AN APPROACH TO THE STUDY
OF HOMOGENEOUS CLASSES OF FIRM CAPITAL VALUES

Diego Ronchetti

Columbia Business School and University of Lugano

dr2642@columbia.edu

(joint work with Paul Glasserman, December 2011)

Abstract

We introduce a novel methodology to study the dynamics of homogeneous classes of returns on firm value (i.e. groups of returns with joint likelihood function invariant w.r.t. exchange of firms). To model the exposure of each return on firm value to systematic and unsystematic risks of the class, the return is expressed as a parametric function of time-varying firm-specific characteristics and common factors. Some common factors are observable, while others, including the volatility of the return on firm value, are latent. We describe a methodology to estimate model parameters, factors and factor loadings that is nonparametric w.r.t the historical dynamics of the firm-specific characteristics and common factors.


I am a Swiss National Foundation fellow, visiting post-doc at CBS.

Last June I received the PhD title from the University of Lugano (Switzerland), my PhD research was in financial econometrics.


More on the Swiss National Foundation: [http://www.snf.ch/E/Pages/default.aspx](http://www.snf.ch/E/Pages/default.aspx)