approach

[15] http://www.asymptotix.eu/category/tags/basel-iii

[16] http://www.asymptotix.eu/category/tags/ecb

[17] http://www.asymptotix.eu/category/topics/ecfin

[18] http://www.asymptotix.eu/category/topics/esrb

[19] http://www.asymptotix.eu/category/topics/macro-financial

[20] http://www.asymptotix.eu/category/topics/macroprudential

[21] http://www.asymptotix.eu/category/tags/stress-test