Contents

| Cont | ributors | xvi | |
|---------|--|-----|--|
| Prefa | Preface xiz | | |
| II A | NTERACTING WITH INVESTORS AND SSET OWNERS | 1 | |
| Part | I Robo Advisors and Automated Recommendation | 3 | |
| 1 | Introduction to Part I. <i>Robo-advising as a Technological Platform</i> <i>for Optimization and Recommendations</i> <i>Lisa L. Huang</i> | 5 | |
| 2 | New Frontiers of Robo-Advising: Consumption, Saving, Debt Man- agement, and Taxes | | |
| | Francesco D'Acunto and Alberto G. Rossi | 9 | |
| 2.1 | Robo-advice and the balance-sheet view of the household | 9 | |
| 2.2 | Robo-advising for consumption-saving choices | 12 | |
| | 2.2.1 Open areas of inquiry in robo-advising for consumption-saving choices | 16 | |
| 2.3 | Robo-advising and durable spending choices | 18 | |
| | 2.3.1 Robo-advising for housing choices | 18 | |
| | 2.3.2 Robo-advising for the purchase of vehicles | 19 | |
| | 2.3.3 Open areas of inquiry in robo-advising for durable spending | 20 | |
| 2.4 | Robo-advising and consumers' lending decisions | 21 | |
| 2.5 | Areas of consumer finance with a scarce presence of robo-advising | 22 | |
| | 2.5.1 Robo-advising and consumer credit management | 23 | |
| | 2.5.2 Robo-advising and human capital investments | 25 | |
| | 2.5.3 Robo-advising and tax management | 26 | |
| 2.6 | E pluribus unum: Is the Holistic Robo-Advisor the future of | | |
| | robo-advising? | 27 | |
| 2.7 | Conclusions | 28 | |

| vi | | Со | ntents |
|-----|--------|---|--------|
| 3 | Robo | -Advising: Less AI and More XAI? Augmenting Algorithms | |
| | with | Humans-in-the-Loop | |
| | Milo . | Bianchi and Marie Brière | 33 |
| 3.1 | Introd | luction | 33 |
| 3.2 | Why s | so popular? | 34 |
| | 3.2.1 | Fintech revolution | 36 |
| | 3.2.2 | Fundamental problems with investors | 36 |
| | 3.2.3 | Fundamental problems with advisors | 37 |
| 3.3 | Prom | ises | 38 |
| | 3.3.1 | Accountable procedures and tailored recommendations | 38 |
| | 3.3.2 | Make investors better off | 41 |
| | 3.3.3 | Reach under-served investors | 42 |
| 3.4 | Open | questions | 43 |
| | 3.4.1 | Why not more AI/big data? | 43 |
| | 3.4.2 | How far shall we go into personalization? | 45 |
| | 3.4.3 | Can humans trust robots? | 47 |
| | 3.4.4 | Do robots replace or complement human decisions? | 51 |
| 3.5 | The n | ext generation of robo-advisors | 51 |
| 4 | Robo | -advisory: From investing principles and algorithms to future | |
| | devel | opments | |
| | Adam | Grealish and Petter N. Kolm | 60 |
| 4.1 | From | investing principles to algorithms | 60 |
| | 4.1.1 | Client assessment and onboarding | 62 |
| | 4.1.2 | Implementation of the investment strategy | 66 |
| | 4.1.3 | Ongoing management of the investment strategy | 69 |
| 4.2 | Autor | nated tax management for retail investors | 70 |
| | 4.2.1 | Tax-loss harvesting | 71 |
| | 4.2.2 | Asset location | 73 |
| | 4.2.3 | Tax lot management | 74 |
| 4.3 | Invest | tor interaction | 74 |
| | 4.3.1 | Investor education | 74 |
| | 4.3.2 | Data collection and split testing | 75 |
| 4.4 | Expai | nding service offerings | 75 |
| | 4.4.1 | Goals-based investing | 75 |
| | 4.4.2 | Retirement planning | 76 |
| | 4.4.3 | Responsible investing | 77 |
| | 4.4.4 | Smart beta and factor investing | 78 |
| | 4.4.5 | Risk parity | 79 |
| | 4.4.6 | User-defined portfolios | 79 |
| 4.5 | 4.4.7 | Cash management | 80 |
| 4.5 | Concl | lusion | 81 |
| 5 | Reco | mmender Systems for Corporate Bond Trading | |
| | Domi | nic Wright, Artur Henrykowski, Jacky Lee and Luca Capriotti | 86 |
| 5.1 | Introc | luction | 86 |
| 5.2 | Bond | recommender systems | 87 |
| | 5.2.1 | Content-based filtering | 88 |
| | 5.2.2 | Collaborative filtering | 90 |

| Cont | ents | vii |
|------------|---|----------------|
| 5.3 | Testing 5.3.1 Hyperparameter optimization | 93 94 04 |
| 5 1 | 5.5.2 Testing resources detions | 94 |
| 5.4 5.5 | Conclusions | 93 |
| 5.5 | Conclusions | 90 |
| Part | t II How Learned Flows Form Prices | 99 |
| 6 | Introduction to Part II. <i>Price Impact: Information Revelation or Self-Fulfilling Prophecies?</i> | |
| | Jean-Philippe Bouchaud | 101 |
| 6.1 | Liquidity hide-and-seek | 101 |
| 6.2 | Information efficiency vs. statistical efficiency | 102 |
| 6.3 | Price "Discovery" vs. price "formation" | 104 |
| _ | | |
| 7 | Order Flow and Price Formation | 107 |
| 71 | Fullition | 107 |
| 7.1 | The limit order book | 107 |
| 73 | Modeling approaches | 110 |
| 7.4 | Order flow | 115 |
| 7.5 | Cross impact | 117 |
| 7.6 | Market impact of metaorders | 119 |
| 7.7 | Co-impact | 124 |
| 7.8 | Conclusion | 127 |
| 8 | Price Formation and Learning in Equilibrium under Asymmetric | |
| 0 | Information | |
| | Umut Çetin | 130 |
| 8.1 | Introduction | 130 |
| 8.2 | The Kyle model | 131 |
| | 8.2.1 A toy example | 131 |
| | 8.2.2 The Kyle model in continuous time | 133 |
| 8.3 | The static Kyle equilibrium | 137 |
| 8.4 | The static Kyle model with multiple insiders | 141 |
| 8.5 | Dynamic Kyle equilibrium | 143 |
| 8.6 | The Kyle model and default risk | 144 |
| 8.7 | Glosten–Milgrom model | 146 |
| 8.8 | Risk aversion of market makers | 147 |
| 8.9 | Conclusion and further remarks | 149 |
| 9 | Deciphering How Investors' Daily Flows are Forming Prices | |
| . · | Daniel Giamouridis, Georgios V. Papaioannou and Brice Rosenzweig | 153 |
| 9.1 | Introduction | 153 |
| 9.2 | Data description and exploratory statistics | 156 |
| 9.3 | Nodeling and methodology | 160 |
| 9.4 | Empirical results | 162 |

| viii | | Contents |
|-------|---|-------------|
| | 9.4.1 Aggregate flow and price formation | 162 |
| | 9.4.2 Participant type flow imbalance and price formation | 163 |
| | 9.4.3 Co-Impact | 168 |
| 9.5 | Summary and Conclusions | 169 |
| Т | OWARDS BETTER RISK INTERMEDIATION | 173 |
| Part | III High Frequency Finance | 175 |
| 10 | Introduction to Part III | |
| | Robert Almgren | 177 |
| 10.1 | Chapters in this Part | 177 |
| 10.2 | State of the field and future prospects | 179 |
| | 10.2.1 Data needs and simulation | 179 |
| | 10.2.2 Game formulation | 180 |
| | 10.2.3 Conclusion | 181 |
| 11 | Reinforcement Learning Methods in Algorithmic Trading | |
| | Olivier Guéant | 182 |
| 11.1 | Introduction | 182 |
| | 11.1.1 The recent successes of reinforcement learning | 182 |
| | 11.1.2 Finance, it might be your go | 183 |
| 11.2 | A brief introduction to reinforcement learning | 184 |
| | 11.2.1 Markov Decision Processes and optimization problems | 185 |
| | 11.2.2 Basic concepts | 186 |
| | 11.2.3 Main RL methods | 188 |
| 11.3 | Finance is not a game | 192 |
| | 11.3.1 States and actions | 192 |
| | 11.3.2 The role of models | 192 |
| | 11.3.3 The question of risk | 194 |
| | 11.3.4 The question of time steps | 194 |
| 11.4 | A review of existing works | 194 |
| | 11.4.1 Statistical arbitrage | 195 |
| | 11.4.2 Optimal execution | 196 |
| | 11.4.3 Market making | 198 |
| 11.5 | Conclusion and perspectives for the future | 199 |
| 12 | Stochastic Approximation Applied to Optimal Execution: Learnin | ng |
| | Sonhie Laruelle | 205 |
| 12.1 | Introduction | 205 |
| 12.1 | Stochastic approximation: results on a s_convergence and its rate | 205 |
| 1 4.4 | 12.2.1 Back to deterministic recursive methods | 207 |
| | 12.2.1 Stochastic recursive methods | 207 |
| 123 | Applications to optimal execution | 200 |
| 12.5 | 12.3.1 Optimal split of an order across liquidity pools | 210 |
| | 12.3.2 Optimal posting price of limit orders | 210 |
| | 12.5.2 Optimier posting price of minit orders | <i>22</i> 1 |

| Conte | ents | ix |
|-------------|--|------------|
| 13 | Reinforcement Learning for Algorithmic Trading | |
| 10 | Álvaro Cartea. Sebastian Jaimungal and | |
| | Leandro Sánchez-Betancourt | 230 |
| 13.1 | Learning in financial markets | 230 |
| 13.2 | Statistical arbitrage: trading an FX triplet | 232 |
| | 13.2.1 Market model | 234 |
| 13.3 | The reinforcement learning paradigm | 235 |
| | 13.3.1 Deep Q-learning (DQN) | 237 |
| | 13.3.2 Reinforced deep Markov models | 239 |
| | 13.3.3 Implementation of RDMM | 244 |
| 13.4 | Optimal trading in triplet | 245 |
| | 13.4.1 Remarks on RDMM versus DDQN | 248 |
| 13.5 | Conclusions and future work | 249 |
| | | |
| Part | IV Advanced Optimization Techniques | 251 |
| 14 | Introduction to Part IV. Advanced Optimization Techniques for Banks | |
| | ana Asset Managers David Bilahan, Matthew E. Divan and Joan Halparin | 252 |
| 1/1 | Introduction | 255 |
| 14.1 | 14.1.1 Pelger's asset pricing model | 255 |
| 14.2 | Data wins the center stage | 259 |
| 11.2 | 14.2.1 Deep hedging vs. reinforcement learning for option pricing | 259 |
| | 14.2.2 Market simulators | 261 |
| 14.3 | Stratified models for portfolio construction | 262 |
| 14.4 | Summary | 263 |
| 15 | Harnessing Quantitative Finance by Data-Centric Methods | |
| | Blanka Horvath, Aitor Muguruza Gonzalez and Mikko S. Pakkanen | 265 |
| 15.1 | Data-centric methods in quantitative finance | 265 |
| 15.2 | Pricing and calibration by supervised learning | 269 |
| | 15.2.1 Model calibration framework | 269 |
| | 15.2.2 Pricing and calibration aided by deep neural networks | 270 |
| | 15.2.3 An example where deep pricing makes a difference: the rough | |
| | Bergomi model | 272 |
| | 15.2.4 Choosing the feature set | 273 |
| | 15.2.5 Supervised learning approaches, and their ability to loosen limitations | |
| 15.0 | of the tractability mantra | 274 |
| 15.3 | Pricing and hedging by unsupervised deep learning | 275 |
| | 15.3.1 Deep nedging | 213 |
| | 15.3.2 Utility multicience pricing | ∠10 270 |
| 15 <i>A</i> | Market generators | 219 |
| 13.4 | 15.4.1 The case for more flexible data-driven market models | 285 |
| | 15.4.2. The case for classical models | 288 |
| | 15.4.3 Synergies between the classical and modern approaches, and further | _00 |
| | risk management considerations | 288 |
| 15.5 | Outlook and challenges with data at centre stage | 288 |
| | | |

| х | | Contents |
|-------|---|------------|
| 16 | Asset Pricing and Investment with Rig Data | |
| 10 | Asset I field and investment with Dig Data | 203 |
| 16.1 | Murkus I eiger | 293 |
| 10.1 | Overview N | 295 |
| 16.2 | No-arbitrage pricing and investment | 294 |
| 16.3 | Factor models | 296 |
| 16.4 | Deep learning in asset pricing | 300 |
| | 16.4.1 Forecasting | 300 |
| | 16.4.2 No-arbitrage model | 301 |
| | 16.4.3 Economic dynamics | 303 |
| | 16.4.4 Model architecture | 305 |
| | 16.4.5 Empirical results | 305 |
| 16.5 | Decision trees in asset pricing | 308 |
| | 16.5.1 SDF recovery as a mean-variance optimization problem | 310 |
| | 16.5.2 Empirical results | 312 |
| 16.6 | Directions for future research | 314 |
| 17 | Portfolio Construction Using Stratified Models | |
| | Ionathan Tuck, Shane Barratt and Stephen Boyd | 317 |
| 17.1 | Introduction | 317 |
| 1,111 | 17.1.1 Related work | 319 |
| 172 | Lanlacian regularized stratified models | 319 |
| 17.2 | Dataset | 320 |
| 17.5 | Stratified market conditions | 320 |
| 17.4 | Stratified raturn model | 322 |
| 17.5 | 17.5.1 Huper perspector coerch | 324 |
| | 17.5.1 Fiyper-parameter search | 324 |
| 176 | Structified rich model | 225 |
| 17.0 | Suamed fisk model | 320 |
| | 17.6.1 Hyper-parameter search | 227 |
| 177 | Trading galies and healtest | 220 |
| 1/./ | Irading policy and backtest | 328 |
| | 17.7.1 Irading policy | 328 |
| | 17.7.2 Backtests | 330 |
| | 17.7.3 Hyper-parameter selection | 222 |
| 17.0 | 17.7.4 Final trading policy results | 332 225 |
| 17.8 | Extensions and variations | 333 |
| 17.9 | Conclusions | 337 |
| D. | V Nor Franking for Starley (* Contraling) | ~ |
| Part | iv New Frontiers for Stochastic Control in Finance | 341 |
| 18 | Introduction to Part V. Machine Learning and Applied Mathematic | cs: |
| | a Game of Hide-and-Seek? | |
| | Gilles Pagès | 343 |
| 19 | The Curse of Optimality, and How to Break it? | |
| - | Xun Yu Zhou | 354 |
| 191 | Introduction | 354 |
| 19.2 | Entropy-regularized exploratory formulation | 357 |
| 17.4 | 19.2.1 Classical stochastic control | 357 |
| | | 001 |

| Conte | ents | xi |
|--|--|--|
| 19.3 19.4 | 19.2.2 Exploratory formulation19.2.3 Entropy regularizationOptimal distributional policiesNon-convex optimization and Langevin diffusions | 359 360 361 363 |
| 19.5 | Algorithmic considerations for RL | 365 |
| 19.6 | Conclusion | 367 |
| 20 | Deep Learning for Mean Field Games and Mean Field Control with Applications to Finance | |
| 20.1 | René Carmona and Mathieu Laurière | 369 |
| 20.1 | Introduction | 369 |
| | 20.1.2 Definition of the problems | 370 |
| 20.2 | 20.1.2 Definition of the problems | 372 |
| 20.2 | 20.2.1 Description of the method | 374 |
| | 20.2.1 Description of the method | 376 |
| 20.3 | Deep BSDE method for MKV FBSDEs | 379 |
| 20.0 | 20.3.1 Description of the method | 379 |
| | 20.3.2 Numerical illustration: a toy model of systemic risk | 381 |
| 20.4 | DGM method for mean field PDEs | 382 |
| | 20.4.1 Description of the method | 383 |
| | 20.4.2 Numerical illustration: a crowded trade model | 386 |
| 20.5 | Conclusion | 389 |
| | | |
| 21 | Reinforcement Learning for Mean Field Games, with Applications to Economics | |
| 21 | Reinforcement Learning for Mean Field Games, with Applications to Economics Andrea Angiuli, Jean-Pierre Fouque and Mathieu Laurière | 393 |
| 21 21.1 | Reinforcement Learning for Mean Field Games, with Applications to Economics <i>Andrea Angiuli, Jean-Pierre Fouque and Mathieu Laurière</i> Introduction | 393 393 |
| 21 21.1 21.2 | Reinforcement Learning for Mean Field Games, with Applications to Economics <i>Andrea Angiuli, Jean-Pierre Fouque and Mathieu Laurière</i> Introduction Finite horizon mean field problems | 393 393 396 |
| 21 21.1 21.2 | Reinforcement Learning for Mean Field Games, with Applications to Economics <i>Andrea Angiuli, Jean-Pierre Fouque and Mathieu Laurière</i> Introduction Finite horizon mean field problems 21.2.1 Mean field games | 393 393 396 397 |
| 21 21.1 21.2 | Reinforcement Learning for Mean Field Games, with Applications to Economics <i>Andrea Angiuli, Jean-Pierre Fouque and Mathieu Laurière</i> Introduction Finite horizon mean field problems 21.2.1 Mean field games 21.2.2 Mean field control | 393 393 396 397 397 |
| 2121.121.221.3 | Reinforcement Learning for Mean Field Games, with Applications to Economics <i>Andrea Angiuli, Jean-Pierre Fouque and Mathieu Laurière</i> Introduction Finite horizon mean field problems 21.2.1 Mean field games 21.2.2 Mean field control Two-timescale approach | 393 393 396 397 397 398 |
| 21 21.1 21.2 21.3 | Reinforcement Learning for Mean Field Games, with Applications to Economics <i>Andrea Angiuli, Jean-Pierre Fouque and Mathieu Laurière</i> Introduction Finite horizon mean field problems 21.2.1 Mean field games 21.2.2 Mean field control Two-timescale approach 21.3.1 Discrete formulation | 393 393 396 397 397 398 398 |
| 21 21.1 21.2 21.3 | Reinforcement Learning for Mean Field Games, with Applications to Economics <i>Andrea Angiuli, Jean-Pierre Fouque and Mathieu Laurière</i> Introduction Finite horizon mean field problems 21.2.1 Mean field games 21.2.2 Mean field control Two-timescale approach 21.3.1 Discrete formulation 21.3.2 Action-value function | 393 393 396 397 398 398 400 401 |
| 21 21.1 21.2 21.3 21.4 | Reinforcement Learning for Mean Field Games, with Applications to Economics Andrea Angiuli, Jean-Pierre Fouque and Mathieu Laurière Introduction Finite horizon mean field problems 21.2.1 Mean field games 21.2.2 Mean field control Two-timescale approach 21.3.1 Discrete formulation 21.3.2 Action-value function 21.3.3 Unification through a two-timescale approach | 393 393 396 397 398 398 400 401 404 |
| 21 21.1 21.2 21.3 21.4 | Reinforcement Learning for Mean Field Games, with Applicationsto EconomicsAndrea Angiuli, Jean-Pierre Fouque and Mathieu LaurièreIntroductionFinite horizon mean field problems21.2.1Mean field games21.2.2Mean field controlTwo-timescale approach21.3.1Discrete formulation21.3.2Action-value function21.3.3Unification through a two-timescale approachReinforcement learning algorithm21.4.1Date to the provide the provident the provid | 393 393 396 397 398 398 400 401 404 404 |
| 21 21.1 21.2 21.3 21.4 | Reinforcement Learning for Mean Field Games, with Applicationsto EconomicsAndrea Angiuli, Jean-Pierre Fouque and Mathieu LaurièreIntroductionFinite horizon mean field problems21.2.1Mean field games21.2.2Mean field controlTwo-timescale approach21.3.1Discrete formulation21.3.2Action-value function21.3.3Unification through a two-timescale approachReinforcement learning algorithm21.4.1Reinforcement learning21.4.2Alegreithm | 393 393 396 397 398 398 400 401 404 404 404 |
| 21 21.1 21.2 21.3 21.4 | Reinforcement Learning for Mean Field Games, with Applications to Economics Andrea Angiuli, Jean-Pierre Fouque and Mathieu Laurière Introduction Finite horizon mean field problems 21.2.1 Mean field games 21.2.2 Mean field control Two-timescale approach 21.3.1 Discrete formulation 21.3.2 Action-value function 21.3.3 Unification through a two-timescale approach Reinforcement learning algorithm 21.4.1 Reinforcement learning 21.4.2 Algorithm 21.4.3 Learning rates | 393 393 396 397 397 398 398 400 401 404 404 404 404 406 |
| 21 21.1 21.2 21.3 21.4 | Reinforcement Learning for Mean Field Games, with Applications to EconomicsAndrea Angiuli, Jean-Pierre Fouque and Mathieu LaurièreIntroductionFinite horizon mean field problems21.2.1Mean field games21.2.2Mean field controlTwo-timescale approach21.3.1Discrete formulation21.3.2Action-value function21.3.3Unification through a two-timescale approachReinforcement learning algorithm21.4.1Reinforcement learning21.4.2Algorithm21.4.3Learning rates21.4.4Application to continuous problems | 393 393 396 397 397 398 398 400 401 404 404 404 406 407 |
| 21 21.1 21.2 21.3 21.4 21.5 | Reinforcement Learning for Mean Field Games, with Applicationsto EconomicsAndrea Angiuli, Jean-Pierre Fouque and Mathieu LaurièreIntroductionFinite horizon mean field problems21.2.1Mean field games21.2.2Mean field controlTwo-timescale approach21.3.1Discrete formulation21.3.2Action-value function21.3.3Unification through a two-timescale approachReinforcement learning algorithm21.4.1Reinforcement learning21.4.2Algorithm21.4.4Application to continuous problemsA mean field accumulation problem | 393 393 396 397 398 398 400 401 404 404 404 406 407 407 |
| 21 21.1 21.2 21.3 21.4 21.5 | Reinforcement Learning for Mean Field Games, with Applications to EconomicsAndrea Angiuli, Jean-Pierre Fouque and Mathieu LaurièreIntroductionFinite horizon mean field problems21.2.1 Mean field games21.2.2 Mean field controlTwo-timescale approach21.3.1 Discrete formulation21.3.2 Action-value function21.3.3 Unification through a two-timescale approachReinforcement learning algorithm21.4.1 Reinforcement learning21.4.2 Algorithm21.4.3 Learning rates21.4.4 Application to continuous problemsA mean field accumulation problem21.5.1 Description of the problem | 393 393 396 397 398 398 400 401 404 404 404 406 407 407 407 407 |
| 21 21.1 21.2 21.3 21.4 21.5 | Reinforcement Learning for Mean Field Games, with Applications to EconomicsAndrea Angiuli, Jean-Pierre Fouque and Mathieu LaurièreIntroductionFinite horizon mean field problems21.2.1 Mean field games21.2.2 Mean field controlTwo-timescale approach21.3.1 Discrete formulation21.3.2 Action-value function21.3.3 Unification through a two-timescale approachReinforcement learning algorithm21.4.1 Reinforcement learning21.4.2 Algorithm21.4.3 Learning rates21.4.4 Application to continuous problemsA mean field accumulation problem21.5.1 Description of the problem21.5.2 Solution of the MFG | 393 393 396 397 398 398 400 401 404 404 404 404 406 407 407 407 409 |
| 21 21.1 21.2 21.3 21.4 21.5 | Reinforcement Learning for Mean Field Games, with Applications to EconomicsAndrea Angiuli, Jean-Pierre Fouque and Mathieu LaurièreIntroductionFinite horizon mean field problems21.2.1 Mean field games21.2.2 Mean field controlTwo-timescale approach21.3.1 Discrete formulation21.3.2 Action-value function21.3.3 Unification through a two-timescale approach21.4.1 Reinforcement learning algorithm21.4.2 Algorithm21.4.3 Learning rates21.4.4 Application to continuous problemsA mean field accumulation problem21.5.1 Description of the problem21.5.2 Solution of the MFG21.5.3 Solution of the MFC | 393 393 396 397 398 398 400 401 404 404 404 406 407 407 407 409 410 |
| 21 21.1 21.2 21.3 21.4 21.5 | Reinforcement Learning for Mean Field Games, with Applications to EconomicsAndrea Angiuli, Jean-Pierre Fouque and Mathieu LaurièreIntroductionFinite horizon mean field problems21.2.1 Mean field games21.2.2 Mean field controlTwo-timescale approach21.3.1 Discrete formulation21.3.2 Action-value function21.3.3 Unification through a two-timescale approachReinforcement learning algorithm21.4.1 Reinforcement learning21.4.2 Algorithm21.4.3 Learning rates21.4.4 Application to continuous problemsA mean field accumulation problem21.5.1 Description of the problem21.5.2 Solution of the MFG21.5.4 Numerical results | 393 393 396 397 398 398 400 401 404 404 404 404 406 407 407 407 409 410 411 |
| 21 21.1 21.2 21.3 21.4 21.5 21.6 | Reinforcement Learning for Mean Field Games, with Applications to EconomicsAndrea Angiuli, Jean-Pierre Fouque and Mathieu LaurièreIntroductionFinite horizon mean field problems21.2.1 Mean field games21.2.2 Mean field controlTwo-timescale approach21.3.1 Discrete formulation21.3.2 Action-value function21.3.3 Unification through a two-timescale approachReinforcement learning algorithm21.4.1 Reinforcement learning21.4.2 Algorithm21.4.3 Learning rates21.4.4 Application to continuous problemsA mean field accumulation problem21.5.1 Description of the problem21.5.2 Solution of the MFG21.5.3 Solution of the MFC21.5.4 Numerical resultsA mean field execution problem | 393 393 396 397 398 398 400 401 404 404 404 404 406 407 407 407 409 410 411 413 |
| 21 21.1 21.2 21.3 21.4 21.5 21.6 | Reinforcement Learning for Mean Field Games, with Applications to EconomicsAndrea Angiuli, Jean-Pierre Fouque and Mathieu LaurièreIntroductionFinite horizon mean field problems21.2.1 Mean field games21.2.2 Mean field controlTwo-timescale approach21.3.1 Discrete formulation21.3.2 Action-value function21.3.3 Unification through a two-timescale approachReinforcement learning algorithm21.4.1 Reinforcement learning21.4.2 Algorithm21.4.3 Learning rates21.4.4 Application to continuous problemsA mean field accumulation problem21.5.1 Description of the problem21.5.2 Solution of the MFG21.5.3 Solution of the MFC21.5.4 Numerical resultsA mean field execution problem21.5.1 The MFG trader problem | 393 393 396 397 398 398 400 401 404 404 404 404 406 407 407 407 409 410 411 413 415 |
| 21 21.1 21.2 21.3 21.4 21.5 21.6 | Reinforcement Learning for Mean Field Games, with Applications to EconomicsAndrea Angiuli, Jean-Pierre Fouque and Mathieu LaurièreIntroductionFinite horizon mean field problems21.2.1Mean field games21.2.2Mean field controlTwo-timescale approach21.3.1Discrete formulation21.3.2Action-value function21.3.3Unification through a two-timescale approachReinforcement learning algorithm21.4.1Reinforcement learning21.4.2Algorithm21.4.3Learning rates21.4.4Application to continuous problemsA mean field accumulation problem21.5.1Description of the problem21.5.2Solution of the MFG21.5.3Solution of the MFC21.5.4Numerical resultsA mean field execution problem21.6.1The MFG trader problem21.6.2Solution of the MFG problem | 393 393 396 397 398 398 400 401 404 404 404 406 407 407 407 407 409 410 411 413 415 416 |

| xii | Con | itents |
|------|---|--------|
| | 21.6.4 Solution of the MEC problem | 417 |
| | 21.0.4 Solution of the Wire problem | 418 |
| 21.7 | Conclusion | 421 |
| 21.7 | conclusion | 721 |
| 22 | Neural Networks-Based Algorithms for Stochastic Control and PDEs | |
| | in Finance | |
| | Maximilien Germain, Huyên Pham and Xavier Warin | 426 |
| 22.1 | Breakthrough in the resolution of high-dimensional nonlinear problems | 426 |
| 22.2 | Deep learning approach to stochastic control | 427 |
| | 22.2.1 Global approach | 428 |
| | 22.2.2 Backward dynamic programming approach | 429 |
| 22.3 | Machine learning algorithms for nonlinear PDEs | 430 |
| | 22.3.1 Deterministic approach by neural networks | 431 |
| | 22.3.2 Probabilistic approach by neural networks | 432 |
| | 22.3.3 Case of fully nonlinear PDEs | 436 |
| 22.4 | 22.3.4 Limitations of the machine learning approach | 440 |
| 22.4 | Numerical applications | 440 |
| | 22.4.1 Numerical tests on credit valuation adjustment pricing | 441 |
| 22.5 | 22.4.2 Portfolio allocation in stochastic volatility models | 443 |
| 22.5 | Extensions and perspectives | 448 |
| 23 | Generative Adversarial Networks: Some Analytical Perspectives | |
| | Haovang Cao and Xin Guo | 453 |
| 23.1 | Introduction | 453 |
| 23.2 | Basics of GANs: an analytical view | 455 |
| 23.3 | GANs Training | 460 |
| 23.4 | Applications of GANs | 467 |
| | 23.4.1 Computing MFGs via GANs | 467 |
| | 23.4.2 GANs in Mathematical Finance | 471 |
| 23.5 | Conclusion and Discussion | 475 |
| | | |
| 0 | ONNECTIONS WITH THE DEAL ECONOMY | 170 |
| U | ONNECTIONS WITH THE REAL ECONOMY | 479 |
| | | |
| Part | VI Nowcasting with Alternative Data | 481 |
| 24 | Introduction to Part VI Nowcasting is Coming | |
| | Michael Recce | 483 |
| 24.1 | Micro before macro | 483 |
| 24.2 | Advance driven by Moore's law | 484 |
| 24.3 | The CEO dashboard | 485 |
| 24.4 | Internet companies led progress in nowcasting | 486 |
| 24.5 | CEO dashboard from alternative data | 486 |
| 24.6 | Nowcasting with alternative data | 487 |
| | 0 | ÷. |

| Со | ntents | xiii |
|-----------|---|------|
| 25 | Data Preselection in Machine Learning Methods: An Application to Macroeconomic Nowcasting with Google Search Data | |
| | Laurent Ferrara and Anna Simoni | 490 |
| 25. | 1 Introduction | 490 |
| 25. | 2 Structure of Google search database | 493 |
| 25. | 3 The nowcasting approach | 494 |
| | 25.3.1 Linear Bridge equation | 494 |
| | 25.3.2 Preselection of Google search variables | 495 |
| 25. | 4 Factor models | 496 |
| 25. | 5 Methods based on regularisation: Ridge | 499 |
| 25. | 6 Nowcasting euro area GDP growth: Empirical eesults | 500 |
| 25. | 7 Conclusions | 505 |
| 26 | Alternative data and ML for macro nowcasting | |
| | Apurv Jain | 507 |
| 26. | 1 The fundamental problems of macro data | 507 |
| 26. | 2 High-dimensionality problem | 510 |
| 26. | 3 Nowcasting the big and jagged data | 512 |
| | 26.3.1 Nonlinearity and ML for nowcasting | 516 |
| 26. | 4 Dimensions of alternative data quality | 519 |
| | 26.4.1 A crowd-sourced experiment | 519 |
| | 26.4.2 The need for a hypothesis | 519 |
| 26. | 5 Non-farm payrolls and web search case study | 522 |
| | 26.5.1 Background and related work | 522 |
| | 26.5.2 Government non-farm payrolls data overview | 526 |
| | 26.5.3 Information content of NFP revisions | 528 |
| | 26.5.4 Web search data | 530 |
| | 26.5.5 Search and NFP correlation | 531 |
| | 26.5.6 Regression results | 533 |
| | 26.5.7 Robustness | 535 |
| 26 | 26.5.8 Machine learning for NFP revisions | 536 |
| 26. | 6 Conclusion and future work | 538 |
| 27 | Nowcasting Corporate Financials and Consumer Baskets with Al- | |
| | ternative Data Michael Eleden and Demonst Shah | 515 |
| 27 | Michael Fleder and Devavrai Snan | 545 |
| 27. | 1 Quant for all data | 540 |
| 27. | 2 Nowcasting company linancials | 547 |
| | 27.2.1 Problem statement and model | 547 |
| | 27.2.2 Contributions | 551 |
| | 27.2.5 Theoretical results | 552 |
| 77 | 27.2.4 Experiments 3 Inferring products in anonymized transactions | 554 |
| 21. | 27.3.1 Problem statement and model | 554 |
| | 27.3.1 Fromerin statement and model | 554 |
| | 27.3.2 Contributions | 556 |
| | 27.3.4 Main results | 557 |
| | 27.3.5 Experiments | 558 |
| 27 | 4 Conclusion | 561 |
| 27 | 5 Relevant literature | 561 |
| <i></i> , | | 201 |

| xiv | Co | ntents |
|-------|---|------------|
| 28 | NLP in Finance | |
| | Prabhanjan Kambadur, Gideon Mann and Amanda Stent | 563 |
| 28.1 | Core NLP techniques | 564 |
| | 28.1.1 Basic language analytics | 565 |
| • • • | 28.1.2 Higher-level linguistic analysis | 566 |
| 28.2 | Mathematics for NLP | 568 |
| | 28.2.1 Introduction to supervised learning | 569 |
| 20.2 | 28.2.2 Machine learning methods for NLP | 5/1 |
| 28.3 | Applications | 575 |
| | 28.3.1 Information extraction | 5/0 |
| | 28.3.2 NSTM: Identifying key themes in news | 580 |
| 28.4 | 28.3.3 Market sentiment analysis Conclusion | 584 586 |
| | | 000 |
| 29 | The Exploitation of Recurrent Satellite Imaging for the Fine-Scale Observation of Human Activity | |
| | Carlo de Franchis. Sébastien Drouver. Gabriele Facciolo. Rafael | |
| | Grompone von Gioi, Charles Hessel and Jean-Michel Morel | 593 |
| 29.1 | Introduction | 593 |
| 29.2 | What is recurrent satellite imaging? | 594 |
| | 29.2.1 A landscape of satellites images | 595 |
| 29.3 | 3D monitoring from space | 599 |
| 29.4 | The SAR revolution of oil storage | 604 |
| | 29.4.1 Overview | 605 |
| | 29.4.2 Detailed description | 605 |
| 29.5 | Creating a movie of the earth | 610 |
| | 29.5.1 Overview of the existing methods | 610 |
| | 29.5.2 Algorithms | 612 |
| 29.6 | Ground visibility and cloud detection | 613 |
| 29.7 | Detecting and counting cars from space | 616 |
| | 29.7.1 Vehicle detection on high resolution satellite images | 618 |
| | 29.7.2 Parking occupancy estimation on PlanetScope satellite images | 620 |
| Part | VII Biases and Model Risks of Data-Driven Learning | 629 |
| 30 | Introduction to Part VII Towards the Ideal Mir between Data and | |
| 50 | Models | |
| | Mathieu Rosenbaum | 631 |
| 30.1 | What are we exactly talking about? | 631 |
| 30.2 | What is a good model? | 631 |
| 30.3 | Simulating what has never been observed | 632 |
| 30.4 | Being pragmatic | 632 |
| 31 | Generative Pricing Model Complexity: The Case for Volatility- Managed Portfolios | |
| | Brian Clark, Akhtar Siddique and Majeed Simaan | 634 |
| 31.1 | Introduction | 634 |
| 31.2 | Quantifying model complexity | 640 |
| | 31.2.1 The main idea | 640 |
| | | |

| Contents | | |
|------------|--|-----|
| | 31.2.2 ALE functions | 640 |
| | 31.2.3 Interaction strength (IAS) | 642 |
| | 31.2.4 Main effect complexity (MEC) | 644 |
| 31.3 | Portfolio problem | 647 |
| | 31.3.1 Volatility managed portfolio | 647 |
| | 31.3.2 The appeal of ML in portfolio | 648 |
| 31.4 | Empirical investigation | 649 |
| | 31.4.1 Data | 649 |
| | 31.4.2 Training and testing | 650 |
| | 31.4.3 Performance | 651 |
| | 31.4.4 Results and discussion | 652 |
| | 31.4.5 Additional results | 654 |
| 31.5 | Concluding remarks | 657 |
| 32 | Bayesian Deep Fundamental Factor Models | |
| | Matthew F. Dixon and Nicholas G. Polson | 661 |
| 32.1 | Introduction | 661 |
| | 32.1.1 Why Bayesian deep learning? | 662 |
| | 32.1.2 Connection with fundamental factor models | 663 |
| | 32.1.3 Overview | 664 |
| 32.2 | Barra fundamental factor models | 665 |
| | 32.2.1 Prediction with the Barra model | 666 |
| 32.3 | Bayesian deep learning | 667 |
| | 32.3.1 Deep probabilistic models | 667 |
| | 32.3.2 Variational Approximation | 669 |
| | 32.3.3 Bayes by backprop | 670 |
| 32.4 | Bayesian deep fundamental factor models | 671 |
| | 32.4.1 Probabilistic prediction | 671 |
| 32.5 | Deep network interpretability | 672 |
| | 32.5.1 Factor sensitivities | 673 |
| 32.6 | Applications: Russell 1000-factor modeling | 675 |
| 32.7 | Discussion | 680 |
| 32.A | Appendix: Gradients of two-layer feedforward networks | 684 |
| 32.B | Description of Russell 1000-factor model | 685 |
| 33 | Black-Box Model Risk in Finance | |
| | Samuel N. Cohen, Derek Snow and Lukasz Szpruch | 687 |
| 33.1 | Introduction | 687 |
| 33.2 | A practical application of machine learning | 689 |
| | 33.2.1 How to use neural networks for derivative modelling | 689 |
| | 33.2.2 Black-box trade-offs | 692 |
| 33.3 | The role of data | 693 |
| | 33.3.1 Data risks | 693 |
| | 33.3.2 Data solutions | 695 |
| 33.4 | The role of models | 699 |
| | 33.4.1 Model risks | 699 |
| | 33.4.2 Model solutions | 705 |
| . - | | _ |
| Index | | 718 |