

RMI Research Workshop Series

	Session 1	Session 2
Speaker:	Prof Hung Mao-Wei National Taiwan University	Prof Joseph Cherian National University of Singapore
Title:	Dynamic Portfolio Choice and Consumption Plan Under Inflation with Nominal and Indexed Bonds	Trading Agents and Liquidity Risk
Date / Time:	8th May 2009, 3.00pm – 4.10pm	8th May 2009, 4.30pm – 5.40pm
Venue:	BIZ 1 #01-10a Conference Room E (Next to LT19)	
Chair-person:	Prof Xia Yingcun, National University of Singapore	

Light refreshments will be served during the break (4.10pm – 4.30pm)

Session 1: Abstract

We solve for an intertemporal portfolio-consumption choice problem under inflation. We assume that the nominal interest rate is observable while the expected inflation rate is not. The inclusion of the indexed bond in the investor's portfolio provides the investor an opportunity to perfectly hedge against the inflation risk. While the hedging demand of the nominal bonds would be crowded out proportional to the demand of the indexed bonds. The estimation risk of the estimated inflation rate would also introduce an additional hedging demand. We also show that the direction in which the interest rate and the inflation rate affect the optimal consumption-wealth ratio would rely on the elasticity of intertemporal substitution of the investor. When the elasticity of intertemporal substitution is smaller than one, the consumption-wealth ratio is increasing in the nominal interest rate and decreasing in the inflation rate; the income effect dominates. When the elasticity of intertemporal substitution is greater than one, the consumption-wealth ratio is affected in an opposite way; the substitution effect dominates. However, the consumption-wealth ratio is not decided by the real interest rate, i.e., the difference of the nominal interest rate and the inflation rate. It also depends on the absolute levels of the nominal interest rate and the inflation rate. The nominal and real consumption growth rates are derived. The nominal consumption growth is decided by the sum of the real consumption growth rate and inflation rate.

About the speaker

Mao-Wei Hung received his B.A. degree in Economics from National Taiwan University, M.S. degree in Finance from the University of Wisconsin-Madison, and Ph.D. degree in Finance from Northwestern University. He taught in the Department of Finance at Northwestern University and McGill University. He is a Joint-Appointment Research Fellow of the Institute of Economics, Academia Sinica. From 2000 to 2002, he temporarily left NTU and assume the Founding Dean of College of Social Science and Management, and Chairman of the Department of Finance at National Chung Hsing University. In his term, he founded seven departments and the EMBA program (Executive Master of Business Administration). Now he is a Professor of International Business department in the College of Management at National Taiwan University. He has been the Dean of the College of Management at NTU since 2004. Professor Hung dedicates his career to educating students and researching, and has won many awards, which include National Professorship, 2007; Academic Research Award, Ministry of Education, 2004; top 20 Finance Researcher in Asian-Pacific Region, 2001; Outstanding Scholarship Award, Foundation for the Advancement of Outstanding Scholarship, 1999~2004; Management Distinguished Research Award, National Science Council, 1997~1999; Best Research Award, College of Management, National Taiwan University, 1996~2003, and Best Paper Award, Journal of Management, 1998. He also serves as editor or associate editor of many famous domestic Journals.

Session 2: Abstract

A recent area of concern – and analysis – in both financial economics and capital markets has been liquidity. Broadly speaking, liquidity is the ease with which a financial asset can be traded. Liquidity risk, on the other hand, can be defined as the uncertainty associated with the measure of liquidity. Using a simple information-based model of liquidity, we define, develop, and empirically test some measures of liquidity risk, both at the stock- and market-levels. In this model, trading agents are characterized as being driven by superior information, liquidity needs, or hedging requirements. The bid-ask spreads derived from this model have the desired historical properties, and the ability to forecast future liquidity. We also provide empirical evidence that validates the notion that liquidity affects financial market performance.

About the speaker

Joseph Cherian is currently Practice Professor of Finance at NUS Business School. He was formerly an Executive-in Residence at Cornell University's Johnson Graduate School of Management, where he recently was appointed a member of the Johnson School Advisory Council. Prior to that, Joe was Managing Director, Global Head, and Chief Investment Officer of the Quantitative Strategies Group within Credit Suisse's Alternative Investments division where he had direct responsibility for over US\$ 67 billion in client assets managed to a quantitative discipline that included Structured Equity, Long/short Equity, and Global Macro strategies offered as mutual funds, separate accounts, and hedge funds. While at Credit Suisse, Joe also served on the Global Executive Committee and various senior management, investments, and risk committees of the Asset Management division. Joe joined Credit Suisse in 2004 from Banc of America Capital Management, where he was a Managing Director responsible for asset allocation, quantitative equity research, as well as Senior Portfolio Manager of their asset allocation and quantitative equity funds. Previously, he was an Associate Professor of Finance at Boston University; a Visiting Professor of Finance at Cornell University, the University of Amsterdam, and the Tinbergen Institute; and consulted for several major financial organizations. Joe has also been interviewed or quoted in various public media about investments including the LA Times, Dow Jones, Public Broadcasting Service (PBS), and various Institutional Investor magazines.