

Date of the event:

On Thursday 21st April 2011
From 01:00 PM to 2:00 PM

Location:

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

Registrations:

- Free seminar (with lunch included)
- Registrations by email before April 18th, 2011
- At the following address : lsf-events@uni.lu

Information:

Ms Caroline Herfroy
Tel : +352 46 66 44 6335

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



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

Autonomously Interacting Banks

*By Professor Yvan Lengwiler
Universität Basel*

**Thursday, 21st April 2011
From 01:00 PM to 2:00 PM**



Autonomously Interacting Banks

By Yvan Lengwiler

The **Luxembourg School of Finance**

Is pleased to invite you to the

LSF Seminar

The great turmoil that financial markets and institutions have gone through since mid 2007 has brought bank regulation to the forefront of political and academic debate again. Various issues are being discussed in the regulatory and political arena, such as the role of securitization, the role of rating agencies and hedge funds, the failure of risk management, the too big to fail issue, top management's incentives, capital adequacy regulations, reserve requirements, and several more.

In this situation, we take a step back. We are not convinced that it is well understood how the existing regulation affects the stability of the financial system. Thus, instead of topping the existing rules with new ones, we would like to first investigate what the old rules do

Naturally, one would want to model this situation as a general equilibrium, but general equilibrium models with heterogeneous agents that exceed a certain complexity are impossible to solve formally, and very difficult to solve numerically. We therefore turn to a great simplification: we simulate the interaction of different kinds of agents in an artificial market. Our agents are not fully optimizing, but they follow simple, yet sensible rules of thumb. A sequence of shocks generates trade orders, which are then matched in the artificial market. The resulting price movements generate correlated effects on the balance sheets of the various entities, which then again are the basis of new trade orders, etc. We investigate how different regulations --- such as risk-adjusted capital requirements or the leverage ratio restriction --- affect the stability of the system as a whole.

