

Proposing Strategies in the Context of Asset Value Uncertainty

Applying experience as a financial markets professional to academic research, proposing corporate strategies and policies to address asset price volatility

Financial markets are seeing an unparalleled rise in asset price volatility in the context of quantitative and qualitative monetary easing and changes in the external environment. As asset price formation mechanisms are altered fundamentally and unpredictable price fluctuations become the norm, conventional analyses predicated on market stability are limited in their usefulness. In this research, I am aiming to shed light on the mechanisms of asset price fluctuation in this new era and derive practical insights for business management and policymaking, deploying both theoretical research methods and my extensive professional experience in the Bank of Japan and other workplaces.



Principal Investigator

YAMAKAWA Tetsufumi

Professor, College of International Management
Ritsumeikan Asia Pacific University

“Through research that bridges theory and practice, I will advance understanding of financial markets in the new era and explore ways of responding effectively.”

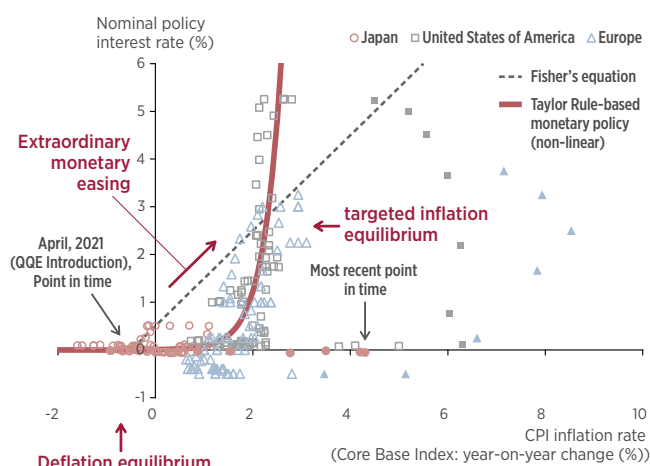
Explicating the mechanisms of asset price fluctuation in policy management involving tail risk, including quantitative and qualitative monetary easing

There are three distinctive features of this research. The first is its integration of theoretical research with understandings of the market based on many years of professional experience. I, the principal investigator, had a professional career totaling approximately 45 years with the Bank of Japan, Goldman Sachs Japan, and Barclays Japan. My experience and achievements in both the market and the policy sphere enable me to pursue more practical, multi-faceted market and policy analysis.

The second feature is the focus on discontinuous asset price fluctuation mechanisms and their feedback effects on policy management, in the context of quantitative and qualitative monetary easing policy. The research will apply both market experience and theoretical perspectives to a reassessment of market changes (rising asset price volatility) that are not adequately explained by conventional frameworks, and furnish a novel analytical approach.

The third feature is international comparative analysis. I have cultivated an international outlook over many years through roles including the coordination of international conferences and other events at the Bank of Japan, and working as the head of pan-Asian economic research at Goldman Sachs Japan. Based on this outlook, I will focus on issues such as the international spread of the “Japanification” phenomenon (secular stagnation in the US, balance sheet adjustment and other aspects of structural deflation and ineffective monetary easing in China, etc.), and derive insights from policy responses and their consequences in major economies around the world.

“Deflation equilibrium” vs “targeted inflation equilibrium” (Taylor Rule based monetary policy)



Note: Figure created based on J. Bullard, “Seven Faces of ‘The Peril,’” Federal Reserve Bank of St. Louis Review, September/October 2010. “Deflation equilibrium” is a state in which, under non-negative constraints on the nominal policy interest rate, zero interest rate policy (ZIRP) coexists with deflation. “Targeted inflation equilibrium” is a state in which the long-term expected inflation rate is “anchored” to the target inflation rate.
Source: Federal Reserve Bank of St. Louis

Exploring financial risk management paradigms for the new era, delivering recommendations for business management and policymaking

With the aim of feeding practical insights back into business management and policymaking through research on asset price formation and monetary policy, this research will entail collaborations with business managers, financial officers, policymakers, investors, and researchers.

It will support companies by furnishing a new risk management framework to handle discontinuous asset price fluctuation, and supporting the formulation of contingency plans. For policymakers, the research will provide frameworks for comprehensive analysis of policy outcomes and side-effects. It will offer insights from different countries’ responses to the “Japanification” phenomenon, and recommendations on policy management attuned

to changes in market structure. The research will also examine the impact of AI and other new technologies on asset price formation, and joint research projects with researchers in different disciplines are welcome.

Recommendations arising from the research will be shared proactively both within and beyond Japan. Practical experience and research on “Japanification” in particular will surely provide a valuable case study internationally. The findings generated through the integration of practical experience and theoretical research are sure to contribute as new financial knowledge to a broad range of settings both within Japan and internationally.

