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NEWSLETTER SUBSCRIPTION

The House of Finance opened in 2008. It integrates Goethe University's interdisciplinary research on finance, monetary economics, and corporate and financial law under one umbrella. Eight academic research and training units work together in the House of Finance.

As part of its aim to disseminate research results and to promote an exchange between academics and practitioners, the House of Finance issues a newsletter on a quarterly basis.

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EDITORIAL

Ladies and gentlemen,
Dear friends of the House of Finance,

In the course of the financial crisis, a number of countries have implemented unprecedented stabilization measures through both stand-alone actions directed at individual institutions and system-wide programmes. The objective of such intervention was to avoid further bankruptcies, especially of systemic relevant financial intermediaries, and to contribute to restoring a normal functioning of financial intermediation. At the time, these government support measures were the right answer to limiting the impact of the financial crisis on the real economy.

Following the governmental intervention, a simple return to "business as usual" must not be allowed. Instead, we need to reflect on the following fundamental issues:

The turmoil in global financial markets has raised a discussion on the functionality of the market economy system due to the privatization of profits in previously good times and the socialization of losses during the sudden crisis.

In the real economy, the consequences of a market failure remain limited to the respective market concerned. This is not so for financial markets, where the breakdown of one institution can cause the collapse of the whole financial system with a considerable impact on the real economy – a correlation we know as systemic risk.

The crisis has made it obvious that a structured approach for dealing with troubled systemic relevant banks is seriously lacking. In this case, it was taxpayers who had to carry the burden of saving financial institutions. Banks that are "too big to fail" are facing disincentives. The implicit survival guarantee of the government for systemic relevant financial institutions cannot be withdrawn believably. Therefore, measures must be implemented to avoid that this guarantee is invoked in the first place.

The regulation of financial markets demands more sophisticated and stringent approaches; ones which avoid systemic risks and make provisions for minimizing negative externalities in case of a crisis. Regulation does not have to be as dense as possible – key is in fact the elimination of regulation-free areas and the implementation of a stable regulation framework.

One of the biggest challenges remains extricating governments from the "too big to fail" commitment. The proposals made in this context include higher capital requirements for system relevant institutions, progressive taxation (by size) of risky financial transactions, insurance premiums for future rescue actions dependent on the size of individual institutions, "living wills" for banks, and the break up of institutions that exceed a certain size. In spite of these numerous ideas, an optimal solution is yet to be found. Beyond that, a special bankruptcy law for financial institutions could be beneficial, offering options for restructuring institutions as well as for winding them up and ensuring that no contagion effects spill over to the financial sector.

The recent crisis has proved, once again, the need for regulation to help deal with the problem of systemic risk. It has further underlined that it is no longer sufficient to rely on one- or two-dimensional approaches for understanding and regulating financial markets. Their increasing complexity demands a comprehensive and interdisciplinary exchange, including a continuous dialogue between researchers and practitioners. The formation of the House of Finance through the strong efforts of – among others – the financial community as well as government authorities demonstrates that this need has clearly been recognized, and that academics, market participants and regulators are also willing to address it.

With best wishes,

Hannes Rehm
Spokesman of the Management Committee Soffin (Financial Markets Stabilization Fund)

A EUROPEAN MODEL COMPANY ACT

Prof. Theodor Baums

Goethe University and Director of the Institute for Law and Finance

A European Model Company Act is being developed by a group of legal experts from all EU member states on the initiative of Theodor Baums, ILF, House of Finance, Goethe University Frankfurt, and Paul Krüger Andersen from Denmark's University of Aarhus. Model acts are thought to serve as a tool box for national regulators and as a benchmark for national laws. This technique provides an interesting alternative to existing traditional regulatory mechanisms.

Legislation in the area of company law at the EU level has specific goals when compared with legislation in this same area by individual member states. The goals are to remove barriers to the freedom to provide goods and services across national borders, and to guarantee the freedom of movement and of settlement within the EU. Since 1999, the EU Court of Justice has in a series of remarkable decisions launched a competition for corporate charters in the EU. This has been followed by a competition among member states for better regulation in the area of private limited liability companies.

However, from the start of the European Common Market, there has also been the principle of an approximation of the laws of member states in order to promote the goal of a common market. This has led to far reaching harmonization of certain areas of company law, particularly regarding past consideration of public limited liability companies. Harmonization of company law at the EU level may have advantages, but it also suffers from serious disadvantages. Therefore, various alternatives have been discussed and tested in the past. An alternative approach is presently being tried out, namely the development of a European Model Company Act.

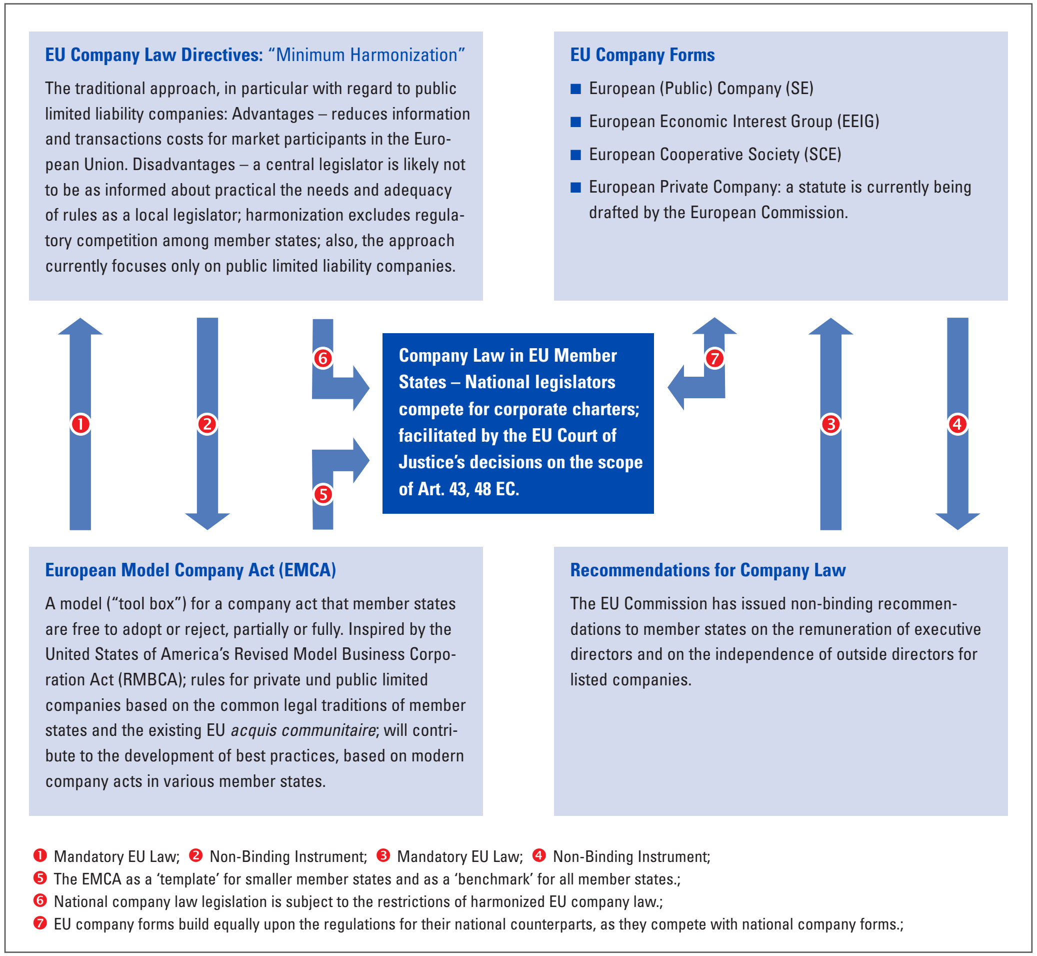
TRADITIONAL AND NOVEL TOOLS OF LAWMAKING

The traditional approach to lawmaking in the area of company law was *harmonization* of national company laws: as regards public limited liability companies, in particular, by means of binding directives. Harmonization of company law has, as any other standardization measure, the advantage of reducing information and transaction costs. Full harmonization of national company laws would perhaps meet the expectations of corporations operating on a European scale, which may ask for standardization of operating rules and seek uniformity in laws on investor protection and the disclosure of information. That is, in order to reduce their information and transaction costs. On the other hand, harmonization also has serious disadvantages. First, a central legislator is likely to be less informed about the practical needs and the adequacy of the rules developed than local legislators. Second, centralized legislation at the EU level solidifies the solutions in so far as harmonized rules are mandatory, and excludes competition for better regulation among member states. Third, if there is a case for protecting stakeholders outside a limited liability company (e.g. small creditors) by means of mandatory rules, confining regulation on public limited companies in this regard, as is the case under EU company law directives, is flawed.

Therefore, if full harmonization of company laws was ever an ambition, it has been given up in favor of "minimum harmonization" of the laws on public limited liability companies, where necessary. This again means, however, foregoing the advantages of homogenous and standardized sets of rules for governing legal forms of enterprise.

A less rigid approach than harmonization by means of mandatory rules would be issuing *recommendations* to member states. In the area of company law, the European Commission has issued such recommendations regarding the remuneration of executive directors and the independence of outside directors for listed companies.

An alternative and more recent approach is the *development of new company forms*; ones aside from the real national company forms now present in member states, which compete with these forms. Examples are the European Economic Interest Grouping (EEIG), the European Company (SE), and the European Cooperative Society (SCE). A statute for a European Private Company (SPE) is being worked out right now by European Commission staff. One problem with this solution is that the regulations for these forms refer to a large extent to the regulations for comparable national company forms. Thus, one can say, for example, that there is not just one form of SE, rather that there are still 27 different forms.



Graph 1: Company Law in the European Union

A DIFFERENT APPROACH

The European Model Company Act (EMCA) will not lead to a legal instrument issued by the European Union. Member states would neither be ordered to implement an EU directive nor would the EU create yet another European business form. To this extent, the concept of a "European Model Company Act" must not be misunderstood. An emphasis should be placed on the word "model". The project aims to develop a model for a company act that member states are free to adopt or reject, following the US example of the now revised Model Business Corporation Act (RMBCA). Smaller member states which are often pressed to staff and dispatch a team of legal experts for the drafting of laws may consider adopting the EMCA as a whole. For the company acts of the other member states, the EMCA is thought to serve as a benchmark. It may be hoped that national legislatures will hesitate before evoking national particularities in order to deviate from the European "benchmark", i.e. when faced with a model act that has been specifically designed for uniform use throughout the EU. Furthermore, a provision of national law that restricts freedom of establishment will likely be scrutinized even more strictly when it is incompatible with a model act that has been designed and adopted by experts from all member states.

CONTENT AND STATE OF THE DRAFT

The content of the EMCA will include broadly acceptable uniform rules, building on the common legal traditions of member states and the existing *acquis communautaire*, but also contribute to developing best practices based on experiences from the modern company acts of various member states. It will comprise rules for both private and public limited companies. Currently, the chapter on formation of companies has been finished and will be published on the Group's website (http://asb.dk/article.aspx?pid=18496). This invites members of the interested public to make comments. Several other chapters are also presently being developed and discussed. The plan is to have a draft completed by the end of 2012.

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PRICING TWO HETEROGENEOUS TREES

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In this study, the authors examine the valuation of two structurally different stock types. The stocks are represented in the model as trees, and the two types differ in that the parameters of the dividend dynamics for the stocks of one type are constant, while the dividend growth rate of the second is stochastic. In the model, the authors differentiate between situations in which this additional source of uncertainty is perfectly observable, and scenarios where the signal investors receive about dividend growth (e.g., from analysts' reports that are still somewhat imprecise because the firm's history is short) may be very noisy. In the worst case, there is no additional information about the expected dividend growth at all, and investors must base their expectations entirely on the dividends they have observed.

The authors intend to use these model elements to demonstrate that there are indices, e.g., on the world's large stock markets, that include predominantly established shares ('blue chips'), and young technology stocks with largely unknown dynamics that tend to be concentrated in other indices. Examples of this in the USA are the Dow Jones Industrial Index for blue chips, and the NASDAQ index for technology stocks. In an international context, similar distinctions may also be drawn between mature economies and emerging markets. Further generalizing the existing literature, the authors also consider how different degrees of risk aversion of the representative investor affect the model results. Previously, almost all model-based studies have concentrated on the case of inveterate short-term investors using logarithmic utility function.

The purpose of the study by Branger, Schlag, and Wu is therefore to identify equilibrium implications of the structural difference between the two stock types and of the differing degrees of risk aversion, in order to propose approaches to explaining empirical phenomena that are ill explained, if at all, by conventional models.

As Cochrane, Longstaff, and Santa-Clara have demonstrated, the mere introduction of a second stock into the standard model has extraordinary effects on the dynamics of both stocks. Branger, Schlag, and Wu thus continue this line of investigation by analyzing additional effects resulting from the structural difference in dividend dynamics and varying degrees of risk aversion. What expected excess returns and what risk premiums do these two stock types have in this model framework? What risk do they represent? How do their excess returns covary? How does the quality of information in the model influence these quantities?

The first part of the study examines the valuation of the two types of stocks. Except for the uncertainty of their average dividend growth, they are identical, so any difference between them can only be due to this small variation in the model. It is shown that with logarithmic utility function the information scenario has no effect on the valuation of the market portfolio, i.e., the portfolio consisting of both stocks, which is exactly the same result as the one found in the CLS study. However, the prices of the two individual stocks do respond to the additional uncertainty in the model. In some cases, the price-dividend ratio is significantly higher than in the CLS model. As a result it should be noted that the information scenario is not vital for static quantities like prices.

The situation changes significantly when one considers dynamic quantities, such as expected excess returns, volatilities, and correlations. Especially if the representative investor is more risk-averse than is reflected via a logarithmic utility function, many far-reaching implications can be revealed that the CLS model cannot produce. For example, one might expect the return for the aggregate stock market to become more volatile as uncertainty increases (i.e., as the signal regarding expected dividend growth becomes less reliable). But this is by no means always true. If blue chip firms make up a small proportion of total market value, the market is actually less volatile than when the signal is better. How can this result be explained? If the only indicator of future dividend growth available to an investor is the realized dividend of the young firm, the informational effect of a high dividend is relatively insignificant due to the lack of a reliable data history, and the expected dividend growth rate is estimated substantially lower. Thus, it is extremely difficult for the investor to reliably predict how the dividend stream from the young firm will change over time, and therefore the price remains relatively unchanged (accordingly, the excess return is quite stable). Since in this scenario such young firms represent a major part of the total value of the economy, the value of the market portfolio does not change by much.

Asset pricing analyses focus on risk premiums, i.e., the compensation the investor expects (and receives) in equilibrium for bearing the different types of risks in the economy. One would expect the risk premium among risk-averse investors in equilibrium to be always positive. The authors show that this is not necessarily true, because the blue chip stock can serve to some degree as a hedge against the uncertainty of the young firm. It thus functions as an insurance contract, and accordingly has a negative risk premium. This effect becomes more pronounced as the uncertainty component in the dividend trend of young firms grows. This result underscores the usefulness of equilibrium analyses, since the obligatory balancing of supply and demand reveals effects that cannot be mapped in partial models.

Another area in which the structure of the Branger, Schlag and Wu model offers important new findings is the return correlation between the two stocks in the model. Since the actual dividend processes for the two stocks are not correlated, any correlation can only arise endogenously, i.e., solely due to the price and return effects in equilibrium. In the CLS model, the return correlation is not exactly zero, but the level of the correlation originating from the model is relatively low. In the extended model significantly larger correlation bandwidths occur even for logarithmic utility functions. But again, the effects are strongest when the representative investor becomes more risk-averse. In conclusion, stochastic correlations, such as are encountered time and again in empirical analysis, may certainly be caused by the differing dividend process structures of different stocks, particularly if it is not possible to obtain perfect information regarding expected dividend growth. This scenario may be considered as relevant, because the future development of young (high-tech) firms is especially difficult to determine, and during periods of rapid expansion, firms of this kind are often associated with effects that defy explanation using standard models.

As has been illustrated, the implications of the study by Branger, Schlag and Wu are aimed primarily at interpreting empirical findings for capital markets. Apparent 'anomalies' can easily be deduced as equilibrium results within the model framework. At the same time, the basic model structure with varying information quality for different segments of the stock market is so close to reality that the conclusions from the model can be used to provide at least qualitative indicators for the behavior of returns, volatilities and correlations.

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The full article is available at:
http://www.finance.uni-frankfurt.de/wp/1390.pdf

THE SCIENCE AND PRACTICE OF MONETARY POLICY TODAY

Prof. Günter Beck
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Prof. Volker Wieland
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This book presents important aspects of the New-Keynesian theory of monetary policy and its implications for the practical decision-making of central bankers today. Bridging the theory and practice of monetary policy, it provides an exposition on the key elements of the New Keynesian approach, outlines important lessons for policymakers, and points to new directions for further research. Important policy implications of the New-Keynesian approach such as the case for forecast targeting as a strategy for monetary policy, the combination of model-based forecasts with cyclical analysis, and strategies for crosschecking model-based policy recommendations are presented in detail.

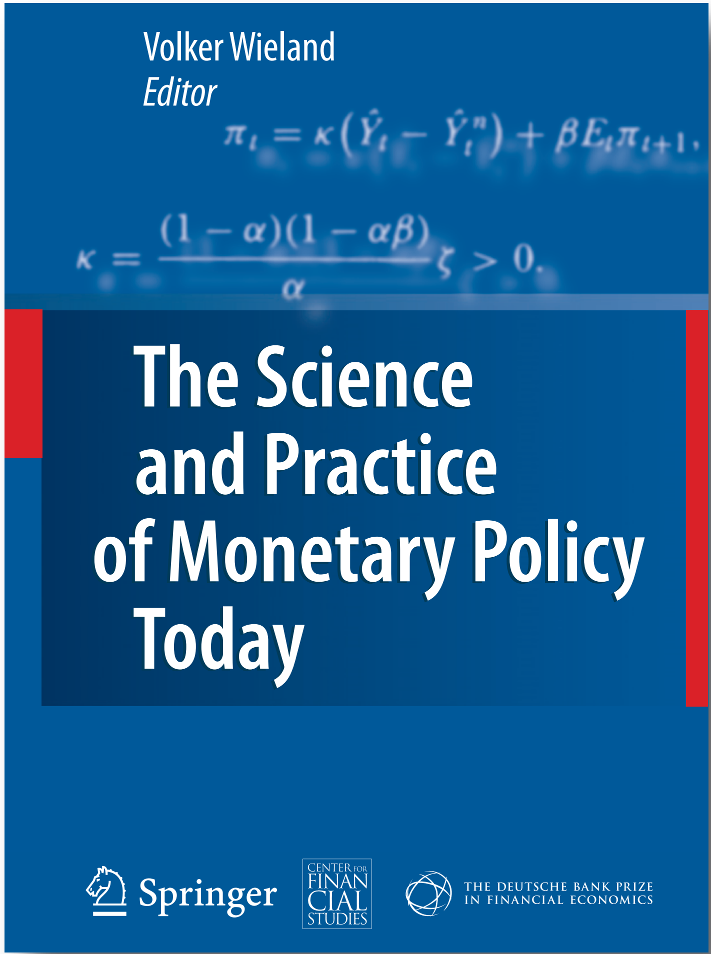
No quick summary can do justice to insights and research findings of the highly reputed authors who contributed to this volume. For the uninitiated reader, however, a quick peek at the Deutsche Bank Prize Winner's principal policy recommendation is in order. Building on his seminal contributions to the New Keynesian approach, Michael Woodford makes "The case for forecast targeting as a monetary policy strategy". Forecasts have come to play an increasingly important role both in policy deliberations and in communications with the public at central banks around the world. As the most striking examples Michael Woodford identifies the Bank of England, Sweden's Riksbank, Norway's Norges Bank, and the Reserve Bank of New Zealand, all of which conduct policy on the basis of a procedure sometimes referred to as "inflation-forecast targeting". Under this approach, the central bank constructs quantitative projections of the economy's expected future evolution based on the way in which it intends to control short-term interest rates, and public discussion of those projections is a critical part of the way in which the bank justifies the conduct of policy to the public.

According to Woodford, inflation-forecast targeting resolves the long-running debate between the proponents of monetary rules, intended to ensure confidence in the value of money over time, and the proponents of discretionary monetary policy, aimed at stabilizing the real economy. A key element is the communication policy, which helps escape from the limitations of the traditional alternatives of rigid rules or rudderless discretion. Woodford addresses some important questions regarding inflation-forecast targeting, for example, whether only the inflation forecast should matter, and if not, in what way forecasts of other economic variables should affect policy decisions. And he outlines a path for the U.S. Federal Reserve towards an explicit policy of inflation-forecast targeting.

While this new volume provides an accessible introduction to the state of the art of monetary policy analysis, not all of the questions raised are settled yet. To take just one example from the book, (admittedly selected with some home bias), the authors of this article – House of Finance researchers Günter Beck and Volker Wieland – explore whether monetary aggregates can play a special role when central bank fails to perceive the true potential of the economy. In "Money in monetary policy design: Monetary cross-checking in the new-Keynesian model", they investigate how monetary information can be used to make policy more robust in the presence of uncertainty. In doing so, they make a case for the ECB's two-pillar strategy which gives money a prominent role. Their paper utilizes a standard New-Keynesian model. Money is part of it, but does not play a causal role in inflation determination once the central bank's interest rate policy is accounted for. Imperfect knowledge and persistent central bank misperceptions regarding the economy's potential restore are shown to cause sustained policy mistakes and trends in money and inflation. A monetary policy strategy that combines inflation forecast targeting with a cross-check against long-run money growth is found to help correct past policy errors and improve inflation control.

Certainly, this proposal, like others expressed in the book, remains controversial and in need of further investigation. Even more so as the global financial crisis has renewed uncertainties and given fresh impetus to research on the proper policy response to asset prices and the role of money and credit aggregates in monetary policy. The House of Finance can surely continue to play a helpful role as a venue for exchange as well as a source of contributions.

The book brings together new contributions from leading scientists and experienced practitioners and policymakers honoring Prof. Michael Woodford (Columbia University), the winner of the Deutsche Bank Prize in Financial Economics 2007. It also reports on the findings of a scientific symposium organized by the Center for Financial Studies in the House of Finance.



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Volker Wieland, House of Finance
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TOO BIG TO FAIL – A PROBLEM WHERE ANSWERS ARE ELUSIVE?

Since 2002 Jochen Sanio has been President of the Bundesanstalt für Finanzdienstleistungsaufsicht (Bafin). He represents Bafin on the Financial Stability Board.

How is it that an area like air traffic can succeed in regulating the way it deals with complex products and processes whereas, for finance and banking, regulation has just failed?

Jochen Sanio: The unique and complex world of risk peculiar to the international financial system is unlike anything else. For example, there is only a tightly limited systemic risk in civil aviation. In contrast, an evaluation of such risk in the world of finance is fraught with immense difficulties due to the linkages and interdependencies involved. Keeping systemic risk in check is the job of financial market regulators – and one which nobody today is really sure how to handle. In comparison, the regulatory steps needed for the air traffic sector are relatively straightforward.

Do you see any prospect of a basic consensus being reached on financial markets – that is, in terms of market discipline?

Jochen Sanio: No. For years, countless lobbyists have been trying to convince us of the alleged effectiveness of market discipline for which I can find no proof. It is a fantasy that contrasts starkly with human behavior. Nobody can seriously defend this line of thinking after the financial crisis. For international financial markets, only state regulation can put in place the necessary safety standards, and only state institutions with coercive power can enforce adherence to such standards.

What went wrong in financial markets that such extensive measures have to be taken now, and what exactly is their aim?

Jochen Sanio: The financial crisis has revealed serious weaknesses in regulatory standards, with consequences that were grossly underestimated. Regulatory loopholes were relentlessly exploited by the financial industry at a global level in order to pile up risks on an excessive scale. We will be haunted by the dreadful accusation of "regulatory failure" for a long time to come.

What shortcomings in the safety system are you thinking about, for example?

Jochen Sanio: In my view decisive weaknesses were found in the capital adequacy standard Basel I, and from the outset – 1988. For certain risks, Basel I provided for unjustifiably low capital adequacy rates – even to the point of some risks carrying a zero weight. For over a decade things went well; it was only from around 2004/2005 that the loopholes were exploited big time when a wave of US subprime mortgage securitizations swept through Europe. The entire international financial system is now in need of a general overhaul.

Do you believe that there is a solution to the "too big to fail" problem?

Jochen Sanio: In principle, yes, and the solution is actually quite simple: to revoke the "too big to fail" doctrine in a credible manner only one big bank has to be allowed to go bust. However, due to the presence of interconnections within the international financial system, this must not happen in an uncontrolled manner. Rather, a coordinated international receivership regime has to be in place, ensuring that the exit of one player from the market does not also lead to the downfall of other major market players. Unfortunately, there are many big players in the financial markets today that in this sense are "too connected to fail".

Why have we not seen such an insolvency scenario so far – after all, there have been enough opportunities?

Jochen Sanio: Opportunities, yes, but not the means. As long as we don't have a uniform resolution regime we have to live with the "too big to fail" rule in order to prevent a systemic crisis – and, by applying it, we create the greatest possible moral hazard and even more systemic instability. This is quite paradoxical and at the same time clearly unacceptable. It can only be hoped that we can quickly bring about the necessary international harmonization for winding down big financial institutions.

ILF SYMPOSIUM ON THE FINANCIAL CRISIS, ECONOMIC LAW AND MORALS

State Secretary Nicola Beer

Prof. Klaus Lüderssen

Prof. Manfred Wandt

The second conference within the Economy, Criminal Law and Ethics (ECLE) project – on the Financial Crisis, Economic Law and Morals – was held at Goethe University's Institute for Law and Finance on November 20-21, 2009.

ECLE is an interdisciplinary project aimed at considering the options and limitations of criminal law in the commercial sphere. Building on the experience of the first conference (which focused on the role of the entrepreneur), this conference was concerned with the following three main themes.

Participants first discussed general questions on **economic and constitutional law**, that is, with respect to the market and the state, as well as the related ethical aspects of business and economics. The latter, of course, have received widespread attention during the last few years. The discussion here more or less explicitly focused on the topic of the public interest and its place in business law; one of concern to both specialists in economics and constitutional and corporate law.

It was found that a lot of questions still remain unresolved. Economists are not agreed on a common underlying theoretical concept; experts in constitutional law fight over the extent to which constitutions allow for economic management; and corporate law experts are unable to find a formula for the special requirements and duties of capital enterprises. This is hardly surprising given the diverse regulations involved (e.g. for commercial activities, corporate stock, and securities), which partly restrict corporate action, and yet also provide for much discretion – i.e. as regards how large enterprises define a set of principles for determining to which extent they maximize profits or meet public welfare goals.

All participants agreed that the discussion on this topic should be continued and even intensified. There is a need for a graded system of responsibility and responsibility restrictions. The constitutionally necessary restriction of criminal law can only be maintained by a counterbalancing system of responsibility under administrative, corporate and private law; one which shows the limits of criminal law and points out in particular where this is unnecessary. If work in this respect is left undone, then the practice of criminal law, with its inclination to develop autonomous and partly genuine ethical principles, will enter into the gaps left by other fields of law, and will establish responsibility standards that exceed serious standards of economic management.

Secondly, the conference debated the issue of **breach of trust**, particularly with regard to the Siemens case which seems to have played a greater role than originally intended. When viewed in a larger context, it is perhaps sensible to look at cases arising from the financial crisis from the perspective of corruption.

Thirdly, the conference also focused on **new phenomena in corporate law**, namely in the context of the law relating to economic offences. Lawyers and defense counsels fully informed participants about recent cases, providing them with technical details and outlining the legal consequences involved.

This conference demonstrated the importance of continuing a discourse on criminal law in research and practice, and in public discussions.

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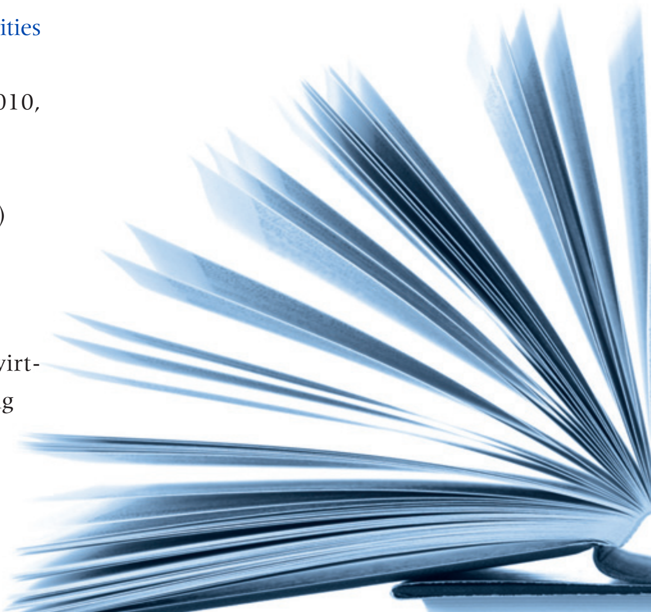

RESEARCH OUTSIDE THE HOUSE OF FINANCE

SECURITIZATION, TRANSPARENCY AND LIQUIDITY, Marco Pagano and Paolo Volpin, Securitization, Transparency and Liquidity (February 10, 2009), in AFA 2010 Atlanta Meetings Paper

It is common to place a good part of the blame for the financial crisis on the poor transparency that accompanied the issuance of asset back securities (ABS). This paper presents a model in which issuers of structured bonds choose coarse and opaque ratings to enhance the liquidity of their primary market, at the cost of reducing liquidity in secondary markets. The authors show that the degree of transparency is inefficiently low when the social value of secondary market liquidity exceeds the private value, and that transparency is greater when the issuers restrain the issue size or when they tranche it. The authors also analyze the effects of two forms of ex-post public liquidity provision: one intended for distressed bank holders, the other aimed at supporting the ABS price in secondary markets. The former is ex-post efficient, but reduces the issuer's ex-post incentives to opt for transparency.

This article is available at: http://ssrn.com/abstract=1337898

Prof. Ester Faia, Goethe University

IS TRUST IN FINANCIAL MARKETS CREATING WELFARE – OR IS WELFARE CREATING TRUST?
Jefferson Duarte, Stephan Siegel and Lance A. Young, Trust and Credit (February 17, 2009) in AFA 2010 Atlanta Meetings Paper

This is the key research question of the paper titled "Trust and Credit" by Jefferson Duarte, Stephan Siegel, and Lance Young. Economists have long recognized the importance of trust for the development of financial markets. But it was not until the financial crisis that trust made its way into the limelight for financial researchers. Due to its innovative research design, this report won the best paper award at the 2009 meeting of the German Finance Association hosted by the House of Finance.

Empirical evidence suggests a robust positive correlation between trust and for example economic growth, but is silent about causation. Duarte, Siegel, and Young provide micro level evidence that trust has indeed first order economic effects. Using transaction level data from a US peer-to-peer lending site (Prosper.com), the authors show that borrowers perceived untrustworthy are significantly less likely to obtain a loan. Indeed, such borrowers must pay a promised interest rate that is 182 basis points higher in order to have the same probability of obtaining a loan as those considered trustworthy.

The paper uses a novel and innovative method to measure trustworthiness: people unrelated to loan transactions were asked to evaluate photographs posted online by potential borrowers in order to construct a new and, most importantly, strictly exogenous measure of a person's trustworthiness. The results suggest that trust does indeed facilitate economic transactions, even in an environment characterized by readily available contract enforcement mechanisms. As an intriguing side point, the results of the paper also suggest that a person's appearance contains clues about past and future behavior above and beyond the information typically contained in his/her credit report.

This article is available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1343275

Prof. Mark Wahrenburg, Goethe University

DEUTSCHE BANK ENDOWS FINANCE CHAIR

Deutsche Bank has agreed to endow a chair in International Finance at the House of Finance. The relevant contracts have been signed by the bank's chief executive, Dr. Josef Ackermann, and representatives from Goethe University. It is envisaged that research conducted under this chair will also analyze the implications of the financial crisis for the structure of financial markets worldwide.

COMMERZBANK STIFTUNG SPONSORS DOCTORAL PROGRAMS

The Commerzbank Stiftung has approved a grant of €15,500 (per year for a period of three years) in support of doctoral programs at the House of Finance. The grant will foster HoF endeavors to continuously enhance student knowledge of scientific methods. It will also enable the grant applicants – Professors Brigitte Haar and Roman Beck – to invite international faculty to help broaden the curriculum in this field.

ROMAN INDERST RECEIVES RENOWNED GERMAN RESEARCH AWARD

Prof. Roman Inderst

Economist Roman Inderst has been awarded the Gottfried Wilhelm Leibniz-Preis, which comes with an endowment of €2.5 million. Inderst, at 39 years the youngest of this year's prize winners, is already ranked among the ten best economists within the Germanspeaking world. He was honored for his overall work. Retail finance and competition policy are the main focus of Inderst's research.

FRANKFURT INSTITUTE FOR RISK MANAGEMENT AND REGULATION (FIRM) FUNDS TWO RESEARCH PROPOSALS

FIRM is a cross-university institute. The institute's main concern is to carry out ambitious research and teaching in the area of risk management and regulation. As a result of a first call for research proposals two projects closely related to the House of Finance and Goethe University were selected: "Accounting and Pro-Cyclicity – Implications for Financial Stability and Regulation", submitted by Christian Laux, and "Incentives, Risk Preference and Leveraged Finance: Implications for Risk", a project conducted by Uwe Walz.

THE NECESSITY OF WORLDWIDE HARMONIZED COMPETITION REGULATION

Dr. Horst Satzky

On January 19, Dr. Horst Satzky a partner at the Frankfurt law firm of Hengeler Mueller, gave a presentation titled "Competition Law as a Normative Order". Satzky had accepted an invitation to the House of Finance made by Prof. Alexander Peukert of the Cluster of Excellence at Goethe University and Prof. Brigitte Haar of the PhD Program for Law and Economics of Money and Finance. His speech focused on the fundamentals of competition as a normative order, the complex nature of the subject, and the global competition between national competition laws as well as the chances for their harmonization. It was followed by a comment from an economic perspective made by Prof. Roman Inderst of Goethe University.

MATHFINANCE COLLOQUIUM STARTS ON APRIL 15, 2010

The MathFinance Colloquim is a means of incorporating competence in mathematics and computer sciences into the House of Finance while fostering integration among the disciplines it covers. The Colloquium is comprised of a 45-minute presentation of research results, plus a 15-minute discussion on topics of common interest to participants. The first speaker will be Prof. Alexander Schied from Mannheim University.

For more information please see:
http://www.hof.uni-frankfurt.de/en/Events/MathFinance-Colloquium.html

Prof. Krahnen, Dr. Weidmann, Prof. Siekmann
(left to right)

POLICY PLATFORM INAUGURATED

The Policy Platform pools the policy-relevant contributions of members of the House of Finance as well as Goethe University's Faculty of Economics and Business Administration and its Faculty of Law. This is a joint project with the Center for Financial Studies (CFS), the Institute for Law and Finance (ILF), and the Institute of Monetary and Financial Stability (IMFS). Contributions are published either as "Policy Letters" or as more comprehensive "White Papers". Their objective is to inform policy makers, market participants and also the general public in a non-technical way about issues currently pertinent to financial markets and their regulation, monetary economics and central banking, as well as financial law and public finance. Intensive workshops with renowned participants from government and financial institutions complement the Policy Letters and White Papers. One of the first visitors in this context was Dr. Jens Weidmann, the economic and financial policy advisor of Germany's Federal Chancellor, Angela Merkel.

For more information please see: www.hof.uni-frankfurt.de/de/Policy-Platform

QUARTERLY EVENT CALENDAR

APRIL

Friday, 9th 3pm	**Goethe Business School:** **GMAT Seminar and Information Session**
Friday, 9th 4 – 8pm	**CFS Compact Seminar:** **"Projektfinanzierung und Public Private Partnerships"**, Speaker: Dr. Ruprecht von Heusinger (EUROHYPO AG)
Monday, 12th 5.15 – 6.30pm	**Finance Seminar:** Speaker: Luc Laeven, International Monetary Fund
Thursday, 15th 5.15pm	**MathFinance Colloquium:** Speaker: Prof. Dr. Alexander Schied, Mannheim University
Friday, 16th – Saturday 17th	**ILF Symposium:** **30-jähriges Bestehen des Strafverteidiger**, attendance only on request
Tuesday, 20th 5.15 – 6.30pm	**Finance Seminar:** Speaker: Kristian Milterson, Copenhagen Business School
Thursday, 22th – Saturday, 24th	**Ph.D. Conference:** **"European Financial Law Network"**, Organisation: Prof. Dr. Brigitte Haar and Prof. Dr. Theodor Baums, Goethe University
Saturday, 24th	**Deutsch-Amerikanische Juristen-Vereinigung (DAJV): Fachgruppentag 2010** Organisation: ILF, attendance only on request
Tuesday, 27th 5.15 – 6.30pm	**Finance Seminar:** Speaker: Jose-Luis Peydro Alcalde, European Central Bank
Thursday, 29th – Friday, 30th 9am – 6pm	**CFS Seminar:** **"Zukunftsgestaltung: Die Finanzbranche von morgen denken"**, Speaker: Stephan Meyer, denkstelle; Axel Liebetrau, PortaFinancia
Thursday, 29th 12pm	**HoF Brown Bag Seminar:** **"Managing Gobal Outsourcing Relationships in the Financial Industry"**, Speaker: Robert Gregory, E-Finance Lab

MAY

Monday, 3rd 5pm	**EFL Jour-Fix:** **"Softwareentwicklung offshore – Warum so viele Projekte scheitern"**, Speaker: Prof. Dr. Peter Buxmann, TU Darmstadt
Thursday, 6th 10am	**ILF Corporate Finance Summit** attendance only on request
Friday, 7th 5pm	**Goethe Business School:** Information Session
Wednesday, 12th 5.15 – 6.30pm	**Finance Seminar:** Speaker: Jerome Detemple, Boston University
Wednesday, 19th 5.30pm	**CFS Colloquium:** **"From National to European Regulation"**, Speaker: Dr. H. Onno Ruding, Chairman, Centre for Europa Policy Studies (LEPS), Brussels
Thursday, 20th 12pm	**HoF Brown Bag Seminar:** **"The new legal framework for management remuneration in Germany"**, Speaker: Prof. Dr. Katja Langenbucher, Goethe University
Thursday, 20th 7pm	**ILF Guest Lecture:** **"The 'Roadmap to Piercing' in Dutch Group Company Law"**, Speaker: Prof. Dr. Steef Bartman, Leiden University, NL
Tuesday, 25th 5.15 – 6.30pm	**Finance Seminar:** Speaker: Claus Munk, Aarhus University

JUNE

Tuesday, 1st 5.15 – 6.30pm	**Finance Seminar:** Speaker: Allaudeen Hameed, National University of Singapore
Wednesday, 2nd 12 – 1pm	**Finance Seminar:** Speaker: Murillo Campello, University of Illinois at Urbana-Champaign
Monday, 7th 5pm	**EFL Jour-Fixe:** **"Hedge Fund Activism and Risk"**, Speaker: Taro Niggemann, E-Finance Lab
Tuesday, 8th 5.15 – 6.30pm	**Finance Seminar:** Speaker: Jose Penalva Zuasti, Carlos III University of Madrid
Wednesday, 9th 5.15 – 6.30pm	**Finance Seminar:** Speaker: Hong Liu, OLIN Business School, Washington University in St.Louis
Monday, 14th – Friday, 18th	**Eden Doctoral Seminar on Empirical Financial Accounting Research,** Speaker: Prof. Christian Leuz (and others), http://www.eiasm.org/ frontofice/eden_announcement.asp?event_id=727
Tuesday, 15th 5.15 – 6.30pm	**Finance Seminar:** Speaker: Søren Hvidkjær, Copenhagen Business School
Thursday, 24th 12pm	**HoF Brown Bag Seminar:** Speaker: Prof. Dr. Uwe Walz, Goethe University
Tuesday, 29th 5.15 – 6.15pm	**Finance Seminar:** Speaker: Ralph Koijen, Booth School of Business, University of Chicago

Please refer to http://www.hof.uni-frankfurt.de/veranstaltungen for continuous updates of the event calendar.

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Goethe-Universität Frankfurt

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