

# Contents

<b>1</b>	<b>Introduction</b>	1
1.1	Motivation	1
1.2	Problem Description	6
1.2.1	Bank Liquidity Models	6
1.2.2	Quantitative Liquidity Models	7
1.2.2.1	Cash Management Models	7
1.2.2.2	Debt Management Models	11
1.2.3	Complete Liquidity Models	12
1.3	Objective and Proceeding	13
<b>2</b>	<b>Liquidity Concepts</b>	15
2.1	Asset Liquidity	15
2.2	Institutional Liquidity	19
2.3	National Liquidity	20
2.4	Interdependencies between Liquidity Concepts	22
2.5	Summary	23
<b>3</b>	<b>Liquidity Framework</b>	25
3.1	Modelling Fundamentals	25
3.1.1	Stock versus Flow Perspective	25
3.1.2	Cash Flow Maturity Ladder	26
3.1.3	Interest Rates and Liquidity Management	27
3.1.4	Liquidity Options	28
3.1.5	Repo	32
3.2	Liquidity Strategies of Banks	34
3.2.1	Maturity Mismatch Strategy	35
3.2.2	Liquidity Option Strategy	37
3.2.3	Summary	41
3.3	Framework	42
3.4	Comparison with Literature	43
3.5	Summary	44

<b>4</b>	<b>Liquidity Model</b>	45
4.1	Time Scale	45
4.2	Cash Flow Model	46
4.2.1	Requirements	46
4.2.2	Product Cash Flows	47
4.2.2.1	Cash Flow Assumption	47
4.2.2.2	Generic Product	53
4.2.2.3	Model Horizon	54
4.2.3	Aggregation	55
4.3	Funding Model	60
4.3.1	Requirements	60
4.3.2	Funding Model	61
4.3.3	Calibration	64
4.4	Liquidation Model	64
4.4.1	Requirements	64
4.4.2	Liquidation Model	65
4.5	Interest Rate Model	71
4.6	Bank Liquidity Model	72
4.7	Summary	73
<b>5</b>	<b>Liquidity Management</b>	75
5.1	Cash Flow Transfer	75
5.1.1	Basic Transfer Model	75
5.1.2	Extended Transfer Model	78
5.1.3	Model Horizon	89
5.2	Transfer Pricing	91
5.2.1	Transfer Price for Deterministic Cash Flows	94
5.2.2	Transfer Price for the Brownian Component	95
5.2.3	Transfer Price for the Jump Component	108
5.2.3.1	Reconciliation with the Literature	123
5.2.3.2	Pricing Examples	126
5.3	Summary	128
<b>6</b>	<b>Liquidity Optimization</b>	133
6.1	Setup	133
6.2	Origination Department	137
6.2.1	The Model	137
6.2.1.1	Setup	137
6.2.2	Optimization without Funding Risk	140
6.2.3	Optimization with Funding Capacity Risk	141
6.2.3.1	Impact of Funding Stochastic	144
6.2.3.2	Impact of Spread Definition	146
6.2.4	Comparison with the Literature	151
6.2.5	Conclusion	153
6.3	Money Market Department	153

6.3.1 The Model .....	153
6.3.1.1 Setup .....	153
6.3.1.2 Choice of Model Horizon .....	157
6.3.2 Optimality Candidates .....	162
6.3.3 Reserve Decisions in $t_1$ .....	164
6.3.4 Reserve Decisions in $t_0$ .....	170
6.3.5 Numerical Example .....	177
6.3.6 Comparison with the Literature .....	181
6.3.7 Conclusion .....	182
6.4 Risk Controlling .....	183
6.5 Summary .....	183
<b>7 Conclusion .....</b>	<b>187</b>
<b>A Liquidity Model .....</b>	<b>193</b>
A.1 Cash Flow Expectations .....	193
<b>B Liquidity Management .....</b>	<b>199</b>
B.1 Brownian Transfer Prices for Large and Homogeneous Portfolios .....	199
<b>C Liquidity Optimization .....</b>	<b>201</b>
C.1 Optimization in Origination Department .....	201
C.2 Optimization in Money Market Department .....	205
C.2.1 Approximation of Cash Flow SDE by Binomial Cash Flow Model ...	205
C.2.2 Determination of Optimality Candidates .....	208
C.2.2.1 Candidates for $t_0$ .....	213
<b>References .....</b>	<b>217</b>