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What are the Vital Features of an Economic Scenario Generator?

Abstract: We examine the properties that a good economic scenario generator should have and offer some comments on the recent CAS/SoA and AAA model proposals. We discuss the application of economic scenario generators to risk management problems with a careful explanation and illustration of the differences between real-world and risk-neutral simulations. A discussion of the implications of using economic scenario generators with deficiencies is given. The paper closes with a discussion of the extreme events of 2008 and what one should expect from a good economic scenario generator with respect to the simulation of extreme outcomes.

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