



ALFRED-WEBER-INSTITUT FÜR WIRTSCHAFTSWISSENSCHAFTEN
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Upcoming Seminars

Monday, 18.12.2017

Departmental Seminar

13.30-14.30

AWI 00.010

Roman Liesenfeld, Universität zu Köln

(invited by Fabian Krüger)

"Factor State-Space Models for High-Dimensional Realized
Covariance Matrices of Asset Returns"

Tuesday, 19.12.2017

Economics and Politics Seminar

13.45-14.45

AWI 01.030

Simone Dietrich, University of Geneva

"Foreign aid and judicial autonomy"

Departmental Seminar

Roman Liesenfeld

"Factor State-Space Models for High-Dimensional Realized Covariance Matrices of Asset Returns"*

We propose a flexible matrix-variate state-space model for the prediction of high-dimensional covariance matrices of asset returns based on observable common factors such as the three Fama- French factors. In this model the latent joint covariance matrix of the assets and the common factors is observed through the corresponding realized covariance matrix with a measurement density which is assumed to be a central Wishart. By imposing a factor structure the covariance matrix of the assets is decomposed into a low-rank component driven by the covariance matrix of the factors and a diagonal residual covariance matrix. In this decomposition we allow for dynamic variation in the factor and residual covariance as well as in the factor loadings. This decomposition translates into a convenient factorization of the Wishart measurement density which greatly simplifies statistical inference in high-dimensional applications. The proposed model can be analyzed using Bayesian MCMC procedures and exploiting computational parallelization techniques enables a fast, scalable and numerically precise statistical inference. An empirical application to realized covariance matrices for 60 NYSE traded stocks shows that the model performs very well in- and out of sample.

*with Bastian Gribisch, Jan Patrick Hartkopf

Economics and Politics Seminar

Simone Dietrich

"Foreign aid and judicial autonomy"

Foreign aid donors increasingly embrace judicial autonomy as an important component of advancing democracy and promoting investment abroad. Recipient governments also recognize the importance of judiciary reform for improving the investment climate at home. However, developing countries often lack the necessary state capacity that would enable them to implement these reforms. We argue that recipient countries that lack state capacity to undertake reforms on their own to turn to donors who readily assist in judiciary reforms via targeted democracy and governance interventions. At the same time, we suggest that the external assistance matters less for recipients that are able to implement judicial reforms by themselves. We employ an instrumental variable model to test this argument in a global sample of aid-eligible countries.

Talks and Research Visits

Axel Dreher will give a talk on "Aid on Demand: African Leaders and the Geography of China's Foreign Assistance", Sapienza University of Rome, December 14-15.

Sarah Langlotz presented "The Effects of Foreign Aid on Refugee Flows" (joint work with Axel Dreher and Andreas Fuchs) at the Seventh annual conference on Immigration in OECD countries, Boulogne-Billancourt, December 11-12.

Marco Lambrecht presented the project "Measuring skill and chance in games" at the *Stochastics Seminar* Heidelberg/Mannheim in Mannheim, December 7.

Christopher Kops presented his paper "Choice via Social Influence" (with Abhinash Borah) at the 12th BIGSEM Workshop on Economic Theory, Bielefeld University, December 4.

New Publications

Clive Bell: "Labour and Tenancy in Retrospect: Two Bihari Villages in 1970", in A. Mishra and T. Ray (eds.), *Markets, Governance, and Institutions*, Oxford: Oxford University Press, 2018, pp. 271-299.

New Working Papers

Sven Kunze: "Unraveling the Effects of Tropical Cyclones on Economic Sectors Worldwide", *AWI Discussion Paper Series* No. 641, Heidelberg University, November 2017.

Sebastian Ziaja: "More donors, more democracy", *AWI Discussion Paper Series* No. 640, Heidelberg University, November 2017.

*Merry Christmas and a
Healthy & Happy New Year 2018*

**Editorial deadline for issue 1/2018 of the newsletter:
Wednesday, January 3, 2018, 12 p.m.
newsletter@awi.uni-heidelberg.de**

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please contact the address above.