Market Liquidity Risk: Implications for Asset Pricing, Risk Management, and Financial Regulation

Andria van der Merwe
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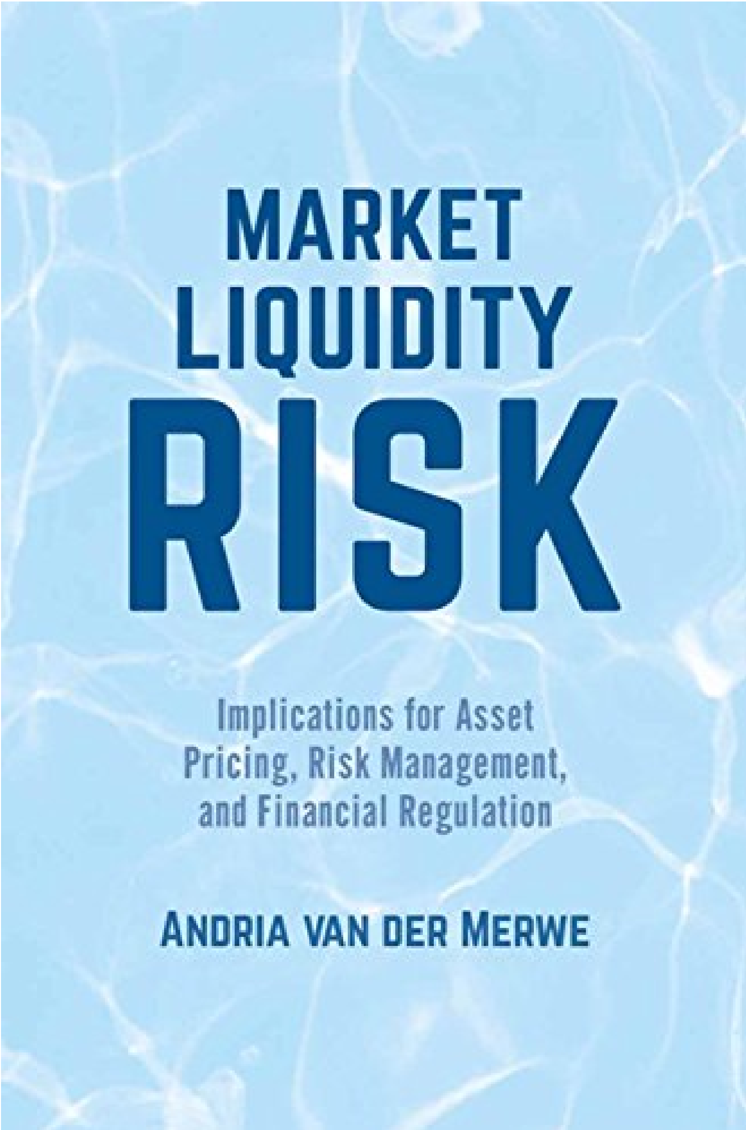

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Andria van der Merwe : Market Liquidity Risk: Implications for Asset Pricing, Risk Management, and Financial Regulation before purchasing it in order to gage whether or not it would be worth my time, and all praised Market Liquidity Risk: Implications for Asset Pricing, Risk Management, and Financial Regulation:

1 of 2 people found the following review helpful. Be liquidBy AndrewConversation is flowing, and the champagne is bubbling, then someone poses the all-too innocent question: ldquo;So how much are you worth?rdquo;You mentally

grab the latest stock quotes while recalling the appraisal mentioned by the collector when he examined your wine cellar. Your mind flashes to the most recent Zillow price estimate for homes in your area, and that page in the Kelly Blue Book with the exact make and model of your convertible (taking into account mileage and depreciation of course).ldquo;Irsquo;m doing pretty well for myself,rdquo; you grin broadly.But how well are you really doing when, when just as you need to cash out for that long anticipated spending spreehellip;Zeros on your account value disappear from the latest flash crash in the stock markets.The few prominent connoisseurs who can actually afford to buy your wine collection, indefinitely postpone their purchases.Your real estate agent shops your house with impeccable timing: the local market is collapsing due to a massive wave of corporate layoffs in the area. A grand total of two people show up at the open house, with poor credit to boot.And the newest model of your convertible just came out, causing your online car listing to be ignored by would-be car buyers.The author weaves stories and tales of people across various markets and different eras, all of whom have lived through market illiquidity, and have experienced the deep existential pain which comes from realizing you are all alone, and there is no one on the other side to take your trade.The author then proceeds to arm you with the tools to measure and predict market liquidity, so you can avoid being the next casualty of market liquidity risk. So that next time you can triumphantly say to others:ldquo;Yes, Irsquo;m doing quite well for myself, and best of all, I am liquid.rdquo;0 of 0 people found the following review helpful. Another Book Review from the Aleph BlogBy David MerkelNote for those reading at : links to external resources are available at my blog.Liquidity is ephemeral, and difficult to define. The first real article at my blog was about liquidity, and the three things that liquidity can mean, notably: the ability to:* Enter into large or exit from commitments to risk assets cheaply (cost)* Borrow at tight credit spreads compared to the safest borrowers* Make large adjustments to their asset allocations rapidly (speed)Most of these phenomena can be observed without complex models. Ask yourself:* Is credit growing rapidly?* Are the exchanges moving turning over stocks more rapidly?* Are credit spreads tight?* Have credit terms and conditions deteriorated?* Do lenders care more about volume of lending than quality of lending?My bias is that I think most of the academic mathematical models of liquidity risk are overly technical, and tend to obscure liquidity conditions rather than reveal what is going on. Unless you disagree with that view and you like math, this book will not be worth a lot to you. Yes, there are qualitative sections, and they are good. For example, the beginning of chapter 2 is very good at illustrating the paradoxical nature of liquidity. Chapters 1-3 would have made a very good qualitative monograph on liquidity mdash; but it would be so small that you couldnrsquo;t charge $80+ for it.Chapters 4-6 will only be useful to the mathematically inclined. Irsquo;m dubious that they even be useful then, because much of it is calculus, which does not do well with discontinuous events such as market panics. (You would have thought that the quants on Wall Street would have learned by now, but nohellip;) Even if the models did work, there are simpler ways to see the same things, as I pointed out above.As such, I really canrsquo;t recommend the book, and at $80+ the price is a lot more expensive than the free Monograph from the CFA Institute ldquo;The New Economics of Liquidity and Financial Frictions.rdquo; [PDF] Read that, not this, and save liquidity.QuibblesThe book could have used a better editor. Too many typos in the introductory chapters.Summary / Who Would Benefit from this BookIf you are a math nerd, and want to pay a lot of money to buy a book that I think will at least partially mislead you on liquidity risk, then this is the book for you.

Andria van der Merwe provides a thorough guide to the critical tools needed to navigate liquidity markets and value security pricing in the presence of market frictions and information asymmetries. This is essential reading for anyone with a current or future interest in liquidity models, market structures, and trading mechanisms.

'Dr. Van Der Merwe's book is an excellent and comprehensive discussion of the nature and drivers of market liquidity risk and its impact on financial asset prices. The book seamlessly integrates theory and references to the academic literature with reviews of empirical evidence and practical applications. Market practitioners should find this book invaluable both as an introduction to the topic and an accessible current review of academic research in this area.' Christopher L. Culp, PhD, Johns Hopkins Institute of Applied Economics and Institut fuuml;r Finanzmanagement, Universitauml;t Bern 'Andria van der Merwe has produced a superb analysis of liquidity. Not only does she explain why 'liquidity' is a much more profound concept than most of us might initially think, but also how our institutions create (and inhibit) it. Bottom line: liquidity is valuable and, as with all items of value, it is costly to obtain.' Jonathan I. Arnold, PhD, Formerly Chief Economist, Office of the New York Attorney GeneralAbout the AuthorAndria van der Merwe is a Senior Economist for Compass Lexecon and an Adjunct Professor at the Illinois Institute of Technology's Stuart School of Business, USA.