NEWS 1/01

Center for Financial Studies

editorial

Dear Members, Colleagues and Interested Parties,

The start of a new year is a good time for setting new goals and so said, we have decided to extend the scope of our research activities. In future the academic work at the Center for Financial Studies will be grouped into four research categories under the headings "Central Banking Research", "International Financial Architecture", "Capital Markets and Asset Management" and "Financial Intermediation & Risk Management". These categories provide the framework for existing working groups and those yet to be formed, which will also integrate researchers from at home and abroad. Direct collaboration with banks, insurance companies, and trade and industry should help to ensure that the topics of research, irrespective of the scientific methodology employed, will be sufficiently in touch with the relevant political issues and that satisfactory account will be taken of the potential for putting results into practice.

We are particularly proud of our academic staff in this set up, who, in addition to our partners at other universities and academic institutions, are making a vital contribution to our research output. For this reason we would like to introduce them individually in this issue of the Newsletter.

Besides extending its research activities, the Center for Financial Studies has undergone a fundamental reorganisation during the past months. The most important change is to be found in the now even closer links between research and executive development in the person of Antje Becker, our general manager for both areas.

We are pleased to report that our events have attracted an increasing number of participants. The demands made of specialist and management personnel are not only increasing but also continuously changing and our programme is designed to keep pace.

The CFS committees have also experienced a change. After more than twelve years Rüdiger Freiherr von Rosen has retired from his position as treasurer to the Gesellschaft für Kapitalmarktforschung and will be succeeded by Werner G. Seifert. We should like to take this opportunity to thank Freiherr von Rosen for his many years of dedicated work here and to say how pleased we are that as a member of the Board he will continue to remain with us. We should like to extend a warm welcome to Werner G. Seifert as a new member of the Board.

The changes in both concept and organisation started in 2000 make a good starting point for an eventful 2001. It will be our pleasure to welcome you as frequently as possible to our events, seminars and conferences and we wish you and CFS a successful year.

Warm greetings from

Jan Pieter Krahnen | *Antje Becker* | *Axel A. Weber*

Contents

Colloquia

SAP puts its faith in personalisation

The colloquia series on the subject "Financial markets and E-commerce" was continued on 22 November 2000 by Erwin Gunst. Gunst, who was appointed head of the SAP-Landesgesellschaft Deutschland in May last year as well as a member of the extended board of SAP AG, provided in his presentation an insight into the "Strategic Orientatation of the SAP".

He explained that the strategic orientation of the SAP AG is geared strongly towards meeting the needs of the SAP software customers. Right from the start it has been the vision of the firm to develop and market standard business software which integrates all operational work flow/procedures. Owing to technological innovation, this vision has been repeatedly carried into new dimensions. The last of these technological innovations for the time being, according to Gunst, is the Internet. The Internet, which permits the easy and flexible exchange of data and information, simplifies the intra-plant collaboration between firms. In the place of businesses organised along the value-added chain there is an organisation of communities, which are none other than intra-firm value-added networks. The setting-up of these communities is accompanied by the denser interweaving of business processes beyond the borders of the (single) firm.

Within this kind of Internet economy, it is the strategy of SAP to provide firms with a software platform from which they are able to collaborate in intra-plant value-added networks creating real net output. The software platform, which SAP is marketing for this purpose (mySAP.com), exhibits as its main characteristic a previously unsurpassed degree of personalisation. The individual software building blocks are tailored to meet the needs of the user exactly; and via an employee portal they are a permanently available service for individual employees. Thus the SAP go-to-market concept describes in effect the transformation from the previous product-oriented marketing and service model to a customer-oriented account-management model. In keeping with the account-management approach, both marketing and service staff now work on closer terms with the customer.

Moreover Erwin Gunst pointed out that in communicating their strategy with respect to both its formulation and its implementation SAP has always been in close contact with the financial market. The continuous open dialogue with the financial market is important to SAP as a globally-operating software business for three reasons. Firstly, via the financial market, or to be more precise via an indemnity conditional on the trend in the value of the firm, the interests of the shareholders can be brought into line with those of the firm's management and employees. In general motivation can be increased. Further, the financial market is to be regarded as a central field in which the perceptual image of a firm, its strategy and vision are judged. This assessment by the financial market can sometimes, particularly in the software branch, influence considerably the purchasing decisions of customers and potential customers. Finally, Gunst concluded, a positive strategy appraisal can be useful to the extent that a favourable stock exchange evaluation makes it easier and more viable to mobilise financial means, with which in turn the strategy via investment and fresh buying acquisitions can be put into practice. *(Stefanie Franzke)*

We asked Erwin Gunst about:

the biggest plus point of Germany as a financial centre:

And he answered: ***"Germany's position as a regionl position embedded in the heart of Europe, which is the world's largest internal market."***

the biggest minus point of Germany as a financial centre:

And he answered: ***"The fact that in Germany the capital market culture is less strongly defined than it is in Anglo-American countries."***

Erwin Gunst

CFS*forum*

The most extensive model yields the best forecast

Ben S. Bernanke

Ben S. Bernanke (Princeton University) in his talk on 11 October 2000 investigated the impact for "Monetary Policy in a Data-Rich Environment" (co-author Jean Boivin). The frequently observed central bank practice of spending large amounts of resources to investigate a wide range of data is in contrast to most of the empirical monetary policy research analysis, which is usually constrained to just a few macrovariables. Using a dynamic factor model he compared the predictive power of a disaggregated 215 variables data-set to several more parsimonious specifications including autoregression and vectorautoregression-models. It turned out that the most extensive model yielded the best forecast results for inflation, industrial production, unemployment, and, in part, for real GDP, vindicating the behaviour of central banks in reality. Finally, the authors employed their best model together with a forward-looking Taylor-rule to estimate the reaction of monetary policy and the resulting "as if" inflation and real activity. They compared these results with the record of Alan Greenspan in a "man vs. machine" competition and unlike playing chess, the man won (measured by a lower variability of inflation and real activity). *(Bernd Kaltenhäuser)*

The market understands the Fed better than the Fed understands itself

On 30 November 2000 William Poole (President of the Federal Reserve Bank of St. Louis) gave a talk at the CFSforum on the subject of "How well do the markets understand Fed policy". A general finding of his research was that the accuracy of market predictions of Fed policy has improved dramatically in recent years. Poole put forward several potential explanations for the market's success in forecasting Fed policy actions. One arguemnt was that the Fed simply followed the market. In the light of his own experience and the theoretical argument that a market equilibrium cannot be defined if the central bank simply follows the market, he rejected this first interpretation. A second line of argument suggests that Fed officials communicate policy decisions directly to the market. Finding that most of the changes in Fed funds futures were driven by economic news such as the monthly employment report and the inflation data and that only a relatively small part of the changes occurs on days when Fed officials give speeches or testimony, he also rejected this second interpretation. Finally he suggested that the market pretty closely understands the policy model the Fed uses. He considered this final approach to be the most reasonable one, despite the mystery that the Fed does not actually follow a well-specified monetary rule which could be written down as an equation or formula. *(Elke Hahn)*

We asked William Poole about:

the biggest plus point of Germany as a financial centre:

And he answered:

"Strength of banking system, especially large banks with international business."

the biggest minus point of Germany as a financial centre:

And he answered:

"Relatively small role played by public security markets."

William Poole

Why a downturn in the stock markets is inevitable

Today, while observing the development of stock markets, many of us cannot get Alan Greenspan's famous line out of our heads. On 12 December 2000, Yale economics professor Robert J. Shiller presented his latest book "Irrational Exuberance" during a CFS*forum*, organised in Cupertino with Campus Verlag.

Encompassing history, sociology, and biology, as well as psychology and economics, this work represents a comprehensive attempt to explain, how speculative bubbles come about and how they sustain themselves. Examining the public's fascination with stocks and observing a combination of factors which have driven stocks higher, Shiller contends that today's investor psychology is so driven by herd behaviour that it is almost impossible to manipulate or even influence. By history's yardstick, Shiller believes this market is grossly overvalued, and the factors that have conspired to create and amplify this event – the baby-boom effect, the public infatuation with the Internet, and media interest – will almost certainly abate. According to Shiller, perceived long-term risk is down, emotions and heightened attention to the market create a desire to get into the game and these factors have led to the irrational exuberance observed not only in the United States.

He fears that too many individuals and institutions have come to view stocks as their only investment vehicle and that investors should consider looking beyond stocks as a way of diversifying and hedging against the inevitable downturn. *(Anja Wodrich)*

We asked Robert Shiller about:

the biggest plus point of Germany as a financial centre:

And he answered: *"The world looks to Germany as the most solid and stable country. It is the country most known for resisting inflation in consumer prices, and Germany's success in resisting inflation is commonly regarded as due to public support for no-nonsense monetary policy, whilst eschewing the sort of monetary policy that gives a short-run boost to the economy and that would ultimately tend to long-run inflation. Another way of putting it is that the Germans are likely to be thought of as thinking consistently of long-run realities, and are not distracted by short-run advantage or fashions and fads. That ought to be a good quality from the standpoint of financial investors, who try to think about the long term."*

the biggest minus point of Germany as a financial centre:

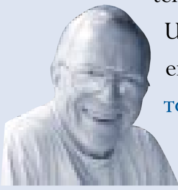
And he answered: *"This good side also carries a downside, though. Having such a consistently stable and sober outlook makes Germany appear to be a poor place for new ventures, the kind of highly risky new companies that usually fail but on rare occasions become Microsofts or Intels. If Germans are too sensible and realistic, they will never try the risky things that might bring immense success. (Recall that some of the world's most successful artists and authors were manic-depressive, and the same might go for entrepreneurs!) I think that perceptions of Germany are changing gradually. With the Neuer Markt, and with stories of many young German entrepreneurs, these old perceptions of Germany are somewhat reduced, and will probably continue to decline in importance."*


Robert Shiller

CFS*research lectures*

Share prices as good predictors for the unemployment rate

In September 2000 two research seminars jointly organised by the European Central Bank and the Center for Financial Studies took place in Frankfurt. On 20 September 2000 Edmund Phelps (Columbia University, New York) presented a paper entitled "Share Prices as good predictors of structural Slumps and Booms".


Edmund Phelps

He distinguished three different kinds of business assets in which a firm can invest: workers, customers, and physical capital. While the value of each of these assets is not directly observable, he argued that share prices are a good proxy for all of these. Thus he investigated the link between the development of share prices and the unemployment rate for 18 OECD countries, arguing that a rise in share prices spurs investment, which increases the productivity of labour and hence raises real wages and employment. He found strong evidence for his hypothesis in Anglo-American countries (U.S., Canada, UK, Australia), whilst in the so called corporatist countries (Germany, Austria, Scandinavia, Japan) this link appeared to be weaker. In this context the strong performance of share prices and employment in the former group of countries in the late 90's can be explained. *(Bernd Kaltenhäuser)*

Increasingly fewer currencies

In an ECB/CFS research seminar on 21 September 2000 Alberto Alesina (Harvard University, Cambridge) presented his paper "Currency Unions", jointly written with Robert J. Barro. The paper extends Mundell's framework of the optimal-currency-area to consider recent issues in monetary policy. It shows that the determination of optimal currency areas depends on a complex web of variables and interactions, including the size of countries, their "distance", the size of the transaction costs of trade, the correlation between shocks, and on institutional arrangements that determine how the seignorage is allocated and whether transfers between members of a union are feasible. The type of country with the strongest incentive to give up its own currency is a small country with a history of high inflation located closely (in a variety of different ways) to a large and monetarily stable country. As the number of countries increases, their average size decreases and the volume of international transactions rises. As a result, more and more countries will find it profitable to give up their independent currency. Therefore it is conceivable that as the number of countries increases, the number of currencies may not only increase less than proportionally but may even fall. *(Elke Hahn)*


Alberto Alesina

Co-ordination prevents bankruptcy

Julian Franks

In the CFSresearch lecture on 2 November 2000, JULIAN FRANKS (London Business School) reassessed English Insolvency Law by examining the "FINANCIAL DISTRESS OF SMALL TO MEDIUM SIZED COMPANIES IN THE UK". He emphasised that the UK provides an interesting institutional environment because it has a very different bankruptcy system from that of the US, i.e. a freedom of contracting rather than a statutory system. Franks' description of the process of rescue and the extent to which it leads to turnaround or insolvency is derived from the analysis of a unique data set of financially distressed UK companies, assembled from the private records of three major commercial banks. He finds that the typical firm in his sample has a capital structure dominated by one senior lender (a bank) and dispersed trade creditors. The bank's loan is highly collateralised, it holds all the liquidation rights and controls the rescue process. Nevertheless, an elaborate rescue process can be found which contradicts claims that such a capital structure would lead to virtually automatic liquidation. Franks reported that there was little evidence of co-ordination failures, especially among dispersed trade creditors, and strong evidence of how a contract-driven bankruptcy procedure with highly collateralised loans will perform. *(Anja Wodrich)*

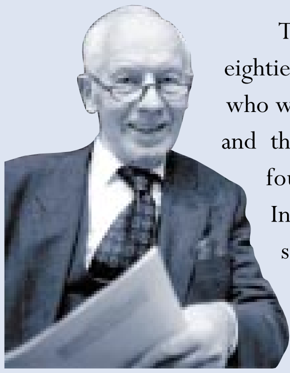
Mergers generate economies of scale

On 5 December 2000 LORETTA MESTER gave a CFS*research lecture* on the topic "ARE SCALE ECONOMIES IN BANKING ELUSIVE OR ILLUSIVE? EVIDENCE OBTAINED BY INCORPORATING CAPITAL STRUCTURE AND RISK-TAKING INTO MODELS OF BANK PRODUCTION". This lecture was organised in collaboration with the University of Frankfurt as part of the Finanzwirtschaftliches Kolloquium. In the light of several (attempted) bank mergers in the year 2000, usually justified by the argument of benefits resulting from scale economies, the talk given by Loretta Mester, Senior Vice President and Director of Research of the Federal Reserve Bank of Philadelphia, received special attention. Loretta Mester presented a paper exploring how to incorporate banks' capital structure and risk-taking into models of production. The paper presented bridges the gulf between 1) the banking literature which focuses on moral hazard effects of bank regulation without considering the underlying microeconomics of production and 2) the literature that uses dual profit and cost functions to study the microeconomics of bank production without explicitly considering how banks' production decisions influence their riskiness. Loretta Mester emphasised in her talk that estimated scale economies are found to depend critically on how banks' capital structure and risk-taking is modelled. In particular, when equity capital, in addition to debt, is included in the production model and cost is computed from the value-maximising expansion path rather than the cost-minimising path, banks are found to have large scale economies which increase with size. Moreover, Mester explained that better diversification is associated with larger scale economies, while increased risk-taking and inefficient risk-taking are associated with smaller scale economies.

(Stefanie Franzke)

CFS*research conferences*

Exogeneity and Endogeneity of Money in the History of Economic Thought and Today



Karl Häuser

To mark the occasion of the eightieth birthday of KARL HÄUSER, who with the support of some banks and the Frankfurt Stock Exchange founded the formerly-named Institut für Kapitalmarktforschung over thirty years ago, on 27 and 28 October 2000, the CENTER FOR FINANCIAL STUDIES hosted a CFS*research conference* entitled "EXOGENEITY AND ENDOGEINITY OF MONEY IN THE HISTORY OF ECONOMIC THOUGHT AND TODAY". In addition to the organisers – WOLFGANG GEBAUER, JAN PIETER KRAHNEN (CFS and J. W. Goethe-University Frankfurt) and BERTRAM SCHEFOLD (all from J. W. Goethe-University Frankfurt) – international speakers came from academia and business to discuss topics relating to money and capital markets. The spectrum of subjects covered not only issues relating to the history of economic thought but also modern monetary policy aspects of the debate on the endogeneity and neutrality of money in Germany and the U.K.

The first session dedicated primarily to Karl Häuser focussed on "Monetary Theory and Policy in Germany" Heinz Rieter (University of Hamburg), Erich Streissler (University of Vienna), Andreas Worms (Deutsche Bundesbank) and Helmut Schlesinger (Deutsche Bundesbank) discussed German monetary theory in the 19th century, the endogeneity and neutrality of money from a historical perspective, the role of banks as the link between money and capital markets in Germany as well as the role of the Bundesbank and its monetary policy.

On the second day of the conference Andrew Skinner (University of Glasgow) chaired the session on "Monetary Theory and Monetary Policies in Great Britain". Maria Cristina Marcuzzo (Universitá degli studi di Roma "La Sapienza"), Walter Eltis (Oxford University), Pascal Bridel (University of Lausanne), Charles A. Goodhart (London School of Economics) presented papers in this context on "David Ricardo and the 'Natural' Level of the Quantity of Money", "The Currency and Banking Schools in Britain", "The Endogeneity of Money: Walras and the Moderns", as well as "The Endogeneity of Money". *(Anja Wodrich)*

Transparency in Monetary Policy

"Transparency in Monetary Policy" is one of the most debated issues these days. On 16 and 17 October 2000 the joint Bundesbank/CFS conference, organised by Heinz Herrmann, Rainer König (both Deutsche Bundesbank), Gerhard Illing (J. W. Goethe-University Frankfurt) and Axel A. Weber (CFS and J. W. Goethe-University

Frankfurt), addressed the theory and empirical evidence of transparency in monetary policy. Although a famous quote of Joseph Stiglitz states that being against transparency is regarded as bad as being against motherhood or apple pie, arguments in the discussion turned out to be controversial.

After the Welcoming Address by Hermann Remsperger (Chief Economist of the Bundesbank), Alex Cukierman (University of Tel-Aviv and Center Tilburg) presented his paper on the transparency of contemporary central banks with respect to economic models and objectives. Whilst most central banks are specific about their inflation targets, they stay remarkably silent about their output targets and the shape of their loss functions. He argued that this is because policy makers (like academics) are not sure about the "true" model of the economy. Further, Cukierman reviewed the case of a higher aversion to negative rather than to positive output gaps (inflation given). He showed that under uncertainty this induces an inflationary bias because policy makers accept a higher rate of inflation to reduce the risk of deep recessions.

Seppo Honkapohja (University of Helsinki) investigated the role of private expectations in formulating monetary policy. If private agents follow adaptive learning rules instead of rational expectations, a fundamentals-based monetary policy rule will no longer be optimal. Incorporating private expectations into the policy rule leads back to the optimal equilibrium.

Hyun Song Shin (London School of Economics) raised the question whether there are welfare effects of public information. He modelled an economy with two agents (private sector) and one principal (public sector), where the latter is minimizing its loss function. Under perfect information no conflicts emerge and welfare is maximized. Since the public sector is the only source of information, more precise public information is always welfare increasing. However, if the agents have also some private information, then this is no longer always the case. Specifically, if the private information is very precise, the noise which is embedded (in any and also) in public information does more harm than good. The release of public information serves as a signal to which private agents can "overreact".

"Should Individual Voting Records of Central Bankers be Published?" asked Hans Gersbach (University of Heidelberg) in his presentation. Assuming that central bankers aspire to re-election and that the public is unsure about their competence, he found an initial welfare loss when voting records are released because incompetent central bankers try to imitate their competent counterparts. However, after re-election welfare is increased, owing to the dismissal of incompetent central bankers. Overall a negative welfare effect of voting transparency remains.

Henrik Jensen (University of Copenhagen) presented a paper on "Optimal Degrees of Transparency in Monetary Policymaking". Employing a so-called New-Keynesian Phillips curve in modelling the supply side of the economy, more transparency makes it easier for price setters to infer the central bank's policy intentions. Within that framework transparency is not always advantageous. It may act as a policy-distorting straitjacket if the central bank enjoys strong initial credibility and there is a need for active monetary stabilisation policy.

Bernhard Winkler (European Central Bank) presented his paper "Which Kind of Transparency? On the Need for Clarity in Monetary Policy Making". He emphasised that in the existing academic literature the notion of transparency in monetary policy is defined in terms too simple to be of practical relevance. He therefore suggested a conceptual framework which distinguishes different – and potentially conflicting – aspects of transparency. In his view, transparency hinges primarily on a shared mode of interpretation ("common understanding") between the central bank and its audience.

Petra M. Geraats (University of Cambridge) delivered a speech on "Precommitment, Transparency and Monetary Policy". In a simple model she showed that, contrary to conventional wisdom, the inflation bias can persist even when the central bank precommits. Generally, despite the absence of a time-inconsistency problem, there is still an inflation bias, which is caused by uncertainty about the economic disturbances to which the central bank responds. Only perfect transparency about economic information completely eliminates the inflation bias.

Sylvester Eijffinger (CentER, Tilburg University) outlined the concept of the democratic accountability of central banks and compared the legal accountability of the ECB with some other central banks. He also presented a theory of central bank accountability, where two aspects of accountability, transparency of actual monetary policy and the final responsibility for monetary policy, were considered. He showed that accountability through transparency leads to a lower expected rate of inflation and less stabilisation of supply shocks. Accountability achieved through shifting final responsibility in the direction of the government leads to higher inflationary expectations and greater stabilisation of supply shocks.

Daniel Thornton (Fed St. Louis) presented an investigation about the Fed's influence on the Federal Funds Rate. He examined the extent to which the Fed has changed the funds rate through open market operations or "open mouth operations". Finding little evidence for these two hypotheses, he investigated a third alternative for which he found evidence. Namely that the Fed adjusts its funds rate target directly in response to changes in market interest rates per se.

Pierre L. Siklos (Wilfried Laurier University) investigated the impact of monetary policy transparency on public commentary and market perceptions about monetary policy in Canada. The introduction of inflation targets in Canada in 1991 clarified the objectives of the Bank of Canada. Comparing commentary about the Bank of Canada and its monetary policy collected from national newspapers before and after the introduction of inflation control targets, he illustrated the beneficial impact of monetary policy transparency on public commentary on the Bank of Canada.

Andrew Clare (Bank of England) illustrated the impact of macroeconomic news announcements such as official interest rate decisions or the publication of the Bank of England's Inflation Report on securities prices over different monetary policy regimes. He investigated whether the reaction to these announcements has changed since the Bank of England was granted operational independence. His results indicate that there may have been a systematic change in the way the financial markets incorporate macroeconomic announcements into securities prices. In particular, he found an increase in the speed of the reaction to interest rate announcements, but also a fall in the size of the full reaction.

These papers are available for downloading at our homepage under "Events" at http://www.ifk-cfs.de. *(Elke Hahn/Bernd Kaltenhäuser)*

Events

Monetary Policy Challenges in the 21st Century – A Transatlantic Perspective

"Monetary Policy Challenges in the 21st Century – A Transatlantic Perspective" was the title of a conference which took place on 27 and 28 October 2000 in Washington, DC, and was jointly organised by Matthew Canzoneri (Georgetown University), Christopher Erceg (Federal Reserve Board), Dale Henderson (Federal Reserve Board), Andrew Levin (Federal Reserve Board), Axel A. Weber (CFS and J. W. Goethe-University Frankfurt), and Holger Wolf (Georgetown University). The papers presented new research on theoretical, empirical and practical aspects of monetary policy.

Michael Woodford (Princeton University) presented "A Neo-Wicksellian Framework for the Analysis of Monetary Policy". Introducing the Wicksellian distinction between the actual and the "natural" rate of interest into a commonly used general equilibrium model, he argued that inflation and output can be explained as depending upon the relation between the "natural" rate of interest, determined primarily by real factors (such as consumption and investment decisions) and the actual, policy-determined interest rate.

Using a welfare-based model of monetary policy in an open economy, Michael B. Devereux (UBC) and Charles Engel (Wisconsin) focused on the extent to which monetary policy should be employed in maintaining the exchange rate. Whilst the traditional approach suggests that exchange rate flexibility is desirable in the presence of real country-specific shocks, their results indicate that the expenditure switching role played by nominal exchange rates may be exaggerated in the traditional literature. In the presence of local currency they find that optimal monetary policy in response to real shocks pricing is fully consistent with fixed exchange rates, but given non-significant real country-specific shocks and a stable monetary sector for the country in question freely floating rates are preferable.

Michael Ehrmann (European Central Bank) and Frank Smets (European Central Bank) investigated the implications of incomplete information about potential output for the conduct and the design of monetary policy in the euro area. They identified quite large costs of imperfect information on potential output, since this kind of incomplete information leads to very persistent deviations between the actual and the perceived output gap in response to supply and cost-push shocks. Examining the effects of incomplete information on simple monetary rules, their results showed a weakening of the Taylor rule, whereas the inflation forecast rule remained unaffected.

Nicoletta Batini and Edward Nelson (both Bank of England) examined the effects of an exogenous "bubble" in the foreign exchange market on inflation and real activity. They investigated the question whether a policymaker should react to the deviation of the exchange rate from its steady-state value by moving the interest rate accordingly. Employing a small-scale structural model including an IS-equation, a Phillips-curve, and the uncovered interest parity condition, they found that the appropriate response to the exchange rate is captured by the expected inflation term. However, when uncovered interest parity is relaxed, there appears to be more merit in incorporating a separate exchange rate term in the monetary policy rule.

Jordi Gali (Pompeu Fabra), Mark Gertler (NYU) and David López-Salido (Bank of Spain) presented their paper "European Inflation Dynamics". In this paper they analysed the fit of the New Phillips Curve (NPC) for the euro area over the period 1970-1998 and used it as a framework for comparing the characteristics of European inflation dynamics with those observed in the United States. Some of their main findings showed that the NPC fits euro data very well and that a substantial degree of price stickiness exists in the euro area. Furthermore inflation dynamics in the euro area appear to have a stronger forward-looking component (i.e. less inertia) than in the U.S.

Marco Buti, Werner Roeger, and Jan I'nt Veldt (all European Commission) investigated "Monetary and fiscal Policy interactions under the stability pact". They set up a game between the central bank and a fiscal authority. On the one hand, the attempt to expand output beyond its natural level ends under non-co-operation in a "deficit bias" of the government, and under co-operation in both a "deficit bias" and an "inflation bias". On the other hand, when only cyclical stabilisation is pursued these biases disappear and welfare gains from policy co-ordination can be realised.

Volker Wieland (Federal Reserve Board) and Günter Coenen (European Central Bank) estimated different models for the euro area in order to evaluate alternative monetary policy strategies. They found that the nominal wage contracting model following Taylor (1980) as well as the real wage contracting model proposed by Buiter and Jewitt (1981) and estimated by Fuhrer and Moore (1995) fit euro area data very well. A theoretically more plausible version of the relative contracting model was revealed as the best-fitting specification for the euro area.

PIERPAOLO BENIGNO (New York University) presented his paper on "OPTIMAL MONETARY POLICY IN A CURRENCY AREA". Within a general equilibrium framework of two regions with monopolistic competition and an equal degree of price stickiness across the regions, the optimal outcome is achieved by targeting an economic-size-weighted average of the regional inflation rates. If the regions differ in their degree of nominal rigidity, inflation targeting policy is still optimal, but the region with a greater degree of rigidity should receive a greater weight.

Most of these papers are available for downloading at our homepage under "Events" at http://www.ifk-cfs.de.

(Elke Hahn/Bernd Kaltenhäuser)

CONFERENCES

Risk and Regulation in the Global Financial Market

"RISK AND REGULATION IN THE GLOBAL FINANCIAL MARKET" was the overall theme of the IX International 'Tor Vergata' Conference on Banking and Finance, hosted by the Faculty of Economics, University of Rome, on 15-17 November 2000. In collaboration with the Journal of Banking & Finance and The Three Continents Conference on "Financial Systems in the Third Millennium: Perspectives and Problems", more than 60 international speakers were invited to deepen and extend the current debate and the quest for updated sound policy advice on four topics related to financial markets under the headings: i) Credit and Financial Risk Evaluation and Management in Integrated Financial Markets; ii) Financial Crises, Institutions and Market Regulation; iii) Financing of Small and Medium Sized Innovating Firms Under Asymmetric Information; iv) Illegal Capital Movements and Their Effect on Financial Stability.

With his latest research on "SOVEREIGN RATINGS AND THEIR IMPACT ON RECENT FINANCIAL CRISES", ROMAN KRÄUSSL (CFS) contributed to the first topic "Credit and Financial Risk Evaluation" which is a primary concern for both individual financial intermediaries and supervisory agencies. Along with others, Kräussl discussed methodological advances in the investigation of the determinants of bankruptcy and credit risk and new developments in theories about the determinants, the effects and the mechanisms for preventing financial crises.

The different policy options at stake were presented in relation to issues on "FINANCIAL CRISES AND REGULATION OF FINANCIAL MARKETS". The focus was, in particular, on the hypothesis of a reform of prudential requirements of the Basle Agreement assigning a key role to supervisory authorities on the one hand, and on the other to reforms aimed at transferring supervision to private internal or external rating agencies on the other.

In the context of the "FINANCING OF SMALL AND MEDIUM-SIZED INNOVATING FIRMS UNDER ASYMMETRIC INFORMATION", conference participants and speakers elaborated on the effects resulting from informational asymmetries between investors and external financiers, such as a positive cost differential between external and internal finance and/or credit rationing, generating a gap between the socially optimal level and the privately optimal level of aggregate investment. The results of an empirical study by ANJA WODRICH (CFS) and CHRISTIAN SCHLAG (J. W. Goethe-University Frankfurt) entitled "HAS THERE ALWAYS BEEN UNDERPRICING AND LONG-RUN UNDERPERFORMANCE? – IPOS IN GERMANY BEFORE WORLD WAR I" contributed to this debate. Furthermore, the conference discussed, which limits to the improvement in the monitoring technology from external financiers are posed by the public good features of information.

Theoretical and empirical papers on the illegal and/or informal capital markets, on money laundering and on the informal economy discussed the fourth topic, "ILLEGAL CAPITAL MOVEMENTS AND THEIR EFFECT ON FINANCIAL STABILITY". Empirical results were presented regarding the development of new methodologies for measuring illegal capital movements, their effects on real and financial variables and the impact of informal economy on the distribution of income.

(Anja Wodrich)

RTN Workshops

Understanding Financial Architecture

On 3 and 4 November 2000, the Center for Financial Studies hosted the first workshop within the European Research Training Network (RTN) "Understanding Financial Architecture". The conference was organised jointly with CEPR and was the constitutional meeting of the Network.

The Network's objective is to facilitate intra-European scientific exchange and joint research projects. With financial support from the EU, leading European Universities collaborate to improve the understanding of the interaction between legal frameworks and financial arrangements, and the effects that these have on economic efficiency and growth. The participating researchers aim to make use of the theoretical tools of financial economics and recently available data to shed light on the complex interplay between law and finance. A second objective of the Network is to link research on law and finance with economics.

Research teams of the Network are from SITE, Stockholm School of Economics, Centro de Estudios Monetarios y Financieros (CEMFI, Madrid), Centre for Economic Policy Research (CEPR), Center for Financial Studies (CFS, Frankfurt), ECARES, Université Libre de Bruxelles (ULB), Institut D'Economie Industrielle, Université des Sciences Sociales de Toulouse (IDEI), University of Oxford, Princeton University, Università degli Studi di Salerno and Yale Law School.

This first meeting presented initial work by team members on "Legal and Political Frameworks and Economic Efficiency". In addition, two related panel discussions were organised.

Luigi Zingales (University of Chicago) presented his joint paper with Raghuram Rajan on "The Great Reversals: The Politics of Financial Development in the 20th Century". The authors attempted to explain the broad patterns of financial development in developed countries over the twentieth century. Interestingly, countries proved to be more financially developed in 1913 than in 1980 with a great reversal up to the fifties. The second great reversal started in the nineties, leading to the high degree of financial development nowadays. Combining a new theoretical approach with empirical data, the analysis suggested that financial development is promoted by a country's degree of openness to international trade and capital flows. The time patterns are explained by the trade-off between domestic incumbents trying to protect rents and the need to establish economic insurance (in bad times) and the welfare gain from increased competition, which is more easily established in good times.

Mariassunta Gianetti (SITE, Stockholm) investigated the question "Do Better Institutions Mitigate Agency Problems?" and carried out an empirical analysis of corporate financing choices.

Randall Kroszner (University of Chicago) addressed "Obstacles to Optimal Policy: The Interplay of Politics and Economics in Shaping Bank Supervision and Regulation Reforms". With his co-author Philipp Strahan, he analysed the impact of private interest groups as well as political and institutional factors on the voting patterns on amendments related to the 1991 US Federal Deposit Insurance Corporation Improvement Act (FDICIA) and its final passage. Rivalry of interests within the banking industry (small versus large banks) and between industries (banking versus insurance) as well as measures of legislator ideology and partisanship play important roles in explaining the determinants of this important regulatory revision. The results provided insights into how conflicts of interests may be taken into account to increase the likelihood of welfare-enhancing regulatory changes.

Closely related, both in terms of methodology and objectives, was the presentation by Erik Berglöf (SITE, Stockholm) and Howard Rosenthal (Princeton University), who analysed roll call voting behaviour on American bankruptcy law from 1800 to 1978.

The first day closed with a panel discussion on the "Reorganisation of the European Stock Exchanges". The statements of Werner Seifert (Deutsche Börse AG) and Clive Briault (UK Financial Services Authority (FSA), London) received support from the researchers, Jan Pieter Krahnen (CFS and J.W. Goethe-University Frankfurt), Bruno Biais (University of Toulouse) and Marco Pagano (University of Salerno), who also joined the panel. A lively discussion developed between the audience and all speakers.

The presentation of research papers was continued on Saturday, 4th, by Javier Suarez (CEMFI, Madrid), who discussed "Optimal Corporate Governance Structures". The paper explored how motivating an incumbent CEO to make investments improving the effectiveness of a firm's organisation interacts with the replacement policy of the board of directors. It was shown that giving the incumbent CEO some control of the board may be desirable. The underlying trade-off between explicit managerial compensation and compensation in terms of control rents and control rights provides fresh insights into the rationale for certain observable governance structures.

Mike Burkart (SITE, Stockholm) then discussed "Agency Conflicts, Ownership Concentration and Legal Shareholder Protection". The theoretical model distinguished between blockholders, minority shareholders and management. Legal protection was seen to affect both the expropriation of minority shareholders and the (outside) blockholder's incentives to monitor. Thus, increasing shareholder protection can be detrimental.

The presentation by Andrei Shleifer (Harvard University) returned the focus to the macro view of the interaction between economics and law. He presented a theoretical model analysing the "Legal Origins" of legal systems throughout the world, which usually can be traced back to either the common law tradition in England or the Roman law tradition of France. The paper then looked at the reasons why such different legal systems have evolved and what determines the very different social and economic outcomes.

Marco Pagano (University of Salerno) addressed the "Political Economy of Corporate Governance Structures" by analysing the political decision that determines the degree of investor protection. The theoretical model showed that entrepreneurs and workers can strike a political agreement by which low investor protection is exchanged for high employment protection. The likelihood of this outcome increases with the degree to which a political system favours "corporatism". This approach is consistent with OECD evidence.

The final paper on the "Capture of Bankruptcy: Theory and Evidence from Russia" was presented by Ekaterina Zhuravskaya (CEFIR, Moscow). Both the theoretical and empirical analysis show that the Russian legal system is impaired by the capture of regional divisions of arbitrage courts. As a consequence, governors in alliance with managers of large regional companies use bankruptcy to expropriate the federal government and outside investors. Furthermore, the Russian bankruptcy law does not put pressure on managers to restructure; instead, it may even prevent restructuring.

The conference closed with a panel discussion on "Comparative Corporate Law" with contributions by Theodor Baums (J. W. Goethe-University Frankfurt), Guido Ferrarini (University of Genoa), Julian Franks (London Business School), Henry Hansmann (Yale Law School) and Gerard Hertig (ETH Zürich).

In summary, the conference yielded interesting insights for future work, which will be carried out jointly in this intra-European Network over the next three years, on the interaction of politics and economics. *(Ralf Elsas)*

The Analysis of International Capital Markets

Under the auspices of the Research Training Network (RTN) on 26 and 27 November in Tel Aviv the first workshop with Center for Financial Studies participation took place on the subject "The Analysis of International Capital Markets: Understanding Europe's Role in the Global Economy". Despite the tense political situation in Israel at the time and one or two cancellations as a result, a series of interesting papers was presented at this workshop jointly organised at the Tel Aviv University by the Bank of Israel, CEPR and the Eitan Berglas School of Economics. Aaron Tornell (University of California, Los Angeles) presented a paper co-authored with Martin Schneider (University of Rochester) entitled "Balance Sheet Effects, Bailout Guarantees and Financial Crises". Following this Morten Ravn (London Business School and CEPR) presented his work on "Competition and Prices in a Dynamic Trade Model with Comparative Advantage". Andy Rose (University of California, Berkeley and CEPR) was the next to report the most recent results from his work with Charles Engel (University of Wisconsin) on "Currency Unions and International Integration". Completing the presentations for the first day Itay Goldstein (Princeton University) spoke about "Interdependent Banking and Currency Crisis in a Model of Self-Fulfilling Beliefs".

Afterwards a working meeting of the RTN teamleaders and participants was held to discuss in particular questions concerning the conceptual structure of future workshops and conferences. Roman Kräussl, a member of the academic staff at CFS and, in connection with his Ph.D., a Research Visitor by invitation of Assaf Razin (Eitan Berglas School of Economics, Tel Aviv University, Stanford University and CEPR) from September to December 2000, received an invitation from Richard Portes (London Business School and CEPR) to go to London as a Research Visitor in early 2001.

The series of presentations on the second day was opened by Peter Birch Sörensen (University of Copenhagen and CEPR), who discussed his work on "International Tax Co-ordination: Regionalism versus Globalism". Then Harry Huizinga (Tilburg University, European Commission and CEPR) presented a paper written jointly with Sören Bo Nielsen (Copenhagen Business School and CEPR) on "Withholding Taxes or Information Exchange: The Taxation of International Interest Flows". The presentations continued with Helene Rey (Princeton University and CEPR) reporting the initial results of work in collaboration with Harald Hau (ESSEC, Cergy-Pontoise and CEPR) on "Capital Flows, Exchange Rates and Asset Prices". The final speaker was Alan Taylor (University of California, Davis) talking about his joint historical analysis with Maurice Obstfeld (University of California, Berkeley and CEPR) on "Globalisation and Capital Markets". Further information about the RTN workshop and most of the papers are available for downloading at our homepage under "Events" at http://www.ifk-cfs.de. *(Roman Kräussl)*

CFS Working Papers

Since January 2000, the following contributions have been published in the CFS Working Paper series. They are available for downloading from the CFS homepage via http://www.ifk-cfs.de.

2000/01 *Steven Ongena / David C. Smith / Dag Michalsen*
Distressed Relationships: Lessons from the Norwegian Banking Crisis

2000/02 *Jan Pieter Krahnen / Martin Weber*
Generally Accepted Rating Principles: A Primer

2000/03 *Ralf Ahrens / Stefan Reitz*
Chartist Prediction in the Foreign Exchange Market: Evidence from the Daily Dollar/DM Exchange Rate

2000/04 *Roman Kräussl*
Sovereign Ratings and Their Impact on Recent Financial Crises

2000/05 *Günther Gebhardt*
The Evolution of Global Standards of Accounting

2000/06 *Achim Machauer / Martin Weber*
Number of Bank Relationships: An Indicator of Competition, Borrower Quality, or just Size?

2000/07 *Dirk Schumacher*
The Liquidity Effect in Germany

2000/08 *Mathias Hoffmann / Ronald MacDonald*
A Real Differential View of Equilibrium Real Exchange Rates and Misalignments

2000/09 *Carsten Detken / Philipp Hartmann*
The Euro and International Capital Markets

2000/10 *Antje Brunner / Jan Pieter Krahnen / Martin Weber*
Information Production in Credit Relationships: On the Role of Internal Ratings in Commercial Banking

2000/11 *Roland Beck*
The Volatility of Capital Flows to Emerging Markets and Financial Services Trade

2000/12 *Christian Schlag / Anja Wodrich*
Has There Always Been Underpricing and Long-Run Underperformance? – IPOs in Germany Before World War I

2000/13 *Roland Eisen*
(Partial) Privatization of Social Security: The Chilean Model – A Lesson to Follow?

German-Language Events

With its one to four day open seminars, conferences as well as in-house events CFS is making its contribution towards supplying qualification training and executive development in the fields of financial markets, financial intermediaries and monetary economics. Well-known university lecturers, leading practitioners and a network of international partners impart high-quality knowledge as well as the methods and instruments for translating this knowledge into practice. The seminars, conferences and workshops are aimed in particular at middle and top level managers as well as specialists from banks, insurance companies, trade and industry. This executive training programme is run by Antje Becker. Further information is given below on some German-language events relating to executive development. A comprehensive survey of our seminars can be found in the insert.

SEMINARS

"Euroland- und US-Wirtschaftsindikatoren als Market Movers"

As Mark Twain once observed, predictions are always then difficult when they involve the future. However, the degree of difficulty can be significantly reduced by increasing and improving knowledge about those factors that influence the prediction or forecasting variables. For this reason CFS in its seminar entitled "EUROLAND- UND US-WIRTSCHAFTSINDIKATOREN ALS MARKET MOVERS" provides the most important tools for a fundamental analysis. In

addition to basic knowledge about seasonal adjustment procedures, basis effects and diffusion indices, emphasis is given to assessing the structure of, and the relationships as well as the differences between the most important economic indicators in the USA and Euroland. This two-day seminar will take place on 18 AND 19 MAY 2001 under the supervision of CONRAD MATTERN (Deka Investment Management GmbH). It is aimed in particular at employees from the fields of capital markets and portfolio management, trade, interest and currency management as well as at the personnel from market-oriented research departments or the economic research departments of banks.

SEMINAR AND CONFERENCE ON THE SUBJECT OF BEHAVIORAL FINANCE

The modern research approach to behavioral finance makes use of scientific insights into systematic mistakes in the individual's decision-making processes in order to be better able to explain and predict events in financial markets. These insights help the practitioner on the one hand to recognise and thus avoid his/her own mistakes. On the other hand, he/she is equipped with the basic knowledge enabling him/her to anticipate correctly the irrational behavior of other market participants and, using suitable strategies, to profit from their mistakes.

Seminar

The two day seminar taking place on 22 AND 23 MARCH 2001 will deliver fundamental and comprehensive knowledge about the modern research approach to behavioral finance. The seminar will be lead by JOACHIM GOLDBERG (cognitrend GmbH, previously Deutsche Bank AG) and MARTIN WEBER (University of Mannheim).

Conference

The latest findings from the field of research into behavioral finance provide the basis for this one day CFS conference taking place on 26 MARCH 2001. The event will be chaired by JOACHIM GOLDBERG (cognitrend GmbH, previously Deutsche Bank AG) and MARTIN WEBER (University of Mannheim), both certified experts in this field. In addition, conference participants will be informed through presentations by specialists from academia and business about the latest developments in research with reports for the first time about applications of behavioral finance in practice. Moreover participants from previous behavioral finance seminars will talk about their experiences in practice. The highlight of the conference takes the form of a presentation by BRUNO BIAIS (Institut d'Economie Industrielle, University of Toulouse), who has accepted our invitation to speak at this conference on the subject of "PSYCHOLOGICAL TRAITS AND TRADING STRATEGIES".

More information on this and other events can be found under www.ifk-cfs.de or call us and speak to either Christiane Bauder or Barbara Kleiner, Tel.: +49-(0)69-242941-30 or -25, Fax: +49-(0)69-24941-33, Email: bauder@ifk-cfs.de and kleiner@ifk-cfs.de.

CFS Introduces Its Academic Staff

Roland Beck has been working within the framework of the part-time programme for Ph.D. students in the economics department at the Commerzbank AG since 1998. Initially he was involved in the section for "International Banking and Capital Markets". Since May 2000 he has been working with the "emerging markets" group. As part of his doctoral thesis at the Center for Financial Studies, supervised by Axel A. Weber, he is investigating capital markets in emerging markets. He is concentrating particularly on the question to what extent macroeconomic data can account for the volatility of these markets. He presented his first research paper entitled "The Volatility of Capital Flows to Emerging Markets and Financial Services Trade" at a conference hosted jointly by the IWH Halle and the ZEI Bonn. It is already available as CFS Working Paper No. 2000/11 and is forthcoming in the JEL Journal "Russian and East European Finance and Trade". Roland Beck completed his basic studies in economics and philosophy at the University of Freiburg, Germany. He then spent a year on a scholarship from the Studienstiftung des Deutschen Volkes (German National Merit Foundation) at the University of Maryland / USA in the graduate programme of the economic faculty there. Here he focussed particularly on economic theory and public choice. During the second part of his studies at the University of Bonn econometrics and international economics became his main focus of interest. Throughout his time as an undergraduate Roland Beck was particularly interested in the applicability of economic research. He has pursued issues of applied economics not only during the course of his studies but also whilst gaining work experience as an internee at the United Nations, the Bundesbank and the World Bank.
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What I dreamt of becoming as a child:
Casino manager.
Why I am now in research:
A better understanding of "casino-capitalism" would seem like a good foundation for fulfilling my dream, wouldn't you agree?

Stefanie Franzke studied business administration (Betriebswirtschaftslehre) at the J. W. Goethe-University Frankfurt. During this time she also completed practical training in Germany and abroad in the fields of marketing, media and banking. Since 1998 she has been a member of the academic staff at the Center for Financial Studies. Her thesis, under the supervision of Jan Pieter Krahnen, is concerned with "venture capital in Germany". Within the framework of venture capital or private equity, venture capital companies and other investors take an equity stake directly in young, innovative enterprises. Not least because of the success of the Neuer Markt has the exit via initial public offering i.e., the sale of venture capitalists' investment holdings during a stock market flotation, gained in significance over the past years. Whereas in 1995 venture capitalists were only able to realise 9.8% (DM 58 million) of their investment volume by means of a sale at IPO or afterwards, by 1999 it had already risen to 19.1% (DM 290.06 million). The remainder of their investment volume venture capital companies disposed through alternative channels such as trade sales. Stefanie Franzke has compiled a three year comprehensive data set of all the companies listed on the Neuer Markt in order to throw light on the role and nature of venture capitalists' commitment and to analyse their behaviour during an initial public offering and

thereafter. She has also been looking at which characteristics, if any distinguish, companies financed by venture capital from those not financed by venture capital. Preliminary results using econometric methods are documented in the CFS-Working Paper 2001/01. Whilst working on her thesis, Stefanie Franzke has also attended international conferences (e.g., ABN-AMRO conference in Amsterdam) and Ph.D. seminars (e.g., EIASM, Brussels) and has visited researchers at Wharton University, Philadelphia and LSE, London to exchange ideas on research developments in the field of venture capital.
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What I dreamt of becoming as a child:
Architect.
Why I am now in research:
In order to take a closer look at some building blocks of financial market architecture.

Elke Hahn studied economics at the Ludwig Maximilians University of Munich. After completing her studies she worked for six months for Günter Neubauer at the Chair for Economics at the Bundeswehr University in Munich. She then worked for two years at the Deutsches Institut für Wirtschaftsforschung (German Institute for Economic Research) in Berlin, in the department of macro analysis and forecasting. In her capacity as a specialist for money and credit she collaborated on the DIW state of the economy report and assisted in compiling the joint economic forecast issued by the six leading german economic research institutes. In addition she was also involved in estimating the European demand for money. This work provided the basis for a paper which will be appearing shortly in "Kredit und Kapital". Since May 2000 she has been a member of the macroeconomic department at the Center for Financial Studies and is involved in the fields of monetary theory and policy. Her thesis, supervised by Axel A. Weber, is on the subject of core inflation. Core inflation rates are used in the estimation of inflation rate dynamics. The usual methods for measuring inflation by means of an increase in the consumer price index often result in a distorted picture. The problem of measuring inflation exactly is a significant concern since many central banks including the European Central Bank regard price stability to be the topmost priority.
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What I dreamt of being as a child:
As a child I dreamt of becoming a top athlete and taking part in the Olympic Games.
Why I am now in research:
Out of interest and pleasure in empirical analysis and discovering how the economy works.

Bernd Kaltenhäuser studied economics at the Martin-Luther-University in Halle and at the Louisiana State University in Baton Rouge, USA specialising in Money and Exchange Rates. Immediately after completing his studies in Spring 2000 he joined the Center for Financial Studies. Here he is involved in the field of the international financial architecture. His thesis, under the supervision of Axel A. Weber, is on the subject of "Asset Prices and Monetary Policy" and is concerned with the influence of asset prices such as share or property prices on inflation and growth in the economy. Further questions arising look, for example, at whether asset prices should be included in those price indices relevant to monetary policy, or whether monetary policy should respond to changes in asset prices. These issues are of particular interest with respect to the Japanese experience following the asset price boom in the late eighties and actual trends in the US market.
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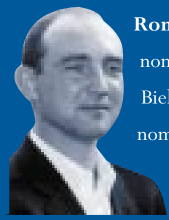
What I dreamt of becoming as a child:
Researcher.
Why I am now in research:
Because it's what I wanted to become as a child.



Roman Kräussl studied economics at the University of Bielefeld specialising in econometrics and empirical economic research. After completing his studies he initially started work as a research assistant to Joachim Frohn at the Chair for Statistics and Economics at the University of Bielefeld before joining the Center for Financial Studies to help in consolidating the newly established research department for macroeconomics. In his empirically-orientated thesis entitled "On Sovereign Risk, Credit Ratings, and Financial Crises", supervised by Axel A. Weber, Roman Kräussl is looking at the potential influence of rating agencies on financial and currency crises during the 1990s. The initial results of his work appeared in the CFS Working Paper (No. 2000/04) "Sovereign Ratings and Their Impact on Recent Financial Crises" in February 2000. In a second paper "Do Sovereign Credit Ratings Contribute to Financial Contagion in Emerging Market Crises" he examined together with Beatrice Weder (University of Basle and CFS Research Fellow) to what extent the behaviour of economic agents may have contributed to contagion effects during the Asian crisis of 1997/98. During the year 2000 he presented the results of his work at the 50th International Atlantic Economic Conference in Charleston, South Carolina, USA, at the IX International "Tor Vergata" Conference on Banking and Finance entitled "Risk and Regulation in the Global Financial Market" in Rome, Italy, and at the EBSE Workshop in Macroeconomics and International Trade in Tel Aviv, Israel. Within the framework of the Research Training Network (RTN) Roman Kräussl was a Research Visitor from September to December 2000 at the invitation of Assaf Razin to the Eitan Berglas School of Economics at the Tel Aviv University in Israel.
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What I dreamt of becoming as a child:
Journalist.
Why I am now in research:
Because Dustin Hoffman and Robert Redford were just that much better.

Anke Leiser has been part of the academic staff at the Center for Financial Studies since January 2000. In the department of finance she is responsible for the organisation and co-ordination of the recently started project “Reinsurance”. This project is closely linked to her own research interests. In her thesis for example, under the supervision of Jan Pieter Krahnen, Anke Leiser is investigating using empirical methods the relation between primary insurers and reinsurers taking into account alternative risk transferring instruments. It was her interest in empirically-oriented research which brought Anke Leiser to Frankfurt after almost two years working at the Chair for Statistics and Econometrics at the University of the Saarland. Anke Leiser studied economics at the University of the Saarland specialising in industrial undertakings management, controlling, statistics and econometrics and worked afterwards as a project manager's assistant on the project “Introducing cost accounting and results accounts to public administration in the Saarland”.
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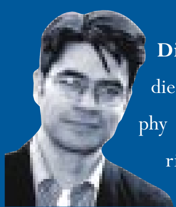
What I dreamt of becoming as a child:
Writer.
Why I am now in research:
To discover concepts that nobody else has written about before.



Dirk Schumacher studied economics and philosophy at the Rheinische Friedrich-Wilhelm University in Bonn. After completing his studies he worked part time for two years in the economic research department of the Commerzbank in the international capital markets section, where he was responsible for the field of venture capital. He then worked part time for a further six months in investment research at the Commerzbank in the asset management section, where he was assigned to monitoring economic activity in industrialised countries. Since November 1999 Dirk Schuhmacher has been working at Goldman Sachs Frankfurt in the economic research department, where it is his job to analyse the economic outlook in Germany. Since 1998 he has also been working at the Center for Financial Studies where his focus of attention is on the monetary policy transmission mechanism. His thesis, supervised by Axel A. Weber, is empirically oriented and aims to assess the significance of the individual channels for transmitting monetary policy impulses. This analysis is relevant and of interest not least for economic forecasting issues. Initial results of his work at CFS are published in Working Paper (No. 2000/07) under the title “The liquidity effect in Germany”.
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What I dreamt of becoming as a child:
Philosopher.
Why I am now in research:
Because the weather in Germany is too cold for living in a barrel (cf. Diogenes).

Anja Wodrich, research assistant and Ph.D. student at the Center for Financial Studies since 1998, studied business administration (Betriebswirtschaftslehre) at the J. W. Goethe-University in Frankfurt. The main focus of her thesis, supervised by Karl Häuser, is an empirical examination of the beginnings of the German Capital Market, i.e. the development of the stock market during the so-called Gründerboom and Gründerkrise from 1871 on. To date, empirical studies testing the validity of modern theories on capital markets only exist for the recent past, i.e. the past 30-40 years, and the historical literature on earlier periods is usually never anything other than of a descriptive nature. Studies focusing on the interesting and, particularly from an asset-pricing point of view, turbulent time after the foundation of the Deutsches Reich and before World War I are rare, mainly owing to the lack of available data. By taking advantage of the existing historical database at the CFS and applying modern analytical methods, Anja Wodrich aims to try to close the existing gap in capital market research. First results are documented in a joint paper with Christian Schlag (J. W. Goethe-University Frankfurt) entitled “Has There Always Been Underpricing and Long-Run Underperformance? – IPOs in Germany Before World War I”, available as a CFS Working Paper No. 2000/12. This paper provides empirical evidence on initial public offerings (IPOs) by investigating pricing and long-run performance. Using a unique data set on the German capital market before World War I collected at the CFS, Anja Wodrich and her co-author find considerable underpricing and evidence for long-run underperformance. These findings correspond closely to what is currently being observed on global capital markets today. Last year this work was presented at the ABN-AMRO International Conference on Initial Public Offerings (University of Amsterdam), at the 27th Annual Meeting of the European Finance Association (London Business School), at the “Jahrestagung 2000 des Vereins für Socialpolitik” (Humboldt-Universität Berlin) and at the IX Tor Vergata Financial Conference on “Risk and Regulation in the Global Financial Markets” (University of Rome).
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What I dreamt of becoming as a child:
Stewardess.
Why I am now in research:
Because it keeps me down to earth.

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