Propositions

Attached to the thesis

On Extreme Events in Banking and Finance

Financial Stability | Risk Management
Tail Risk | Financial Markets

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I

The analysis of extreme events helps to reduce the systematic tail risk of a portfolio without a reduction in the expected return of the portfolio.

(Chapter 2)

II

In a multivariate normal universe, the dependence structure is fully described by pairwise dependence measures. For applications in our universe it is often necessary to go beyond pairwise dependence.

(Chapter 3)

III

It can be particularly unfavorable for financial stability if institutions diversify by exchanging 'relatively safe' senior tranches of securitized loan portfolios. If carried out judiciously, however, exchanging senior tranches may strongly advance the resilience of financial institutions.

(Chapter 4)

IV

The relation between bank profitability and the growth rate of economic activity exemplifies why one has to be careful with extrapolation in stress tests.

(Chapter 5)

V

Simultaneous extreme shocks in the prices of agricultural crop commodities do hardly occur, unless the crops are grown close to one another.

(Chapter 7)

VI

For policy decisions it is important to know whether return comovement is caused by common risk exposures or by contagion. Distinguishing between the two is almost impossible from financial market data.

VII

The institutions and tax laws in the Netherlands provide an incentive for households to lengthen their balance sheets. Although they were implemented with good intentions, they are accompanied by increased risks for households and the financial sector.

VIII

Reference rates, such as LIBOR, will remain prone to manipulation if they are calculated from actual market transactions instead of surveys.

IX

The introduction of risk-weighted capital requirements encouraged banks to think about legitimate ways to understate risks. The introduction of a plain leverage cap will encourage banks to think about legitimate ways to understate total assets.

X

It is a recipe for systemic crises if the ex post contributions of member banks to a deposit guarantee scheme may exceed the maximum loss that the member banks can absorb without running material insolvency risks.

XI

The relation observed between two financial variables during extreme events can be fundamentally different from the relation observed during normal periods. This statement holds even stronger for relations between people.