

**Date of the event:**

On Thursday 16<sup>th</sup> December 2010  
From 01:00 PM to 2:00 PM

**Location:**

Luxembourg School of Finance  
University of Luxembourg  
4 Rue Albert Borschette  
2<sup>nd</sup> Floor  
Modigliani Miller Auditorium (E02-003)  
L-1246 Luxembourg

**Registrations:**

- Free seminar (with lunch included)
- Registrations by email before December 13<sup>th</sup>, 2010
- At the following address : [lsf-events@uni.lu](mailto:lsf-events@uni.lu)

**Information:**

Ms Caroline Herfroy  
Tel : +352 46 66 44 6335

<http://www.lsf.lu/index.php/eng/Research/Seminars-and-Workshops>



The LSF is pleased to invite you to the following lunch seminar:

***Balance Sheet Capacity  
and Endogenous Risk***

*By Prof. Jean-Pierre Zigrand  
London School of Economics*



**Thursday 16<sup>th</sup> December 2010  
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# ***Balance Sheet Capacity and Endogenous Risk***

***By Jean-Pierre Zigrand***

The **Luxembourg School of Finance**

Is pleased to invite you to the

**LSF Seminar**

Banks operating under Value-at-Risk constraints give rise to a well-defined aggregate balance sheet capacity that depends on expected risk. We derive a closed form solution for equilibrium risk in a dynamic banking model as the fixed point of the mapping that takes expected risk to actual risk. Fluctuations in bank balance sheet capacity closely mirror fluctuations in market risk premiums and amplification of shocks through feedback effects. Correlations in returns emerge even when underlying fundamental shocks are independent. We derive closed-form solutions for market risk premiums, correlation and volatility and discuss implications for stochastic volatility and option pricing.

