

Mathematical Models and the Credit Crunch

The aftermath of the credit crunch has seen numerous reviews by governments, regulators and other organisations of what factors contributed to the crisis. Often, mathematical models have been cited as one of these factors.

In this talk we argue that, although models did play a role in the crisis, it was how they were used or abused that caused the problems rather than the models themselves. Key themes that will be addressed are:

I: did users of models understand the underlying assumptions and the limitations of each model or were they used as black-boxes.

II: did users fully understand the difference between pricing models (also known as market models) and risk-management models.

III: did the developers of models and their sponsors have an incentive to conceal the true extent of model complexity and model risk from their clients?

In the second part of the talk we will look forwards, and discuss how these three issues should be tackled in the future.

Audience participation is strongly encouraged!