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Editorial

Recent developments in financial economics and econometrics: An overview☆

1. Introduction

Based on citations in Thomson Reuters ISI, Google Scholar, Microsoft Academic Search, RePEc (Research Papers in Economics and Finance), and paper downloads and abstract views in SSRN (Social Science Research Network) and RePEc, research papers in empirical finance and financial econometrics are among the most widely cited, downloaded and viewed articles in the discipline of Finance. The special issue will present several papers by leading scholars in the field on "Recent Developments in Financial Economics and Econometrics". The breadth of coverage is substantial, and includes original research and comprehensive review papers on theoretical, empirical and numerical topics in Financial Economics and Econometrics by leading researchers in finance, financial economics, financial econometrics and financial statistics.

The purpose of this special issue on "Recent Developments in Financial Economics and Econometrics" is to highlight several novel and significant developments in financial economics and financial econometrics, specifically dynamic price integration in the global gold market (Chang, Chang and Huang, 2013), a conditional single index model with local covariates for detecting and evaluating active management (Caporin & Lisi, 2013), whether the Basel Accord has improved risk management during the global financial crisis (McAleer, Jiménez-Martín and Pérez-Amaral, 2013), the role of banking regulation in an economy under credit risk and liquidity shock (Soares da Silva & Divino, 2013), separating information maximum likelihood estimation of the integrated volatility and covariance with micro-market noise (Kunitomo & Sato, 2013), stress testing correlation matrices for risk management (So, Wong and Asai, 2013), whether bank relationship matters for corporate risk taking, with evidence from listed firms in Taiwan (Chan, Lin, Chang and Liao, 2013), pricing options on stocks denominated in different currencies, with theory and illustrations (Ng, Li and Chan, 2013), EVT and tail-risk modelling, with evidence from market indices and volatility series (Allen, Singh and Powell, 2013), the economics of data using simple model free volatility in a high frequency world (Garvey & Gallagher, 2013), arbitrage-free implied volatility surfaces for options on single stock futures (Kotze,

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Labuschagne, Nair and Padayachi, 2013), the non-uniform pricing effect of employee stock options using quantile regression (Kuo & Yu, 2013), nonlinear dynamics and recurrence plots for detecting financial crisis (Addo, Billio and Guegan, 2013), how news sentiment impacts asset volatility, with evidence from long memory and regime-switching approaches (Ho, Shi and Zhang, 2013), quantitative evaluation of contingent capital and its applications (Gupta, Akuzawa and Nishiyama, 2013), high quantiles estimation with Quasi-PORT and DPOT, with an application to value-at-risk for financial variables (Araujo Santos, Fraga Alves and Hammoudeh, 2013), evaluating inflation targeting based on the distribution of inflation and inflation volatility (Ginindza & Maasoumi, 2013), whether there are size effects of volatility spillovers for firm performance and exchange rates in tourism (Chang, Hsu and McAleer, 2013), forecasting volatility with the realized range in the presence of noise and non-trading (Bannouh, Martens and van Dijk, 2013), using CARRX models to study factors affecting the volatilities of Asian equity markets (Sin, 2013), deciphering the Libor and Euribor spreads during the subprime crisis (Pelizzon & Sartore, 2013), information transmission between sovereign debt CDS and other financial factors for Latin America (Wang, Yang and Yang, 2013), time-varying mixture GARCH models and asymmetric volatility (Haas, Krause, Paolella and Steude, 2013), and diagnostic checking for non-stationary ARMA models with an application to financial data (Ling, Zhu and Yee, 2013).

The remainder of the paper is organized as follows. An overview of the papers is given in Section 2, while Section 3 provides some concluding comments.

2. Overview

In the first paper, "Dynamic price integration in the global gold market", Chia-Lin Chang (National Chung Hsing University, Taiwan), Jui-Chuan Della Chang (National Chiayi University, Taiwan) and Yi-Wei Huang (National Chung Hsing University, Taiwan) examine the inter-relationships among gold prices in five global gold markets, namely London, New York, Japan, Hong Kong (since 1 July 1997, a Special Administrative Region (SAR) of China), and Taiwan. The authors investigate the linkages between Taiwan and the other global gold markets to provide insights for useful investment strategies. The augmenting level-VAR models show that the empirical results find bi-directional causality between the London and New York gold markets, and uni-directional causality from New York to the other markets. In this sense, the New York market has gained a leading role in affecting global gold markets. This empirical finding serves as a predictor for the gold price in global markets.

The second paper, entitled "A conditional single index model with local covariates for detecting and evaluating active management", is by Massimiliano Caporin ("Marco Fanno" Department of Economics and Management, University of Padova, Italy) and Francesco Lisi (Department of Statistics, University of Padova, Italy), The intercept of standard Single Index and Conditional Single Index models, the so-called alpha, is often used to evaluate the long-run performance of managed portfolios. However, this measure is not always appropriate for detecting the presence and impact of active management strategies. Building on the conditional factor models literature, the authors introduce a Conditional Single Index model where the time-varying alpha and beta parameters depend only on the past history of the underlying portfolio returns and of the benchmark returns. The dynamics of the parameters have two components: the first describes the long-term behaviour of the alpha and beta, whereas the second is associated with the short-term performance of the underlying portfolio. The interpretation of the parameters allows the identification of portfolio managers who implement active management strategies. The paper provides an empirical application based on a large set of U.S. mutual funds showing the dispersion of active management approaches.

Michael McAleer (Econometric Institute, Erasmus School of Economics, Erasmus University Rotterdam, The Netherlands), Juan-Ángel Jiménez-Martín (Department of Quantitative Economics, Complutense University of Madrid, Spain), and Teodosio Pérez-Amaral (Department of Quantitative Economics, Complutense University of Madrid, Spain) answer the question given by "Has the Basel Accord improved risk management during the global financial crisis?" in the third paper. The Basel II Accord requires that banks and other Authorized Deposit-taking Institutions (ADIs) communicate their daily risk forecasts to the appropriate monetary authorities at the beginning of each trading day, using one or more risk models to measure Value-at-Risk (VaR). The risk estimates of these models are used to determine capital requirements and associated capital costs of ADIs, depending in part