

D THE JOURNAL OF **DERIVATIVES**

VOLUME 13, NUMBER 4

SUMMER 2006

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Spring is sprung and summer is nearly here. Oil prices have surpassed \$75 per barrel, U.S. interest rates are rising. Marches in support of immigration reform are taking place in cities all over the U.S. According to the press, the mood of consumers is "volatile," which worries the politicians facing an election in the fall. Yet the financial markets seem far from volatile. For example, the VIX index of implied volatilities for S&P 500 index options is still at levels seldom seen since the mid-1990s. Go figure! Anyway . . .

Credit risk is the current new frontier in derivatives. The market for single-name credit default swaps continues to grow very rapidly, and basket credit products like collateralized debt obligations (CDOs) are proliferating. In the latter, correlations in defaults are critical to valuation and risk management. But this is a very hard problem, both because of its mathematical challenges and also because default is (luckily) a rare event, and the world does not provide a lot of empirical data on rare events. At this point, the "industry standard" correlation model is the Gaussian copula approach, partly because the theoretical underpinnings of the structural modeling framework naturally accommodate correlation in defaults through correlation in asset price movements. But the Gaussian copula also has a variety of problems. Our first article in this issue offers a new model in the reduced-form framework, in which default intensities are driven by correlated affine jump-diffusion processes. This permits explicit modeling of correlation in default intensities in a particularly tractable way. Mortensen shows that the new model is quite capable of fitting market prices from CDO tranches.

Next is an article by Engle and Sarkar on the pricing of Exchange Trade Funds. Because ETFs can be created and liquidated by deposit or withdrawal of actual shares, arbitrage should keep market prices and net asset values very close to one another. Empirically, they appear to be "close" but not always "very close." The article examines the premiums and discounts in the context of an errors-in-variables model, in which timing mismatches and other possible sources of pricing errors are modeled explicitly. Once these are taken into account, the discrepancies appear much smaller and can be quickly corrected, at least for the domestic funds.

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