International Review of Economics and Finance 40 (2015) 1–7

Contents lists available at ScienceDirect

International Review of Economics and Finance

journal homepage: www.elsevier.com/locate/iref

Advances in financial risk management and economic policy uncertainty: An overview☆

Shawkat Hammoudeh [a,*], Michael McAleer [b,c,d,e,f]

[a] Lebow College of Business, Drexel University, United States
[b] Department of Quantitative Finance, National Tsing Hua University, Taiwan
[c] Econometric Institute, Erasmus School of Economics, Erasmus University Rotterdam, The Netherlands
[d] Tinbergen Institute, The Netherlands
[e] Department of Quantitative Economics, Complutense University of Madrid, Spain
[f] IPAG Business School, Paris, France

ARTICLE INFO

Available online 14 February 2015

JEL classification:
C58
D81
E60
G32

Keywords:
Financial risk management
Economic policy uncertainty
Financial econometrics
Empirical finance

ABSTRACT

Financial risk management is difficult at the best of times, but especially so in the presence of economic uncertainty and financial crises. The purpose of this special issue on “Advances in Financial Risk Management and Economic Policy Uncertainty” is to highlight some areas of research in which novel econometric, financial econometric and empirical finance methods have contributed significantly to the analysis of financial risk management when there is economic uncertainty, especially the power of print: uncertainty shocks, markets, and the economy, determinants of the banking spread in the Brazilian economy: the role of micro and macroeconomic factors, forecasting value-at-risk using block structure multivariate stochastic volatility models, the time-varying causality between spot and futures crude oil prices: a regime switching approach, a regime-dependent assessment of the information transmission dynamics between oil prices, precious metal prices and exchange rates, a practical approach to constructing price-based funding liquidity factors, realized range volatility forecasting: dynamic features and predictive variables, modeling a latent daily tourism financial conditions index, bank ownership, financial segments and the measurement of systemic risk: an application of CoVaR, model-free volatility indexes in the financial literature: a review, robust hedging performance and volatility risk in option markets: application to Standard and Poor's 500 and Taiwan index options, price cointegration between sovereign CDS and currency option markets in the global financial crisis, whether zombie lending should always be prevented, preferences of risk-averse and risk-seeking investors for oil spot and futures before, during and after the global financial crisis, managing financial risk in Chinese stock markets: option pricing and modeling under a multivariate threshold autoregression, managing systemic risk in The Netherlands, mean-variance portfolio methods for energy policy risk management, on robust properties of the SIML estimation of volatility under micro-market noise and random sampling, asymmetric large-scale (I)GARCH with hetero-tails, the economic fundamentals and economic policy uncertainty of Mainland China and their impacts on Taiwan and Hong Kong, prediction and simulation using simple models characterized by nonstationarity and seasonality, and volatility forecast of stock indexes by model averaging using high frequency data.

☆ The authors wish to thank the referees for their timely and helpful comments and suggestions on the papers comprising the special issue. For financial support, the second author wishes to acknowledge the Australian Research Council and the National Science Council, Taiwan.

* Corresponding author at: Lebow College of Business, Drexel University, and Philadelphia, PA, United States. Tel.: +1 610 949 0133; fax: +1 215 571 4670.
E-mail address: hammousm@drexel.edu (S. Hammoudeh).

http://dx.doi.org/10.1016/j.iref.2015.02.001
1059-0560/© 2015 Published by Elsevier Inc.

1. Introduction

New research and techniques in economics and finance have been used to deal with important issues that have emerged from the 2008–09 Global Financial Crisis that started in the USA, the sovereign debt crisis that emanated from Europe in 2010, and the resulting policy uncertainty in the USA and worldwide. Despite the ensuing recovery, mounting financial risk and economic policy uncertainty have confounded investors, portfolio and hedge fund managers, and policy makers alike, especially in the USA and Europe.

Based on citations in Thomson Reuters ISI, Google Scholar, Microsoft Academic Search, RePEc (Research Papers in Economics and Finance), and paper downloads and abstract views in SSRN (Social Science Research Network), research papers in financial risk management and economic policy uncertainty are among the most widely cited, downloaded and viewed articles in finance and financial economics.

Financial risk management is difficult at the best of times, but especially so in the presence of economic policy uncertainty. The special issue will present an extensive range of papers by leading scholars in the field on “Advances in Financial Risk Management and Economic Policy Uncertainty”. The purpose of the special issue is to highlight a number of areas of research in which novel econometric, financial econometric and empirical finance methods have contributed significantly to the analysis of financial risk management when there is economic policy uncertainty, specifically the power of print: uncertainty shocks, markets, and the economy (Alexopoulos & Cohen, 2015), determinants of the banking spread in the Brazilian economy: the role of micro and macroeconomic factors (Almeida & Divino, 2015), forecasting value-at-risk using block structure multivariate stochastic volatility models (Asai, Caporin, & McAleer, 2015), the time-varying causality between spot and futures crude oil prices: a regime switching approach (Balcilar, Gungor, & Hammoudeh, 2015), a regime-dependent assessment of the information transmission dynamics between oil prices, precious metal prices and exchange rates (Balcilar, Hammoudeh, & Fru Asaba, 2015), a practical approach to constructing price-based funding liquidity factors (Bouwman, Buis, Pieterse-Bloem, & Tham, 2015), realized range volatility forecasting: dynamic features and predictive variables (Caporin & Velo, 2015), modeling a latent daily tourism financial conditions index (Chang, 2015), bank ownership, financial segments and the measurement of systemic risk: an application of CoVaR (Drakos & Kouretas, 2015), model-free volatility indexes in the financial literature: a review (Gonzalez-Perez, 2015), robust hedging performance and volatility risk in option markets: application to Standard and Poor's 500 and Taiwan index options (Han, Chang, Kuo, & Yu, 2015), price cointegration between sovereign CDS and currency option markets in the financial crises of 2007–2013 (Hui & Fong, 2015), whether zombie lending should always be prevented (Jaskowski, 2015), preferences of risk-averse and risk-seeking investors for oil spot and futures before, during and after the global financial crisis (Lean, McAleer, & Wong, 2015), managing financial risk in Chinese stock markets: option pricing and modeling under a multivariate threshold autoregression (Li, Ng, & Chan, 2015), managing systemic risk in The Netherlands (Liao, Sojli, & Tham, 2015), mean–variance portfolio methods for energy policy risk management (Marrero, Puch, & Ramos-Real, 2015), on robust properties of the SIML estimation of volatility under micro-market noise and random sampling (Misaki & Kunitomo, 2015), ALRIGHT: Asymmetric LaRge-Scale (I)GARCH with Hetero-Tails (Paolella & Polak, 2015), the economic fundamentals and economic policy uncertainty of Mainland China and their impacts on Taiwan and Hong Kong (Sin, 2015), prediction and simulation using simple models characterized by nonstationarity and seasonality (Swanson & Urbach, 2015), and volatility forecast of stock indexes by model averaging using high frequency data (Wang & Nishiyama, 2015).

The interesting, timely and novel contributions to this special issue should highlight and encourage innovative research in a variety of challenging areas associated with the topical and rapidly expanding areas of financial risk management and economic policy uncertainty.

The plan of the remainder of the paper is as follows. An overview of the 22 papers is presented in Section 2, and some final remarks are given in Section 3.

2. Overview

The first paper is “The power of print: Uncertainty shocks, markets, and the economy” by Michelle Alexopoulos (Department of Economics, University of Toronto, Canada) and Jon Cohen (Department of Economics, University of Toronto, Canada). There has been in recent years a renewed interest in, and a growing recognition of, the role played by uncertainty shocks in driving fluctuations in the economy and in asset markets. The authors create new text-based indicators of both general economic and policy-specific uncertainty from New York Times and use them to chart changes in the level of uncertainty in the USA for the period 1985–2007, to determine the role of policy in these swings, and to assess their impact on the economy, equity markets, and business cycles. Overall, the results indicate that uncertainty shocks, both general and policy related, depress the level of economic activity, significantly increase stock market volatility, and decrease market returns.

In the second paper, “Determinants of the banking spread in the Brazilian economy: The role of micro and macroeconomic factors”, Fernanda Dantas Almeida (Department of Economics, Catholic University of Brasilia, Brazil) and Jose Angelo Divino (Department of Economics, Catholic University of Brasilia, Brazil) use an empirical model to identify the major determinants of the ex-post banking spread in the Brazilian economy, considering the influence of the macroeconomic environment, specific characteristics of the financial institutions, and elements of the banking sector. The sample consists of a balanced panel, composed of 64 banks in the period between the first quarter of 2001 and the second quarter of 2012. The empirical results of the static model suggest that administrative expenses, revenue from services and the coverage index are important determinants of the ex-post spread. The macroeconomic environment shows positive effects arising from real GDP, while the Herfindahl–Hirschman index indicates that spreads are higher for a more concentrated banking system. The dynamic model reveals a moderate persistence for the ex-post banking spread and a