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Education

PhD, Vienna Graduate School of Finance (full scholarship), 2006-11 (expected)
Master in Economics, Warsaw School of Economics, 1998-2003
Psychology, Warsaw University, 1999-2004

Research Fields: Credit Risk Models, Asset Pricing, Continuous-Time Finance, Financial Econometrics, Applications of Bayesian Econometrics

Research Papers

***Credit Spreads, Factors and Noise* – JOB MARKET PAPER**

Linear regressions and latent factors in the residuals may give untrustworthy evidence against structural models of credit risk. With a large dataset of credit default swap spreads (CDSs), this paper shows that previous studies might have spuriously generated a strong latent factor, which appeared to drive the co-movement in the data. The existence of a strong latent factor is one of the main arguments for the misspecification of structural models of credit risk. However, a careful signal-to-noise analysis of the latent factor and some insights from the random matrix theory reveal that structural models need not be so badly misspecified. Changes in spreads of CDSs are very noisy and difficult to explain in linear regressions even with very good regressors. Moreover, I show that a weak latent factor can also be generated by a structural model of debt.

Collateral and Inefficient Continuation

Empirical studies indicate that many firms are liquidated far too late. This provokes the question: why should any investor decide to finance unprofitable businesses? There is potentially a number of plausible answers. In this paper I study a strategic connection of inefficient continuation with the price of collateral. The main result is that a bank may decide for inefficient continuation of one company in order to secure repayment of debt from another firm.

Work in Progress and Other Working Papers

Estimation of Implied Recovery Rates from CDS Spreads (Work in Progress)

An important step in the credit analysis is the assessment of the value of collateral, that can be seized in case of default - the so called recovery rate value. Credit risk models should reflect the observation that the relevant value of collateral is generally not the average value of the asset over all possible states of nature. In most of the cases the relevant value of collateral for the lender is its secondary market value in bad states of nature. Although the negative relation between recovery rates and default probabilities is well documented, the majority of pricing models do not allow for correlation between the two. In this paper, we propose a relatively parsimonious reduced-form continuous time model that allows to estimate expected recovery rates and default probabilities from CDS spreads. Parameters of the model and latent factors driving recovery risk and default risk are estimated with a Bayesian MCMC algorithm. Finally, using Bayesian criteria we compare econometric performance of two different models under different recovery assumptions.

Asymmetric Volatility Smile in a Continuous-Time Agency Model. A Note on DeMarzo-Sannikov

This note builds on a model by DeMarzo, Sannikov (2006), in order to show that an optimal principal-agent contract may give rise to an asymmetric volatility smile. Stock price volatility is stochastic and increases together with the firm's total debt and credit risk.

Presentations

"Credit Spreads, Factors and Noise"

European Finance Association (Frankfurt 2010), Doctorial Tutorial, EFMA Meeting (Aarhus 2010), Brown-bag seminar in Ecole Polytechnique Fédérale de Lausanne (2011, scheduled)

"Estimation of Implied Recovery Rates from CDS Spreads"

Computational and Financial Econometrics (London 2010, scheduled)

Software and Databases: Matlab, VBA, Mathematica (basic), Compustat, Datastream

References

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