

Real Options, Connecting Theory to Data: Modeling Actively Traded Philippine Universal Banks

Jackson Tan¹ and Fernando L. Trinidad²

¹University of Santo Tomas

²Affiliation not available

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Abstract

This case study discusses research aspects relating to a Real Options model that values the strategies to lend or to idle a loan portfolio in a chaotic system. Here, discussion focuses on associating events with changes in data, and advocates the basis of data interpretations upon practices and events in the real world. The study examined data from annual reports for actively traded Philippine Universal Banks during an eight-year window of observation, from 2008 to 2015. A Real Options model was developed and forwarded to examine the lending behavior of these formal lending institutions as affected by income inflows, contingent claims, time, volatility, growth rates, a discount rate, and information asymmetry. This study expressed that actively traded Philippine Universal Banks should create more micro lending and risk mitigation facilities to encourage a more inclusive banking system.

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