The European Journal of Finance ›
Volume 24, 2018 - Issue 13: Seventh International Conference on Mathematical and Statistical Methods for Actuarial Sciences and Finance, Dauphine Université Paris, 30th March to April 2016.

Original Articles

Backtesting lambda value at risk

Jacopo Corbetta & Ilaria Peri

Pages 1075-1087 | Received 18 Sep 2016, Accepted 31 May 2017, Published online: 20 Jun 2017

Cite this article https://doi.org/10.1080/1351847X.2017.1339105 Check for updates

Full Article | Figures & data | References | Citations | Metrics
Reprints & Permissions | Read this article | Share

ABSTRACT

A new risk measure, lambda value at risk (ΛVaR), has been recently proposed as a generalization of value at risk (VaR). ΛVaR appears attractive for its potential ability to solve several problems of VaR. This paper provides the first study on the backtesting of ΛVaR. We propose three nonparametric tests which exploit different features. Two tests are based on simple results of probability theory. One test is unilateral and is more suitable for small samples of observations. A second test is bilateral and provides an asymptotic result. A third test is based on simulations and allows for a more accurate comparison among ΛVaRs computed with different assumptions on the asset return distribution. Finally, we perform a backtesting exercise that confirms a higher performance of ΛVaR in respect to VaR especially when it is estimated with distributions that better capture tail behavior.

KEYWORDS:

backtesting hypothesis testing model validation risk management

JEL CLASSIFICATIONS:

C12 C52 G32

Disclosure statement

No potential conflict of interest was reported by the authors.

Issue Purchase

- 30 days online access to complete issue
- Article PDFs can be downloaded
- Article PDFs can be printed

EUR 376.00

Add to cart

* Local tax will be added as applicable

Related Research

People also read | Recommended articles | Cited by 12