Editorial

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Biographical notes: Eleonora Pierucci is an Assistant Professor of Economics at the University of Basilicata where she teaches Microeconomics and Industrial Economics. She was a Schuman Fulbright Scholar at University of Massachusetts Lowell (USA). Her main research interests concern international risk sharing, globalisation, portfolio choices, international investment positions and informal channels of consumption insurance. On these topics, she has published on several international journals such as *Applied Financial Economics, Economics Letters*, *Open Economies Review* and *Review of Economics of the Household*.

John F. Kennedy during a speech in Indianapolis (12 April 1959) said "when written in Chinese, the word 'crisis' is composed of two characters – one represents danger and the other represents opportunity". Although some experts of Chinese language questioned this interpretation, the main underlying message still holds. In fact, several linguistics argued that the second character (jī), which was interpreted as 'opportunity', might not necessarily mean opportunity when associated with the first character wēi, but it might have several meanings, among whom, the most likely in association to wēi is 'crucial moment'.[1] After all, the etymology of crisis, from ancient Greek, is discernment, therefore, be as it may, the concept that danger and risk are linked to crucial situations of change and opportunity is well summarised by the word crisis. In economics, this ancient concept is more than ever one of the hottest topic under debate.

After almost 10 years from the inception of the global financial crisis (GFC), modern economics has raised a new and deeper attention to the issue of risk management, precisely, on how to become resilient to risk. It represents a great change on the point of view from which economists study and interpret economic phenomena, and consequently, design policy actions. Notwithstanding the fact that risk *per se* cannot be eliminated, building resilience may crucially help in offsetting shocks impact of idiosyncratic as well as systemic risk. On this line, as outstanding example of this new direction, the World Bank in 2014 in the world development report 'Risk and Opportunity. Managing risk for development' states to aim at calling for "individuals and institutions to move from being 'crisis fighters' to becoming 'proactive and systematic risk managers'". Therefore, the ultimate goal is to shift "the institutional culture regarding risk from one of extreme risk aversion to one of informed risk taking" since risk management can be a powerful tool for development and prosperity.

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In the face of a multitude of risks and crises that people might suffer (economic/ financial crises, natural disasters, spread of deadly contagious diseases such as Ebola in some parts of Africa, increased concerns about global warming etc.), risk management process goes from knowledge (understanding of potential shocks along with the internal and external conditions) through insurance and protection (diversification of risk across time and states of nature sharing resources among individuals and reducing probability and size of losses) up to coping with negative events and recovery of losses.

Needless to say that this process if carried out by single individuals can produce limited results since an effective risk management requires a holistic approach which involves increasing complex systems from single individuals/households up to the international community. Thus, following the World Bank report, the main groups/systems identified are the following:

- the state
- the civil society and the private sector
- the international community, where the civil society and the private sector considers households, communities, enterprises and the financial sector.

Each of these actors contribute differently to shocks absorption and through different channels, for instance, family ties are in place in the case of households, collective actions concern communities, the enterprise sector provides job creation, while insurance and credit came from the financial system. Each of these systems is best suitable to cope with different kinds of risk: if households (family ties) are appropriate to deal with small idiosyncratic risk, large idiosyncratic risk requires more complex systems such as the enterprise and financial sectors. Similarly, for systemic risk, the World Bank stresses as small systemic risk can be managed by community and the State, but large systemic risk urges the involvement of the international community. Once defined type of risk (idiosyncratic vs. systemic) and the actors who best can cope with each of them, economists have the duty of investigating risk coping behaviour of the aforementioned actors and design risk management policies.

In this light, the GFC constituted a cornerstone for a new thinking about risk as something to manage and exploit for change, and improvements of the existing pre-crisis systems rather than something to avoid. So, what we learned from the GFC? It was proved that a globalised world facilitates (positive and negative) spillovers and contagion effects with an impact on the overall systemic risk. This evidence has raised the need to develop new tools and new approaches for risk management abandoning the approach of risk aversion at microeconomic as well as macroeconomic level. In fact, the GFC spread out the world starting from the subprime mortgages crisis in the USA, which was generated by the housing bubble produced by a combination of household level decisions and institutional actions (undertook to promote household ownership), which increased disproportionally the ratio of overall household consumer debt to disposable income of the low and middle income households.

The aim of this special issue is to contribute to the ongoing debate in the economic literature on risk management at a microeconomic and macroeconomic level. To this end, the works included deal with risk issues form several perspectives, which go from the international investment position of States to credit risk (relative to the banking system and house markets) as well as risk management criteria for Latin American countries and risk management connected to oil price volatility.

The first work by Pericoli et al., exploiting the IMF Coordinated Portfolio Investment Survey, explores the issue of the risk diversification motive as a determinant of bilateral portfolio investment dynamics. Using a gravitational model which includes country-pair fixed effects, they find that a diversification motive is at work in international portfolio investments. Moreover, investing in less synchronised economies effectively favours income smoothing. Chtourou examines the US mortgage market over the time horizons pre GFC and post GFC. The GFC highlighted the importance of financial risk management at aggregate as well as at household level, and in this respect a growing strand of research cope with household finance since the understanding of household behaviour relative to consumption, saving, and investment choices is crucial to design adequate policy measures at the State level in order to avoid that explosive mix of risk taking approach of US household and State policy, aimed at stimulating the house market, that generated the subprime crises and the inception of the GFC. Amuakwa-Mensah et al. estimate the determinants of credit risk and the introduction of the universal banking licence for an African country such as Ghana. Lorenzo-Valdés and Ruíz-Porras analyse risk management criteria prevailing in Latin America, a group of countries also particularly characterised by exposure to risk connected to natural disasters. Last but not least, Fileccia and Sgarra examine spot and future quotations in the crude oil market using different models and exploiting both risk-neutral modelling and modelling under historical measures.

At the heart of the GFC, which determined a new deal for modern economics in considering risk something to manage rather than something to fight, there are several causes to be evaluated as well as several lessons to be learned. On these grounds, new strands of literature were born and strive for a better understanding of economic phenomena in the light of this new thinking about risk. The present issue aims at contributing to this objective.

Note

[1]On the contrary, if one adds huì (‘occasion’) to jī can be obtained the word jīhuì (opportunity).