Regulating Hedge Funds: A Structural Approach

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Abstract

This article structurally estimates the demand for hedge funds to examine how investors prefer hedge funds and the effects of regulation under discussion on the industry. Our estimation results demonstrate investors preference on characteristics such as leverage and redemption restriction. Using the estimated model, we examine the effects of leverage regulation under policy discussion. Our counterfactual simulations suggest that those regulations decrease investments to hedge funds, but affect systemic risks.

Key words: Hedge funds, Demand estimation, Regulation, Leverage, Liquidity
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