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Andreas Rouml;thig

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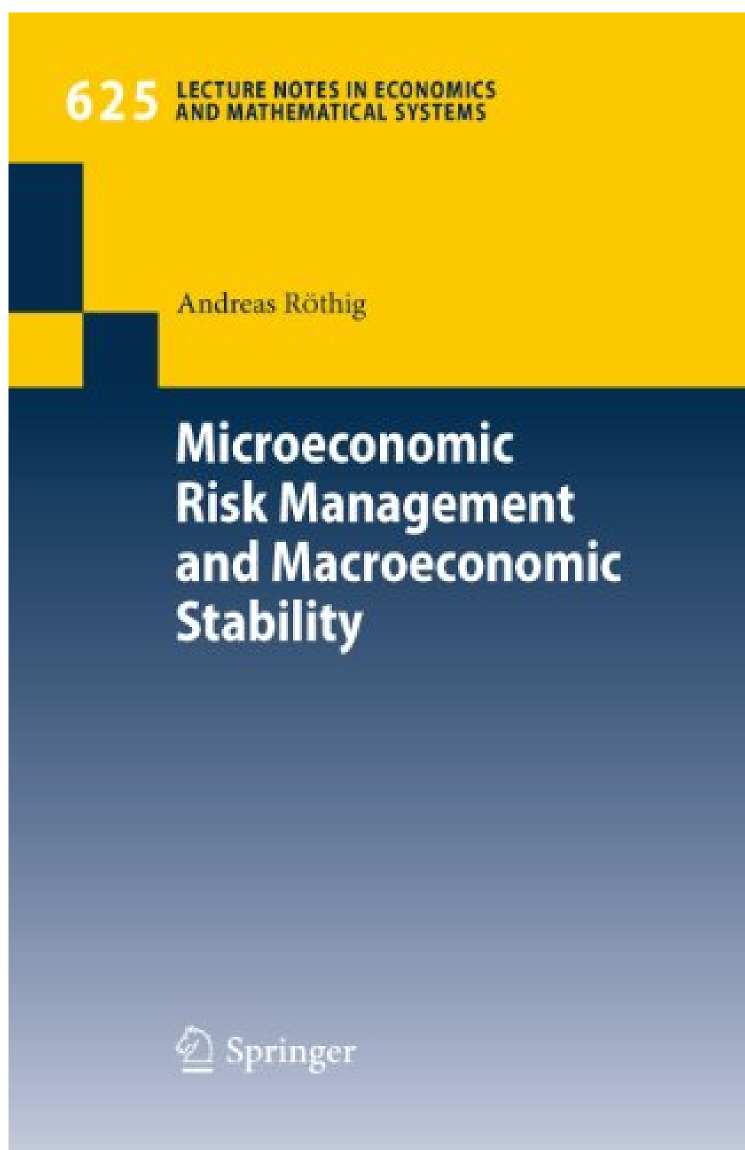

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Andreas Rouml;thig : Microeconomic Risk Management and Macroeconomic Stability: 625 (Lecture Notes in Economics and Mathematical Systems) before purchasing it in order to gage whether or not it would be worth my time, and all praised Microeconomic Risk Management and Macroeconomic Stability: 625 (Lecture Notes in

Economics and Mathematical Systems):

ldquo;The essence of a hedging contract is a coincident purchase and sale in two markets which are expected to behave in such a way that any loss realized in one will be offset by an equivalent gain in the other. If such behavior follows a perfect hedge has been effected. rdquo; Hardy and Lyon (1923, p. 276). 1. 1 LiteratureReviewandMotivation In the traditional hedging literature, the two markets in which hedgers trade are spot and futures markets. The traderrsquo;s position in the spot market is generally considered as given. According to Johnson (1960), hedging can be meaningfully de?ned only if the spot market is regarded as the traderrsquo;s primary market. The futures market is used solely to counterbalance an existing position in the spot market. Speculators, in contrast, do not have a commitment in the spot market. They take on risk in futures markets in order to pro?t from expected price changes. The hedger synchronizes his trading activities in spot and futures markets in order to reduce spot risk. In the lit- ature this approach to hedging is labeled risk reduction concept. Risk reduction will be achieved if spot and futures prices move more or less in parallel. If prices are p- fectly correlated, risk is abolished, since losses in one market are perfectly offset by pro?ts in the other market. However, as Hardy and Lyon (1923) point out, any div- gence from perfect correlation results in an imperfect hedge.

From the Back CoverWhile the determinants of firmsrsquo; optimal hedging strategies on the micro level are well understood, there is rarely any literature dealing with macroeconomic consequences of microeconomic risk management. This book is concerned with the impact of diverse hedging policies on macroeconomic stability. It addresses this issue by employing theoretical as well as empirical methods.