

# Quantitative Finance and Investments Advanced Formula Sheet

Fall 2015/Spring 2016

Morning and afternoon exam booklets will include a formula package identical to the one attached to this study note. The exam committee believes that by providing many key formulas, candidates will be able to focus more of their exam preparation time on the application of the formulas and concepts to demonstrate their understanding of the syllabus material and less time on the memorization of the formulas.

The formula sheet was developed sequentially by reviewing the syllabus material for each major syllabus topic. Candidates should be able to follow the flow of the formula package easily. We recommend that candidates use the formula package concurrently with the syllabus material. Not every formula in the syllabus is in the formula package. **Candidates are responsible for all formulas on the syllabus, including those not on the formula sheet.**

Candidates should carefully observe the sometimes subtle differences in formulas and their application to slightly different situations. Candidates will be expected to recognize the correct formula to apply in a specific situation of an exam question.

Candidates will note that the formula package does not generally provide names or definitions of the formula or symbols used in the formula. With the wide variety of references and authors of the syllabus, candidates should recognize that the letter conventions and use of symbols may vary from one part of the syllabus to another and thus from one formula to another.

We trust that you will find the inclusion of the formula package to be a valuable study aide that will allow for more of your preparation time to be spent on mastering the learning objectives and learning outcomes.

# Interest Rate Models - Theory and Practice, Brigo and Mercurio

## Chapter 3

Table 3.1 Summary of instantaneous short rate models

Model	Dynamics	$r > 0$	$r \sim$	AB	AO
V	$dr_t = k[\theta - r_t]dt + \sigma dW_t$	N	$\mathcal{N}$	Y	Y
CIR	$dr_t = k[\theta - r_t]dt + \sigma\sqrt{r_t}dW_t$	Y	$\text{NC}\chi^2$	Y	Y
D	$dr_t = ar_tdt + \sigma r_t dW_t$	Y	$\text{LN}$	Y	N
EV	$dr_t = r_t[\eta - a \ln r_t]dt + \sigma r_t dW_t$	Y	$\text{LN}$	N	N
HW	$dr_t = k[\theta_t - r_t]dt + \sigma dW_t$	N	$\mathcal{N}$	Y	Y
BK	$dr_t = r_t[\eta_t - a \ln r_t]dt + \sigma r_t dW_t$	Y	$\text{LN}$	N	N
MM	$dr_t = r_t \left[ \eta_t - \left( \lambda - \frac{\gamma}{1+\gamma} \right) \ln r_t \right] dt + \sigma r_t dW_t$	Y	$\text{LN}$	N	N
CIR++	$r_t = x_t + \varphi_t, \quad dx_t = k[\theta - x_t]dt + \sigma\sqrt{x_t}dW_t$	Y*	$\text{SNC}\chi^2$	Y	Y
EEV	$r_t = x_t + \varphi_t, \quad dx_t = x_t[\eta - a \ln x_t]dt + \sigma x_t dW_t$	Y*	$\text{SLN}$	N	N

\*rates are positive under suitable conditions for the deterministic function  $\varphi$ .

$$(3.5) \quad dr(t) = k[\theta - r(t)]dt + \sigma dW(t), \quad r(0) = r_0$$

$$(3.6) \quad r(t) = r(s)e^{-k(t-s)} + \theta(1 - e^{-k(t-s)}) + \sigma \int_s^t e^{-k(t-u)} dW(u)$$

$$(3.7) \quad E\{r(t)|\mathcal{F}_s\} = r(s)e^{-k(t-s)} + \theta(1 - e^{-k(t-s)})$$

$$\text{Var}\{r(t)|\mathcal{F}_s\} = \frac{\sigma^2}{2k} [1 - e^{-2k(t-s)}]$$

$$(3.8) \quad P(t, T) = A(t, T)e^{-B(t, T)r(t)}$$

$$(3.9) \quad dr(t) = [k\theta - B(t, T)\sigma^2 - kr(t)]dt + \sigma dW^T(t)$$

$$(3.11) \quad dr(t) = [k\theta - (k + \lambda\sigma)r(t)]dt + \sigma dW^0(t), \quad r(0) = r_0$$

$$(3.12) \quad dr(t) = [b - ar(t)]dt + \sigma dW^0(t)$$

$$(3.13) \quad r(t) = r(s)e^{-a(t-s)} + \frac{b}{a}(1 - e^{-a(t-s)}) + \sigma \int_s^t e^{-a(t-u)} dW^0(u)$$

$$(3.14) \quad \hat{\alpha} = \frac{n \sum_{i=1}^n r_i r_{i-1} - \sum_{i=1}^n r_i \sum_{i=1}^n r_{i-1}}{n \sum_{i=1}^n r_{i-1}^2 - (\sum_{i=1}^n r_{i-1})^2}$$

$$(3.15) \quad \hat{\beta} = \frac{\sum_{i=1}^n [r_i - \hat{\alpha}r_{i-1}]}{n(1 - \hat{\alpha})}$$

$$(3.16) \quad \widehat{V}^2 = \frac{1}{n} \sum_{i=1}^n [r_i - \hat{\alpha}r_{i-1} - \hat{\beta}(1 - \hat{\alpha})]^2$$

$$(3.19) \quad E\{r(t)|\mathcal{F}_s\} = r(s)e^{a(t-s)} \text{ and } \text{Var}\{r(t)|\mathcal{F}_s\} = r^2(s)e^{2a(t-s)} (e^{\sigma^2(t-s)} - 1)$$

$$(3.20) \quad P(t, T) = \frac{\bar{r}^p}{\pi^2} \int_0^\infty \sin(2\sqrt{\bar{r}} \sinh y) \int_0^\infty f(z) \sin(yz) dz dy + \frac{2}{\Gamma(2p)} \bar{r}^p K_{2p}(2\sqrt{\bar{r}})$$

$$(3.21) \quad dr(t) = k(\theta - r(t))dt + \sigma\sqrt{r(t)}dW(t), \quad r(0) = r_0$$

$$(3.22) \quad dr(t) = [k\theta - (k + \lambda\sigma)r(t)]dt + \sigma\sqrt{r(t)}dW^0(t), \quad r(0) = r_0$$

$$(3.23) \quad E\{r(t)|\mathcal{F}_s\} = r(s)e^{-k(t-s)} + \theta(1 - e^{-k(t-s)})$$

$$\text{Var}\{r(t)|\mathcal{F}_s\} = r(s)\frac{\sigma^2}{k}(e^{-k(t-s)} - e^{-2k(t-s)}) + \theta\frac{\sigma^2}{2k}(1 - e^{-k(t-s)})^2$$

$$(3.24) \quad P(t, T) = A(t, T)e^{-B(t, T)r(t)}$$

$$(3.25) \quad A(t, T) = \left[ \frac{2h \exp\{(k+h)(T-t)/2\}}{2h + (k+h)(\exp\{(T-t)h\} - 1)} \right]^{2k\theta/\sigma^2}$$

$$B(t, T) = \frac{2(\exp\{(T-t)h\} - 1)}{2h + (k+h)(\exp\{(T-t)h\} - 1)}, \quad h = \sqrt{k^2 + 2\sigma^2}$$

$$(3.27) \quad dr(t) = [k\theta - (k + B(t, T)\sigma^2)r(t)]dt + \sigma\sqrt{r(t)}dW^T(t)$$

$$(3.28) \quad p_{r(t)|r(s)}^T(x) = p_{\chi^2(v, \delta(t, s))/q(t, s)}(x) = q(t, s)p_{\chi^2(v, \delta(t, s))}(q(t, s)x)$$

$$q(t, s) = 2[\rho(t-s) + \psi + B(t, T)] \text{ and } \delta(t, s) = \frac{4\rho(t-s)^2 r(s)e^{h(t-s)}}{q(t, s)}$$

Page 68  $R(t, T) = \alpha(t, T) + \beta(t, T)r(t), \quad P(t, T) = A(t, T)e^{-B(t, T)r(t)}$

$$(3.29) \quad \sigma_f(t, T) = \frac{\partial B(t, T)}{\partial T}\sigma(t, r(t))$$

Page 69  $dr(t) = b(t, r(t))dt + \sigma(t, r(t))dW(t)$

$$b(t, x) = \lambda(t)x + \eta(t), \quad \sigma^2(t, x) = \gamma(t)x + \delta(t)$$

$$\frac{\partial}{\partial t}B(t, T) + \lambda(t)B(t, T) - \frac{1}{2}\gamma(t)B(t, T)^2 + 1 = 0, \quad B(T, T) = 0$$

$$\frac{\partial}{\partial t}[\ln A(t, T)] - \eta(t)B(t, T) + \frac{1}{2}\delta(t)B(t, T)^2 = 0, \quad A(T, T) = 1$$

Page 69/70 Vasicek  $\lambda(t) = -k, \quad \eta(t) = k\theta, \quad \gamma(t) = 0, \quad \delta(t) = \sigma^2$

Page 70 CIR  $\lambda(t) = -k, \quad \eta(t) = k\theta, \quad \gamma(t) = \sigma^2, \quad \delta(t) = 0$

$$b(x) = \lambda x + \eta, \quad \sigma^2(x) = \gamma x + \delta$$

Page 71  $\lim_{t \rightarrow \infty} E\{r(t)|\mathcal{F}_s\} = \exp\left(\frac{\theta}{a} + \frac{\sigma^2}{4a}\right)$

$$(3.31) \quad \lim_{t \rightarrow \infty} \text{Var}\{r(t)|\mathcal{F}_s\} = \exp\left(\frac{2\theta}{a} + \frac{\sigma^2}{2a}\right) \left[ \exp\left(\frac{\sigma^2}{2a}\right) - 1 \right]$$

$$(3.32) \quad dr(t) = [\vartheta(t) - a(t)r(t)]dt + \sigma(t)dW(t)$$

$$(3.33) \quad dr(t) = [\vartheta(t) - ar(t)]dt + \sigma dW(t)$$

$$(3.34) \quad \vartheta(t) = \frac{\partial f^M(0, t)}{\partial T} + af^M(0, t) + \frac{\sigma^2}{2a}(1 - e^{-2at})$$

$$(3.35) \quad r(t) = r(s)e^{-a(t-s)} + \int_s^t e^{-a(t-u)}\vartheta(u)du + \sigma \int_s^t e^{-a(t-u)}dW(u) \\ = r(s)e^{-a(t-s)} + \alpha(t) - \alpha(s)e^{-a(t-s)} + \sigma \int_s^t e^{-a(t-u)}dW(u)$$

$$(3.36) \quad \text{where } \alpha(t) = f^M(0, t) + \frac{\sigma^2}{2a^2}(1 - e^{-at})^2$$

$$(3.37) \quad E\{r(t)|\mathcal{F}_s\} = r(s)e^{-a(t-s)} + \alpha(t) - \alpha(s)e^{-a(t-s)}$$

$$\text{Var}\{r(t)|\mathcal{F}_s\} = \frac{\sigma^2}{2a} [1 - e^{-2a(t-s)}]$$

$$(3.38) \quad dx(t) = -ax(t)dt + \sigma dW(t), \quad x(0) = 0$$

Page 74  $x(t) = x(s)e^{-a(t-s)} + \sigma \int_s^t e^{-a(t-u)} dW(u)$

$$(3.47) \quad E\{x(t_{i+1})|x(t_i) = x_{i,j}\} = x_{i,j}e^{-a\Delta t_i} =: M_{i,j}$$

$$\text{Var}\{x(t_{i+1})|x(t_i) = x_{i,j}\} = \frac{\sigma^2}{2a} [1 - e^{-2a\Delta t_i}] =: V_i^2$$

$$(3.48) \quad \Delta x_i = V_{i-1}\sqrt{3} = \sigma\sqrt{\frac{3}{2a}[1 - e^{-2a\Delta t_{i-1}}]}$$

$$(3.49) \quad k = \text{round}\left(\frac{M_{i,j}}{\Delta x_{i+1}}\right)$$

$$(3.50) \quad p_u = \frac{1}{6} + \frac{\eta_{j,k}^2}{6V_i^2} + \frac{\eta_{j,k}}{2\sqrt{3}V_i}, \quad p_m = \frac{2}{3} - \frac{\eta_{j,k}^2}{3V_i^2}, \quad p_d = \frac{1}{6} + \frac{\eta_{j,k}^2}{6V_i^2} - \frac{\eta_{j,k}}{2\sqrt{3}V_i}$$

$$(3.64) \quad dx_t^\alpha = \mu(x_t^\alpha; \alpha)dt + \sigma(x_t^\alpha; \alpha)dW_t^x$$

$$(3.65) \quad P^x(t, T) = \Pi^x(t, T, x_t^\alpha; \alpha)$$

$$(3.66) \quad r_t = x_t + \varphi(t; \alpha), \quad t \geq 0$$

$$(3.67) \quad P(t, T) = \exp\left[-\int_t^T \varphi(s; \alpha)ds\right] \Pi^x(t, T, r_t - \varphi(t; \alpha); \alpha)$$

$$(3.68) \quad \varphi(t; \alpha) = \varphi^*(t; \alpha) := f^M(o, t) - f^x(0, t; \alpha)$$

$$(3.69) \quad \exp\left[-\int_t^T \varphi(s; \alpha)ds\right] = \Phi^*(t, T, x_0; \alpha) := \frac{P^M(0, T)}{\Pi^x(0, T, x_0; \alpha)} \frac{\Pi^x(0, t, x_0; \alpha)}{P^M(0, t)}$$

$$(3.70) \quad \Pi(t, T, r_t; \alpha) = \Phi^*(t, T, x_0; \alpha)\Pi^*(t, T, r_t - \varphi^*(t; \alpha); \alpha)$$

$$(3.71) \quad V^x(t, T, \tau, K) = \Psi^x(t, T, \tau, K, x_t^\alpha; \alpha)$$

$$(3.74) \quad dr_t = \left[ k\theta + k\varphi(t; \alpha) + \frac{d\varphi(t; \alpha)}{dt} - kr_t \right] dt + \sigma dW_t$$

Page 100  $\varphi^{VAS}(t; \alpha) = f^M(0, t) + (e^{-kt} - 1)\frac{k^2\theta - \sigma^2/2}{k^2} - \frac{\sigma^2}{2k^2}e^{-kt}(1 - e^{-kt}) - x_0e^{-kt}$

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$$P(t, T) = \frac{P^M(0, T)A(0, t) \exp\{-B(0, t)x_0\}}{P^M(0, t)A(0, T) \exp\{-B(0, T)x_0\}} \\ \times A(t, T) \exp\{-B(t, T)[r_t - \varphi^{VAS}(t; \alpha)]\}$$

$$(3.76) \quad dx(t) = k(\theta - x(t))dt + \sigma\sqrt{x(t)}dW(t), \quad x(0) = x_0, \quad r(t) = x(t) + \varphi(t)$$

$$(3.77) \quad \varphi^{CIR}(t; \alpha) = f^M(0, t) - f^{CIR}(0, t; \alpha)$$

$$f^{CIR}(0, t; \alpha) = \frac{2k\theta(\exp\{th\} - 1)}{2h + (k + h)(\exp\{th\} - 1)} + x_0 \frac{4h^2 \exp\{th\}}{[2h + (k + h)(\exp\{th\} - 1)]^2}$$

$$h = \sqrt{k^2 + 2\sigma^2}$$

## Chapter 4

$$(4.4) \quad r_t = x(t) + y(t) + \varphi(t), \quad r(0) = r_0$$

$$(4.5) \quad dx(t) = -ax(t)dt + \sigma dW_1(t), \quad x(0) = 0$$

$$dy(t) = -by(t)dt + \eta dW_2(t), \quad y(0) = 0$$

$$(4.6) \quad E\{r(t)|\mathcal{F}_s\} = x(s)e^{-a(t-s)} + y(s)e^{-b(t-s)} + \varphi(t)$$

$$\text{Var}\{r(t)|\mathcal{F}_s\} = \frac{\sigma^2}{2a} [1 - e^{-2a(t-s)}] + \frac{\eta^2}{2b} [1 - e^{-2b(t-s)}] + 2\rho \frac{\sigma\eta}{a+b} [1 - e^{-(a+b)(t-s)}]$$

$$(4.7) \quad r(t) = \sigma \int_0^t e^{-a(t-u)} dW_1(u) + \eta \int_0^t e^{-b(t-u)} dW_2(u) + \varphi(t)$$

$$(4.8) \quad dx(t) = -ax(t)dt + \sigma d\widetilde{W}_1(t) \quad dy(t) = -by(t)dt + \eta\rho d\widetilde{W}_1(t) + \eta\sqrt{1-\rho^2} d\widetilde{W}_2(t)$$

$$\text{where } dW_1(t) = d\widetilde{W}_1(t) \text{ and } dW_2(t) = \rho d\widetilde{W}_1(t) + \sqrt{1-\rho^2} d\widetilde{W}_2(t)$$

$$(4.9) \quad M(t, T) = \frac{1 - e^{-a(T-t)}}{a} x(t) + \frac{1 - e^{-b(T-t)}}{b} y(t)$$

$$(4.10) \quad V(t, T) = \frac{\sigma^2}{a^2} \left[ T - t + \frac{2}{a} e^{-a(T-t)} - \frac{1}{2a} e^{-2a(T-t)} - \frac{3}{2a} \right]$$

$$+ \frac{\eta^2}{b^2} \left[ T - t + \frac{2}{b} e^{-b(T-t)} - \frac{1}{2b} e^{-2b(T-t)} - \frac{3}{2b} \right]$$

$$+ 2\rho \frac{\sigma\eta}{ab} \left[ T - t + \frac{e^{-a(T-t)} - 1}{a} + \frac{e^{-b(T-t)} - 1}{b} - \frac{e^{-(a+b)(T-t)} - 1}{a+b} \right]$$

$$(4.11) \quad P(t, T) = \exp \left\{ - \int_t^T \varphi(u) du - \frac{1 - e^{-a(T-t)}}{a} x(t) - \frac{1 - e^{-b(T-t)}}{b} y(t) + \frac{1}{2} V(t, T) \right\}$$

$$(4.12) \quad \varphi(t) = f^M(0, T) + \frac{\sigma^2}{2a^2} (1 - e^{-aT})^2 + \frac{\eta^2}{2b^2} (1 - e^{-bT})^2 + \rho \frac{\sigma\eta}{ab} (1 - e^{-aT})(1 - e^{-bT})$$

$$(4.13) \quad \exp \left\{ - \int_t^T \varphi(u) du \right\} = \frac{P^M(0, T)}{P^M(0, t)} \exp \left\{ - \frac{1}{2} [V(0, T) - V(0, t)] \right\}$$

$$(4.14) \quad P(t, T) = \frac{P^M(0, T)}{P^M(0, t)} \exp \{ \mathcal{A}(t, T) \}$$

$$\mathcal{A}(t, T) := \frac{1}{2} [V(t, T) - V(0, T) + V(0, t)] - \frac{1 - e^{-a(T-t)}}{a} x(t) - \frac{1 - e^{-b(T-t)}}{b} y(t)$$

$$(4.15) \quad P(t, T) = A(t, T) \exp \{ -B(a, t, T)x(t) - B(b, t, T)y(t) \}$$

$$(4.16) \quad \sigma_f(t, T) = \sqrt{\sigma^2 e^{-2a(T-t)} + \eta^2 e^{-2b(T-t)} + 2\rho\sigma\eta e^{-(a+b)(T-t)}}$$

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$$\begin{aligned}
& \frac{Cov(df(t, T_1), df(t, T_2))}{dt} \\
&= \sigma^2 \frac{\partial B}{\partial T}(a, t, T_1) \frac{\partial B}{\partial T}(a, t, T_2) + \eta^2 \frac{\partial B}{\partial T}(b, t, T_1) \frac{\partial B}{\partial T}(b, t, T_2) \\
&\quad + \rho\sigma\eta \left[ \frac{\partial B}{\partial T}(a, t, T_1) \frac{\partial B}{\partial T}(b, t, T_2) + \frac{\partial B}{\partial T}(a, t, T_2) \frac{\partial B}{\partial T}(b, t, T_1) \right] \\
&= \sigma^2 e^{-a(T_1+T_2-2t)} + \eta^2 e^{-b(T_1+T_2-2t)} \\
&\quad + \rho\sigma\eta \left[ e^{-aT_1-bT_2+(a+b)t} + e^{-aT_2-bT_1+(a+b)t} \right] \\
Corr(df(t, T_1), df(t, T_2)) &= \frac{\sigma^2 e^{-a(T_1+T_2-2t)} + \eta^2 e^{-b(T_1+T_2-2t)} + \rho\sigma\eta \left[ e^{-aT_1-bT_2+(a+b)t} + e^{-aT_2-bT_1+(a+b)t} \right]}{\sigma_f(t, T_1)\sigma_f(t, T_2)} \\
&\quad + \frac{\rho\sigma\eta \left[ e^{-aT_1-bT_2+(a+b)t} + e^{-aT_2-bT_1+(a+b)t} \right]}{\sigma_f(t, T_1)\sigma_f(t, T_2)}
\end{aligned}$$

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$$\begin{aligned}
f(t, T_1 T_2) &= \frac{\ln P(t, T_1) - \ln P(t, T_2)}{T_2 - T_1} \\
df(t, T_1, T_2) &= \dots dt + \frac{B(a, t, T_2) - B(a, t, T_1)}{T_2 - T_1} \sigma dW_1(t) \\
&\quad + \frac{B(b, t, T_2) - B(b, t, T_1)}{T_2 - T_1} \eta dW_2(t) \\
\sigma_f(t, T_1, T_2) &= \sqrt{\sigma^2 \beta(a, t, T_1, T_2)^2 + \eta^2 \beta(b, t, T_1, T_2)^2 + 2\rho\sigma\eta \beta(a, t, T_1, T_2) \beta(b, t, T_1, T_2)}
\end{aligned}$$

where

$$\begin{aligned}
\beta(z, t, T_1, T_2) &= \frac{B(z, t, T_2) - B(z, t, T_1)}{T_2 - T_1} \\
\frac{Cov(df(t, T_1, T_2), df(t, T_3, T_4))}{dt} &= \sigma^2 \frac{B(a, t, T_2) - B(a, t, T_1)}{T_2 - T_1} \frac{B(a, t, T_4) - B(a, t, T_3)}{T_4 - T_3} \\
&\quad + \eta^2 \frac{B(b, t, T_2) - B(b, t, T_1)}{T_2 - T_1} \frac{B(b, t, T_4) - B(b, t, T_3)}{T_4 - T_3} \\
&\quad + \rho\sigma\eta \left[ \frac{B(a, t, T_2) - B(a, t, T_1)}{T_2 - T_1} \frac{B(b, t, T_4) - B(b, t, T_3)}{T_4 - T_3} \right. \\
&\quad \left. + \frac{B(a, t, T_4) - B(a, t, T_3)}{T_4 - T_3} \frac{B(b, t, T_2) - B(b, t, T_1)}{T_2 - T_1} \right]
\end{aligned}$$

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$$\begin{aligned}
\sigma_3 &= \sqrt{\sigma_1^2 + \frac{\sigma_2^2}{(\bar{a} - \bar{b})^2} + 2\bar{\rho} \frac{\sigma_1 \sigma_2}{\bar{b} - \bar{a}}} \\
dZ_3(t) &= \frac{\sigma_1 dZ_1(t) - \frac{\sigma_2}{\bar{a} - \bar{b}} dZ_2(t)}{\sigma_3}, \quad \sigma_4 = \frac{\sigma_2}{\bar{a} - \bar{b}}
\end{aligned}$$

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$$a = \bar{a}, \quad b = \bar{b}, \quad \sigma = \sigma_3, \quad \eta = \sigma_4, \quad \rho = \frac{\sigma_1 \bar{\rho} - \sigma_4}{\sigma_3}$$

$$\begin{aligned}\varphi(t) &= r_0 e^{-\bar{a}t} + \int_0^t \theta(v) e^{-\bar{a}(t-v)} dv \\ \bar{a} &= a, \quad \bar{b} = b, \quad \sigma_1 = \sqrt{\sigma^2 + \eta^2 + 2\rho\sigma\eta}, \quad \sigma_2 = \eta(a - b) \\ \bar{\rho} &= \frac{\sigma\rho + \eta}{\sqrt{\sigma^2 + \eta^2 + 2\rho\sigma\eta}}, \quad \theta(t) = \frac{d\varphi(t)}{dt} + a\varphi(t)\end{aligned}$$

## Managing Credit Risk: The Great Challenge for Global Financial Markets, Caouette, et. al.

### Chapter 20

$$(20.2) \quad R_p = \sum_{i=1}^N X_i EAR$$

$$(20.3) \quad V_p = \sum_{i=1}^N \sum_{j=1}^N X_i X_j \sigma_i \sigma_j \rho_{ij}$$

$$(20.5) \quad UAL_p = \sum_{i=1}^N \sum_{j=1}^N X_i X_j \sigma_i \sigma_j \rho_{ij} 1$$

$$\begin{aligned}\text{Page 403} \quad CVaR(CL) &= EAD \bullet LGD \bullet \left( \Phi \left( \frac{\sqrt{\rho}\Phi^{-1}(CL) + \Phi^{-1}(PD)}{\sqrt{1-\rho}} \right) - PD \right) \\ &\quad \times \frac{1 + (M - 2.5) \bullet b(PD)}{1 - 1.5b(PD)}\end{aligned}$$

## Liquidity Risk Measurement and Management: A Practitioner's Guide to Global Best Practices, Matz and Neu

### Chapter 2

$$\text{Page 33} \quad \log V(t) = \alpha + \beta t + \sigma \varepsilon_t$$

$$\text{Page 33} \quad \log V_q(t) = \alpha + \beta t - \sigma \Phi^{-1}(q) \sqrt{t}$$

## Bond-CDS Basis Handbook: Measuring, Trading and Analysing Basis Trades, Elizalde, Doctor, and Saltuk

$$\text{Page 13, Equation 1} \quad S = PD \times (1 - R)$$

$$\text{Page 15, Equation 2} \quad FR = \frac{U - AI}{RA} + FC$$

$$\text{Page 18, Equation 3} \quad SS = \frac{PV[c + p] - BP}{RFA}$$

$$\text{Page 25, Equation 4} \quad BTP1 = CN \times (100 - R - U - CP - FC) + BN \times (R + CR - BP - FC)$$

$$\text{Page 25, Equation 5} \quad BTP2 = BN \times (100 + CR - BP - FC) - CN \times (U + CP + FC)$$

$$\text{Page 43, Equation 7} \quad CN = \frac{BP - R}{100 - R - U} \times BN$$

## A Survey of Behavioral Finance, Barberis and Thaler

- (1)  $(x, p : y, q) = \pi(p)v(x) + \pi(q)v(y)$
- (2)  $\sum_i \pi_i v(x_i)$  where  $v = \begin{cases} x^\alpha & \text{if } x \geq 0 \\ -\lambda(-x)^\alpha & \text{if } x < 0 \end{cases}$  and  $\pi_i = w(P_i) - w(P_i^*)$ ,  

$$w(P) = \frac{P^\gamma}{(P^\gamma + (1-P)^\gamma)^{1/\gamma}}$$
- (3)  $\frac{D_{t+1}}{D_t} = e^{g_D + \sigma_D \varepsilon_{t+1}}$
- (4)  $\frac{C_{t+1}}{C_t} = e^{g_C + \sigma_C \eta_{t+1}}$
- (5)  $\begin{pmatrix} \varepsilon_t \\ \eta_t \end{pmatrix} \sim N\left(\begin{pmatrix} 0 \\ 0 \end{pmatrix}, \begin{pmatrix} 1 & w \\ w & 1 \end{pmatrix}\right)$ , i.i.d. over time
- (6)  $E_0 \sum_{t=0}^{\infty} \rho^t \frac{C_t^{1-\gamma}}{1-\gamma}$
- (7)  $1 = \rho E_t \left[ \left( \frac{C_{t+1}}{C_t} \right)^{-\gamma} R_{t+1} \right]$
- (8)  $R_{t+1} = \frac{D_{t+1} + P_{t+1}}{P_t} = \frac{1 + P_{t+1}/D_{t+1}}{P_t/D_t} \frac{D_{t+1}}{D_t}$
- (9)  $r_{t+1} = \Delta d_{t+1} + \text{const.} \equiv d_{t+1} - d_t + \text{const.}$
- (10)  $E_\pi v[(1-w)R_{f,t+1} + wR_{t+1} - 1]$
- (11)  $E_0 \sum_{t=0}^{\infty} \left[ \rho^t \frac{C_t^{1-\gamma}}{1-\gamma} + b_0 \bar{C}_t^{-\gamma} \hat{v}(X_{t+1}) \right]$
- (13)  $R_{t+1} = \frac{P_{t+1} + D_{t+1}}{P_t}$
- (14)  $p_t - d_t = E_t \sum_{j=0}^{\infty} \rho^j \Delta d_{t+1+j} - E_t \sum_{j=0}^{\infty} \rho^j r_{t+1+j} + E_t \lim_{j \rightarrow \infty} \rho^j (p_{t+j} - d_{t+j}) + \text{const.}$
- (15)  $E_0 \sum_{t=0}^{\infty} \left[ \rho^t \frac{C_t^{1-\gamma}}{1-\gamma} + b_0 \bar{C}_t^{-\gamma} \tilde{v}(X_{t+1}, z_t) \right]$
- (16)  $\bar{r}_i - r_f = \beta_{i,1}(\bar{F}_1 - r_f) + \dots + \beta_{i,K}(\bar{F}_K - r_f)$
- (17)  $r_{i,t} - r_{f,t} = \alpha_i + \beta_{i,1}(F_{1,t} - r_{f,t}) + \dots + \beta_{i,K}(F_{K,t} - r_{f,t}) + \varepsilon_{i,t}$
- (18)  $R_f = \frac{1}{\rho} e^{\gamma g_C + 0.5 \gamma^2 \sigma_C^2}$
- (19)  $1 = \rho \frac{1+f}{f} e^{g_D - \gamma g_C + 0.5(\sigma_D^2 + \gamma^2 \sigma_C^2 - 2\gamma \sigma_C \sigma_D w)}$
- (20)  $R_{t+1} = \frac{D_{t+1} + P_{t+1}}{P_t} = \frac{1 + P_{t+1}/D_{t+1}}{P_t/D_t} \frac{D_{t+1}}{D_t} = \frac{1+f}{f} e^{g_D + \sigma_D \varepsilon_{t+1}}$

# CAIA Level II: Advanced Core Topics in Alternative Investments, Black, Chambers, Kazemi

## Chapter 16

- (16.1)  $P_t^{\text{reported}} = \alpha + \beta_0 P_t^{\text{true}} + \beta_1 P_{t-1}^{\text{true}} + \beta_2 P_{t-2}^{\text{true}} + \dots$
- (16.2)  $P_t^{\text{reported}} = \alpha P_t^{\text{true}} + \alpha(1 - \alpha) P_{t-1}^{\text{true}} + \alpha(1 - \alpha)^2 P_{t-2}^{\text{true}} + \dots$
- (16.3)  $P_t^{\text{true}} = (1/\alpha) \times P_t^{\text{reported}} - [(1 - \alpha)/\alpha] \times P_{t-1}^{\text{reported}}$
- (16.4)  $P_t^{\text{true}} = P_{t-1}^{\text{reported}} + [(1/\alpha) \times (P_t^{\text{reported}} - P_{t-1}^{\text{reported}})]$
- (16.5)  $R_{t,\text{reported}} \approx \beta_0 R_{t,\text{true}} + \beta_1 R_{t-1,\text{true}} + \beta_2 R_{t-2,\text{true}} + \dots$
- (16.6)  $P_t^{\text{reported}} = (1 - \rho) P_t^{\text{true}} + \rho P_{t-1}^{\text{reported}}$
- (16.7)  $\Delta P_t^{\text{reported}} = (1 - \rho) \Delta P_t^{\text{true}} + \rho \Delta P_{t-1}^{\text{reported}}$
- (16.8)  $R_{t,\text{reported}} \approx (1 - \rho) R_{t,\text{true}} + \rho R_{t-1,\text{reported}}$
- (16.9)  $R_{t,\text{true}} = (R_{t,\text{reported}} - \rho R_{t-1,\text{reported}})/(1 - \rho)$
- (16.10)  $\hat{\rho} = \text{corr}(R_{t,\text{reported}} - R_{t-1,\text{reported}})$
- (16.11)  $\rho_{i,j} = \sigma_{ij}/(\sigma_i \sigma_j)$
- (16.12)  $R_t^{\text{reported}} = \alpha + \beta_1 R_{t-1}^{\text{reported}} + \beta_2 R_{t-2}^{\text{reported}} + \dots + \beta_k R_{t-k}^{\text{reported}} + \varepsilon_t$

## Chapter 21

Page 262  $Y = S \times I \times E \times H$  where  $Y$  = yield,  $S$  = total solar radiation over the area per period,  $I$  = fraction of solar radiation captured by the crop canopy,  $E$  = photosynthetic efficiency of the crop (total plant dry matter per unit of solar radiation),  $H$  = harvest index (fraction of total dry matter that is harvestable)

## Managing Investment Portfolio: A Dynamic Process, Maginn, Tuttle, Pinto, McLeavey

### Chapter 8

- Page 523  $TRCI = CR + RR + SR$
- Page 553  $RR_{n,t} = (R_t + R_{t-1} + R_{t-2} + \dots + R_{t-n})/n$
- Page 554  $DD = \sqrt{\frac{\sum_{i=1}^n [\min(r_i - r^*, 0)]^2}{n - 1}}$
- Page 555 Sharpe Ratio =  $\frac{ARR - rf}{SD}$
- Page 556 Sortino Ratio =  $\frac{ARR - rf}{DD}$

## The Secular and Cyclic Determinants of Capitalization Rates: The Role of Property Fundamentals, Macroeconomic Factors, and "Structural Changes," Chervachidze, Costello, Wheaton

$$(1) \quad \text{Log}(C_{j,t}) = a_0 + a_1 \log(C_{j,t-1}) + a_2 \log(C_{j,t-4}) + a_3 \log(RRI_{j,t}) + a_4 RTB_t + a_7 Q2_t + a_8 Q3_t + a_9 Q4_t + a_{10} D_j$$

$$(1.1) \quad RRI_{j,t-s} = RR_{j,t}/MRR_j$$

$$(2) \quad \text{Log}(C_{j,t}) = a_0 + a_1 \log(C_{j,t-1}) + a_2 \log(C_{j,t-4}) + a_3 \log(RRI_{j,t-s}) + a_4 RTB_t + a_5 SPREAD_t + a_6 DEBTFLOW_t + a_7 Q2_t + a_8 Q3_t + a_9 Q4_t + a_{10} D_j$$

$$(2.1) \quad DEBTFLOW_t = TNBL_t/GDP_t$$

$$(3) \quad \text{Log}(C_{j,t}) = a_0 + a_1 \log(C_{j,t-1}) + a_2 \log(C_{j,t-4}) + a_3 \log(RRI_{j,t-s}) + a_4 RTB_t + a_5 SPREAD_t + a_6 DEBTFLOW_t + a_7 Q2_t + a_8 Q3_t + a_9 Q4_t$$

$$(4) \quad \text{Log}(C_{j,t}) = a_0 + a_1 yearq + a_2 \log(C_{j,t-1}) + a_3 \log(C_{j,t-4}) + a_4 \log(RRI_{j,t-s}) + a_5 RTB_t + a_6 SPREAD_t + a_7 DEBTFLOW_t + a_7 Q2_t + a_8 Q3_t + a_9 Q4_t + a_{10} D_j$$

### Analysis of Financial Time Series, Tsay

#### Chapter 9

$$(9.1) \quad r_{it} = \alpha_i + \beta_{i1} f_{1t} + \cdots + \beta_{im} f_{mt} + \epsilon_{it}, \quad t = 1, \dots, T, \quad i = 1, \dots, k$$

$$(9.2) \quad \mathbf{r}_t = \alpha + \beta \mathbf{f}_t + \epsilon_t, \quad t = 1, \dots, T$$

$$(9.3) \quad \mathbf{R}_i = \alpha_i \mathbf{1}_T + \mathbf{F} \beta'_i + \mathbf{E}_i$$

$$(9.4) \quad \mathbf{R} = \mathbf{G} \xi' + \mathbf{E}$$

$$(9.5) \quad r_{it} = \alpha_i + \beta_i r_{mt} + \epsilon_{it}, \quad i = 1, \dots, k \quad t = 1, \dots, T$$

$$(9.11) \quad \text{Var}(y_i) = \mathbf{w}'_i \boldsymbol{\Sigma}_r \mathbf{w}_i, \quad i = 1, \dots, k$$

$$(9.12) \quad \text{Cov}(y_i, y_j) = \mathbf{w}'_i \boldsymbol{\Sigma}_r \mathbf{w}_j, \quad i, j = 1, \dots, k$$

$$(9.13) \quad \sum_{i=1}^k \text{Var}(r_i) = \text{tr}(\boldsymbol{\Sigma}_r) = \sum_{i=1}^k \lambda_i = \sum_{i=1}^k \text{Var}(y_i)$$

$$(9.14) \quad \hat{\boldsymbol{\Sigma}}_r \equiv [\hat{\sigma}_{ij,r}] = \frac{1}{T-1} \sum_{t=1}^T (\mathbf{r}_t - \bar{\mathbf{r}})(\mathbf{r}_t - \bar{\mathbf{r}})', \quad \bar{\mathbf{r}} = \frac{1}{T} \sum_{t=1}^T \mathbf{r}_t$$

$$(9.15) \quad \hat{\rho}_r = \hat{\mathbf{S}}^{-1} \hat{\boldsymbol{\Sigma}}_r \hat{\mathbf{S}}^{-1}$$

$$(9.16) \quad \mathbf{r}_t - \mu = \beta \mathbf{f}_t + \epsilon_t$$

$$(9.17) \quad \boldsymbol{\Sigma}_r = \text{Cov}(\mathbf{r}_t) = E[(\mathbf{r}_t - \mu)(\mathbf{r}_t - \mu)'] = E[(\beta \mathbf{f}_t + \epsilon_t)(\beta \mathbf{f}_t + \epsilon_t)'] = \beta \beta' + \mathbf{D}$$

$$(9.18) \quad \text{Cov}(\mathbf{r}_t, \mathbf{f}_t) = E[(\mathbf{r}_t - \mu) \mathbf{f}'_t] = \beta E(\mathbf{f}_t \mathbf{f}'_t) + E(\epsilon_t \mathbf{f}'_t) = \beta$$

$$(9.19) \quad \hat{\beta} \equiv [\hat{\beta}_{ij}] = \left[ \sqrt{\hat{\lambda}_1} \hat{\mathbf{e}}_1 | \sqrt{\hat{\lambda}_2} \hat{\mathbf{e}}_2 | \cdots | \sqrt{\hat{\lambda}_m} \hat{\mathbf{e}}_m \right]$$

$$(9.20) \quad \text{LR}(m) = - \left[ T - 1 - \frac{1}{6}(2k + 5) - \frac{2}{3}m \right] \left( \ln |\hat{\boldsymbol{\Sigma}}_r| - \ln |\hat{\beta} \hat{\beta}' + \hat{\mathbf{D}}| \right)$$

# Handbook of Fixed Income Securities, Fabozzi

## Chapter 69

$$(69 - 4) \quad \text{Asset Allocation} \quad \sum_s (w_s^P - w_s^B) \cdot R_s^B$$

$$(69 - 5) \quad \text{Security Selection} \quad \sum_s w_s^P \cdot (R_s^P - R_s^B)$$

$$(69 - 12) \quad \alpha_k^P f_k^P - \alpha_k^B f_k^B = \sum_s \alpha_{k,s}^P f_{k,s}^P - \sum_s \alpha_{k,s}^B f_{k,s}^B$$

## Chapter 70

$$(70 - 1) \quad \text{Asset Allocation} \quad w^P \cdot \sum_s \left( \frac{w_s^P}{w^P} - \frac{w_s^B}{w^B} \right) \cdot (TR_s^B - TR^B)$$

$$(70 - 2) \quad \text{Sector Management} \quad \sum_s w_s^P \cdot (TR_s^P - TR_s^B)$$

$$(70 - 3) \quad \text{Top-Level Exposure} \quad (w^P - w^B) \cdot TR^B$$

$$(70 - 4) \quad \text{Asset Allocation} \quad w^P \cdot \sum_s \left( \frac{w_s^P}{w^P} - \frac{w_s^B}{w^B} \right) \cdot (ER_s^B - ER^B)$$

$$(70 - 5) \quad \text{Sector Management} \quad \sum_s w_s^P \cdot (ER_s^P - ER_s^B)$$

$$(70 - 6) \quad \text{Top-Level Exposure} \quad (w^P - w^B) \cdot ER^B$$

$$(70 - 7) \quad \text{Outperformance from average carry} \quad (y_{avg}^P - y_{avg}^B) \cdot \Delta t$$

$$(70 - 8) \quad \text{Key rate contributions} \quad \sum_j (\omega_j^P (y_j - y_{avg}^P) - \omega_j^B (y_j - y_{avg}^B)) \cdot \Delta t$$

$$(70 - 9) \quad \text{Outperformance from avg. parallel shifts} \quad - (OAD^P - OAD^B) \cdot \Delta y_{avg}$$

$$(70 - 10) \quad \text{Outperformance from reshaping} \quad - \sum_j (KRD_j^P - KRD_j^B) \cdot (\Delta y_j - \Delta y_{avg})$$

$$(70 - 11) \quad \text{Asset Allocation} \quad -OASD^P \cdot \sum_s \left( \frac{w_s^P OASD_s^P}{OASD^P} - \frac{w_s^B OASD_s^B}{OASD^B} \right) \cdot (\Delta OAS_s^B - \Delta OAS^B)$$

$$(70 - 12) \quad \text{Security Selection} \quad - \sum_s w_s^P OASD_s^P \cdot (\Delta OAS_s^P - \Delta OAS_s^B)$$

$$(70 - 13) \quad \text{Spread Duration Mismatch} \quad -(OASD^P - OASD^B) \cdot \Delta OAS^B$$

$$(70 - 14) \quad \text{Asset Allocation} \quad - \sum_s (w_s^P OASD_s^P - w_s^B OASD_s^B) \cdot \Delta OAS_s^B$$

$$(70 - 15) \quad \text{Security Selection} \quad - \sum_s w_s^P OASD_s^P \cdot (\Delta OAS_s^P - \Delta OAS_s^B)$$

## Chapter 71

Page 1737

$$R^P - R^B = \sum_t \beta_t (R_t^P - R_t^B)$$

$$A = \frac{(R^P - R^B)/T}{(1 + R^P)^{1/T} - (1 + R^B)^{1/T}}$$

$$C = \frac{R^P - R^B - A \sum_{t=1}^T (R_t^P - R_t^B)}{\sum_{t=1}^T (R_t^P - R_t^B)^2}$$

$$\beta_t = A + C(R_t^P - R_t^B)$$

**Introduction to Credit Risk Modeling, 2nd ed., Bluhm, Overbeck, Wagner**

## Chapter 6

Page 237

$$M_n = M_1^n$$

**Guarantees and Target Volatility Funds, Morrison and Tadrowski**

## Page 4

$$w_t^{equity} = \min \left( \frac{\sigma_{target}}{\hat{\sigma}_t^{equity}}, 100\% \right)$$

$$(\hat{\sigma}_t^{equity})^2 = \lambda (\hat{\sigma}_{t-\Delta t}^{equity})^2 + (1 - \lambda) \frac{1}{\Delta t} \left( \ln \left( \frac{S_t}{S_{t-\Delta t}} \right) \right)^2$$