## Organization and deadlines

- **07.06.24; Selection of the project** Determine your project partners (maximum of 5 per project). Choose one of the given projects or propose your own project for processing. *Self-chosen projects:* For a self-chosen project, you must contact the assistant in the week from 03.06.-07.06.2024 to discuss feasibility and scope. After that, a corresponding formulation of the project must be submitted by 07.06.2024. To submit your project choice, a person from the respective group should write an email to the assistant. The other project partners should be attached in cc.
- **28.06.24; Submission theoretical part:** Submission (PDF) of a report that provides an overview of the theoretical foundations and relevant literature of the applied methods.
- **10.07.24; Final submission:** Submission (PDF + Code) of the final report of your project. This includes the practical part and the theoretical part with any additions to the first submission. Included are the presentation and interpretation of your results, as well as a critical analysis, which may also consider negative results.
- **10.07.24 & 17.07.24; Presentation:** Each member of the project group must take part in the presentation and be able to answer questions about the entire project. The presentation should last about 30 minutes.

## Projects

The following presents various project ideas. These are mainly based on the ideas and results of the attached literature. Additional literature research is also welcome to provide a more comprehensive overview. The research questions in the project description may also be expanded. It is not excluded that multiple groups may work on the same project. However, each group should independently work on their topic. Ensure that your basic knowledge is sufficient to work on the respective project before you finalize your decision on a project. If you have any questions during the process, please feel free to contact the assistant.

**Deep Hedging:** By using neural networks, it is possible to create strategies that include prices, trading signals, news analytics, to optimally hedge portfolios of various derivatives. Moreover, deep hedging enables the incorporation of transaction costs, liquidity constraints, and bid/ask spreads into trading strategy models. Use neural networks to create trading strategies as in the approach outlined in Buehler et al. [2019]. Design and simulate market scenarios to test and optimize implemented hedging strategies. Additionally, you can use real-world data from any index or stock of your choice for the validation and training of your models. The results can finally be compared with the results from the project: Hedging with Linear Regressions and Neural Networks. *Literature:* Buehler et al. [2019].

**Hedging with Linear Regressions and Neural Networks**: This project aims to use neural networks as nonparametric tools for estimating hedging strategies for options. The core objective is to design a neural network that directly outputs a hedging strategy, trained to minimize the hedging error. In a second step, develop also a linear regression model using standard option sensitivities (Greeks) for a comparison of the network. Both ideas should be compared to the standard Black-Scholes hedge to evaluate its effectiveness. The results can finally be compared with the results from the project: Deep Hedging. *Literature:* Ruf and Wang [2022].

**Dependence Uncertainty:** This project aims to solve optimal transport and related problems via neural networks. The core idea is to penalize the optimization problem in its dual formulation and reduce it to a finite-dimensional one, which corresponds to optimizing a neural network with a smooth objective function. The results are then used to estimate the Average Value at Risk (AVaR) for the components sum of a random vector. The method can be verified using models where the AVaR is known. *Literature:* Eckstein et al. [2020], see also Eckstein and Kupper [2021].

**Value at Risk estimation**: In this project the task is to estimate the Value at Risk (VaR) by implementing a deep learning-based approach. Create an overview and summarize the standard methods and the deep learning-based methods. Implement a method for estimating the Average Value at Risk. This involves training a neural network model on historical market data or simulated data. The performance of the estimation method should be evaluated against a suitable benchmark. *Literature:* Embrechts et al. [2013],Ormaniec et al. [2022],Chronopoulos et al. [2023].

**Fairness:** Fairness in decision-making processes is often quantified using probabilistic metrics. However, these metrics may not fully capture the real-world consequences of unfairness. The aim of this project is to adopt a utility-based approach to more accurately measure the real-world impacts of decision-making process and illustrate the findings with real-world examples. This project can also involve searching for additional literature on the topic of fairness and comparing it with the methods provided in the specified literature. *Literature:* Fadina and Schmidt [2024], Heidari et al. [2019], Williamson and Menon [2019] *Data:* ger

**Default probability detection:** Explain and use three machine learning algorithms, namely, k-nearest neighbor, support vector machine, and random forest, to predict the default probability in the dataset san. Evaluate whether these are preferable to logistic regression. What methods are available for this? In this project, you can follow Liu et al. [2022] but must search for literature on the different methods yourself. *Literature:* Liu et al. [2022].

**Detecting asset price bubbles:** This project aims to employ deep learning techniques to detect financial asset bubbles and create a robust methodology for identifying these. The approach involves training a deep neural network using synthetic option price data generated from a collection of models that simulate various market conditions. Test the accuracy and effectiveness of the deep learning-based methodology through a series of numerical experiments. Apply the trained deep learning model to real market data to evaluate its performance in detecting actual asset bubbles. *Literature:* Biagini et al. [2022]. Further literature: Herdegen and Kreher [2022].

**Credit Risk Modelling:** Banks collect data $x_1$ in loan applications to decide whether to grant credit and accepted applications generate new data $x_2$ throughout the loan period. Hence, banks have two measurement-modalities, which provide a complete picture about customers. If we can generate $x_2$ conditioned on $x_1$ keeping the relationship between these two modalities, credit and behavior scoring may be enabled simultaneously (at the time x1 is obtained) to support cross-selling, launching of new products or marketing campaigns. Implement a model to generate data $x_2$ given data $x_1$ for a given dataset describing different features throughout a loan period. *Literature:* Mancisidor et al. [2022], *Data:*san.

# References


German credit data:
https://archive.ics.uci.edu/dataset/144/statlog+german+credit+data.

Santander customer transaction prediction:
https://www.kaggle.com/competitions/santander-customer-transaction-prediction.

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