

Contents

Foreword	V
----------------	---

Part I. An Overview

1 Evolutionary Computation in Economics and Finance: An Overview	3
<i>Shu-Heng Chen</i>	
1.1 The Birth of this Volume	3
1.2 Playing Games: 1987	4
1.3 Exploring Agent-Based Artificial Stock Markets: 1988	6
1.4 Probing Econometrics and Financial Engineering: 1992	18
1.5 Conclusions	25
References	25

Part II. Games

2 Playing Games with Genetic Algorithms	31
<i>Robert E. Marks</i>	
2.1 Introduction	31
2.2 Deductive Versus Evolutionary Approaches to Game Theory	32
2.3 The Repeated Prisoner's Dilemma	32
2.4 Boundedly Rational Players	32
2.5 Game-Playing Automata	33
2.6 Co-Evolution of Automata	34
2.7 Learning	35
2.8 Replicator Dynamics	36
2.9 Other Refinements	38
2.10 Empirical Games	38
2.11 Conclusion	39
References	40
3 Genetic Algorithm Learning and Economic Evolution	45
<i>Thomas Riechmann</i>	
3.1 Introduction	45
3.2 The Standard Genetic Algorithm	46
3.3 Genetic Algorithms as Evolutionary Processes	47
3.4 Populations as Near Nash Equilibria	50
3.5 Evolutionary Stability of Genetic Populations	51
3.6 Evolutionary Dynamics	54

3.7 Modified Genetic Operators and Their Impact on Stability	56
3.8 Summary	58
References	58
4 Using Symbolic Regression to Infer Strategies from Experimental Data	61
<i>John Duffy, Jim Engle-Warnick</i>	
4.1 Introduction	61
4.2 Symbolic Regression Using Genetic Programming	62
4.3 An Illustration	64
4.4 The Regression Model	65
4.5 The Algorithm	71
4.6 Parameters and Fitness Specification	71
4.7 Regression Results for the Ultimatum Game	72
4.8 Summary and Conclusions	81
References	81

Part III. Agent-Based Computation Economics

5 The Efficiency of an Artificial Double Auction Stock Market with Neural Learning Agents	85
<i>Jing Yang</i>	
5.1 Motivation and Introduction	85
5.2 Market Structure	87
5.3 Experiment Design	94
5.4 Computational Results	95
5.5 Conclusions and Directions for Future Research	101
A Appendix	102
References	103
6 On AIE-ASM: Software to Simulate Artificial Stock Markets with Genetic Programming	107
<i>Shu-Heng Chen, Chia-Husan Yeh, Chung-Chih Liao</i>	
6.1 Introduction	107
6.2 AIE-ASM, Version 2: A User's Guide	108
6.3 Search Process without Business School	115
6.4 An Example	117
6.5 A Summary of AIE-ASM Publications	121
References	121
7 Exchange Rate Volatility	123
<i>Jasmina Arifovic</i>	
7.1 Introduction	123
7.2 Description of the Model	124
7.3 Description of the Artificial Foreign Exchange Market	126

7.4 Further Research	131
References	134
8 Using an Artificial Market Approach to Analyze Exchange Rate Scenarios	135
<i>Kiyoshi Izumi, Kazuhiro Ueda</i>	
8.1 Introduction	135
8.2 Problems with Conventional Approaches	136
8.3 Framework of the Artificial Market Approach	136
8.4 Observation in the Field	137
8.5 Construction of a Multi-agent Model	142
8.6 Scenario Analysis	151
8.7 Conclusion	156
References	156
9 Emulating Trade in Emissions Permits: An Application of Genetic Algorithms	159
<i>Rosalyn Bell, Stephen Beare</i>	
9.1 Background	159
9.2 Model Construction and Use of GAs	161
9.3 Simulation Results	167
9.4 Concluding Remarks	170
9.5 Symbol Listing	172
References	173
10 Cooperative Computation with Market Mechanism	175
<i>Masayuki Ishinishi, Hiroshi Sato, Akira Namatame</i>	
10.1 Introduction	175
10.2 A Model of Economic Agents and Definition of Equilibrium Solutions	177
10.3 The Competitive Adaptation Using Market Prices	180
10.4 Social Rules that Induce Implicit Cooperation	182
10.5 Simulation Results	184
10.6 Conclusion	187
References	187
11 Hysteresis in an Evolutionary Labor Market with Adaptive Search	189
<i>Leigh Tesfatsion</i>	
11.1 Introduction	189
11.2 Labor Market Framework	194
11.3 Descriptive Statistics	199
11.4 Experimental Design	202
11.5 Experimental Findings	204
11.6 Concluding Remarks	209
References	210

12 Computable Learning, Neural Networks and Institutions . 211

Francesco Luna

12.1 Introduction	211
12.2 The Theoretical Reference Point	213
12.3 Neural Nets and Institutions	214
12.4 Memory, Confidence and Psychological Addiction	219
12.5 Physical Effectiveness and Structural Sclerosis	223
12.6 Psychological Addiction and Innovation	225
12.7 Structural Sclerosis and Innovation	227
12.8 Social Learning	228
12.9 Conclusions	231
References	231

13 On Two Types of GA-Learning 233

Nicolaas J. Vriend

13.1 Introduction	233
13.2 An Example	234
13.3 Analysis	238
13.4 Discussion	240
A Appendix	242
References	243

14 Evolutionary Computation and Economic Models: Sensitivity and Unintended Consequences 245

David B. Fogel, Kumar Chellapilla, Peter J. Angeline

14.1 Introduction	245
14.2 The El Farol Problem	247
14.3 The Iterated Prisoner's Dilemma	253
14.4 Discussion	264
References	267

Part IV. Financial Engineering

15 Tinkering with Genetic Algorithms: Forecasting and Data Mining in Finance and Economics 273

George G. Szpiro

15.1 Introduction	273
15.2 A Primer on Genetic Algorithms	274
15.3 Performance Boosters	277
15.4 Other Problems and Suggestions for Future Research	281
15.5 Concluding Remarks	284
References	284

16 Forecasting Ability But No Profitability: An Empirical Evaluation of Genetic Algorithm-Optimised Technical Trading Rules	287
<i>Robert Pereira</i>	
16.1 Introduction	287
16.2 Technical Trading Rules	289
16.3 Genetic Algorithm Methodology	293
16.4 Performance Evaluation	299
16.5 An Empirical Application	302
16.6 Conclusion	308
References	308
17 Evolutionary Induction of Trading Models	311
<i>Siddhartha Bhattacharyya, Kumar Mehta</i>	
17.1 Introduction	311
17.2 Representation of Trading Models	313
17.3 Fitness Function	317
17.4 Experimental Study	321
17.5 Discussion	326
References	329
18 Optimizing Technical Trading Strategies with Split Search Genetic Algorithms	333
<i>Raymond Tsang, Paul Lajbcygier</i>	
18.1 Introduction	333
18.2 GAs and Mutation	334
18.3 The SSGA Explained	336
18.4 Preliminary Testing	338
18.5 Preliminary Results	340
18.6 Financial Application: Technical Trading Strategies	343
18.7 Conclusion	355
References	357
19 GP Forecasts of Stock Prices for Profitable Trading	359
<i>M.A. Kaboudan</i>	
19.1 Introduction	359
19.2 SDTS	361
19.3 The Data	364
19.4 GEMs and Their Price Forecasts	365
19.5 Trading Profits	372
19.6 Remarks	376
References	377

20 Option Pricing via Genetic Programming	383
<i>N. K. Chidambaran, Joaquín Triqueros, Chi-Wen Jevons Lee</i>	
20.1 Introduction	383
20.2 Genetic Programming - A Brief Overview	385
20.3 Performance Analysis in a Jump-Diffusion World	386
20.4 Application in the Real World	392
20.5 Conclusion	395
References	396
 21 Evolutionary Computation in Option Pricing: Determining Implied Volatilities Based on American Put Options	399
<i>Christian Keber</i>	
21.1 Introduction	399
21.2 The Implied Volatility Model	401
21.3 Genetic Programming	403
21.4 Genetic Determination of Implied Volatilities	404
21.5 Experimental Results	406
21.6 Concluding Remarks	413
References	414
<hr/>	
Part V. Bibliography	
<hr/>	
22 Evolutionary Computation in Economics and Finance: A Bibliography	419
<i>Shu-Heng Chen, Tzu-Wen Kuo</i>	
22.1 Introduction	419
22.2 Publications by Application Domains	419
22.3 Publications by Journals	426
22.4 Publications by Conference Proceedings	427
22.5 Useful Websites	428
22.6 Software	429
References	429
 Index	456

Evolutionary Computation in Economics and Finance

Chen, S.-H.

2002, XII, 460 p., Hardcover

ISBN: 978-3-7908-1476-7

A product of Physica-Verlag Heidelberg