NEWS

CENTER FOR FINANCIAL STUDIES

2/01

Conference "Finanzmarkt Deutschland" on 22th February 2001

editorial

Dear Members, Colleagues and Interested Parties,

During the last three years the Center for Financial Studies (CFS) has continuously increased its activity spectrum by organising a number of lecture series, academic conferences and executive education programmes in Frankfurt. Amongst our previous institutional partners in hosting academic conferences were the Deutsche Bundesbank and the European Central Bank (ECB) in Frankfurt. We have also on some occasions collaborated with both institutions in organising a seminar. Since January 2001 the ECB, the Deutsche Bundesbank and the CFS have hosted a weekly Joint Lunchtime Seminar series, which takes place on Wednesdays from 12 noon until 1 p.m. at the ECB's Eurotower in Frankfurt. These seminars regularly bring together academics and practitioners from the three institutions to discuss with invited speakers the most recent theoretical and empirical research in monetary economics and finance. Our aim with these regular joint meetings is to provide a platform in Frankfurt for critical debate on top level research.

A second new CFS initiative in 2001 is the CFS Summer School in Money and Finance, which will take place in Eltville at the Management Education Centre of Deutsche Bundesbank during August 2001. The Summer School will bring together an internationally-renowned faculty of lecturers, Ph.D. students from various European universities and doctoral students from the newly established Graduate Program of the J.W. Goethe-University in Frankfurt for a one-week intensive teaching programme. CFS aims at establishing this Graduate School as a regular annual academic event.

Another new CFS initiative is the building-up of a network of affiliated researchers who, jointly with permanent CFS staff and visiting academics, will carry out a number of research projects organised around several topics. Four such projects are briefly outlined in this newsletter, a more complete list of topics is available from our web-site at www.ifk-cfs.de.

We hope that these new initiatives find your interest and we shall look forward to welcoming you to some of the future events, which we are currently in the process of planning in this context.

Best greetings,

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

Contents

Online Banking and Consumer Advisory Services: Banking of the Future

The colloquia series "Financial Markets and E-Commerce" continued on 17th January, 2001 with a lecture by Herbert Walter. Walter, who since 1998 has been head supervisor of the Deutsche Bank 24 AG project and on 1st September, 1999 was made company spokesman for the Deutsche Bank 24 AG, talked about "The Potential of E-Commerce from the Banks' Point of View". The starting point for Walter's talk was an analysis of purely online financial services managers, whose situation is still characterised by a closely-defined range of products. Given the rapid innovation rate, they find themselves facing an aggressive pricing policy on the part of fellow managers with strong marketing pressure typical for the branch. A clear tendency can, however, be discerned towards increasingly integrated products. Similarly, new market entrants must face up to challenging conditions. They find themselves confronted with a difficult market structure and decreasing consumer loyalty. Being able to guarantee a high standard of service and processing quality is deemed essential, as is the ability to meet high demands of consumers with respect to the product portfolio (brokerage, insurance, construction financing, investment banking etc.). Particularly important, according to Walter, is the growing number of requests for consumer advisory services, which go beyond the online provision and are clearly becoming more and more complex. During the further course of his presentation, Walter looked at business practices in the online world within the context of competition to win and keep customers. The established top banks, for example, offer a high standard of advisory services but lack accessibility in comparison to the purely online banks, whereas the purely online banks are only able to offer a comparatively small range of advisory services. Walter foresees the convergence of these different business practice models giving rise to the "bank of the future". This should combine first-class access with a high standard of advisory services. Walter went on to depict a very detailed picture of his "bank of the future" with its most notable feature being the combination of personal advisory services at the branches and online banking commerce. This combination also characterises the multi-channel complete banking concept of Bank 24, where the consumer is looked after not only through personal contact at the branch but also via telephone and the online Internet service. Moreover, the traditional self-service machines will also remain in tact. The range of services provided by Bank 24 extends from the basic banking services (within the operating area of Banking 24) to supporting private customers in the building up and optimisation of their wealth (Investment 24) and the supervising of business clients (Business 24) to the provision of direct access to first-call capital market products (Online Brokerage). With its asset-gathering strategy Bank 24 is targeting a clientele characterised by Walter by the term "babyboomer", that is, a group of young, well-educated and therefore high earning professionals, which in West Europe alone includes 60 million people. Walter is confident that Bank 24 with this clientele will continue to be successful in increasing and improving profits.

Anke Leiser

E-Finance – Making Use of the Opportunities, Controlling the Risks

On 31st January, 2001 within the framework of the colloquia series on "Financial Markets and E-Commerce" a talk was given by Andrew Crockett, General Manager of the Bank for International Settlements, on "Financial Stability in the Light of the Increasing Importance of Online-Banking and E-Commerce". He began by discussing the salient features of e-finance, that is, the large potential for innovation, the accompanying uncertainty with respect to evaluating the quality of such innovations owing to lack of experience, and the inherent risk of undermining financial systems. E-finance has the potential to transform the financial landscape fundamentally. Given the unrestricted access via the Internet e-finance is in a position to introduce new business models, change financial structures and drive financial consolidation. However, the precise nature of e-finance development cannot be predicted and would appear to differ across sectors.

The main focus of Crockett's lecture was on the implications of some specific effects of e-finance development for banks and other financial institutions, for markets and for the official sector. One such implication is the fact that lower cost barriers to entry for e-financial institutions, owing to lower physical start-up costs for these institutions by comparison to those of traditional institutions, might intensify competition and increase the threat of disintermediation of existing institutions. E-finance is also blurring the barriers between banks, brokers and insurers. The increasing consumer demand for personalised money management services is pushing this integration of financial services. The lack of success to date of pure internet banks shows that public trust is still very important and whilst existing banks are not necessarily favoured, those banks that over the years have built up a degree of customer trust and acquired a high level of name recognition in other lines of business may command more confidence. Another consequence of e-finance is the increased likelihood of entry by non-financial institutions into the financial arena, which would represent a major challenge to supervisory bodies. E-finance also facilitates cross-border and cross-sector consolidation.

The final implication, mentioned by Crockett, is the potential of e-finance for creating new and radically different business models as, for example, that of the so-called “aggregators”. From the markets' point of view, an important issue arising from the growing reliance on electronic trading is the impact it has on market liquidity. This might be reduced, for example, by the entry of new trading systems, none of which are particularly liquid, in currently centralised markets. A second factor likely to decrease liquidity might be the diminished profitability of active market-making (owing to reduced bid-ask spreads caused by electronic trading), causing financial institutions to scale back this activity. The key risks in these developments, according to Crockett, are the risk of strategic and business misjudgements, the operational risk resulting from the reliance on complex technology, the risk arising from legal and regulatory uncertainty and the systematic risk. Crockett proposed the following agenda for the official sector. Firstly, the official sector should think about how e-finance could change the structure of the financial industry. Secondly, e-finance blurring the barriers between banks and other institutions, implies a greater need for consultation and co-ordination among regulators. Thirdly, the old regulatory mind-set is no longer appropriate. A flexible and adaptive regulatory approach becomes vital. Fourthly, there may be cases where additional prudential buffers for risk-seeking institutions are needed. As a final point, Crockett stated that it is important to make sure that the current levels of market and operational integrity are not undermined by the development of e-finance. Crockett ended his talk by pointing out that “we all have much to gain from the existing developments that are under way, but only if we monitor and control the associated risks”.

Anke Leiser

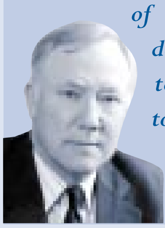
We asked Andrew Crockett about:

the biggest plus point of Germany as a financial centre:

And he answered: ***“As plus points, Germany has several of the world's largest and best-managed banks, insurance and reinsurance companies. It is the home of the ECB, and has the largest domestic economy in Europe, with an enviable tradition of monetary and financial stability.”***

the biggest minus point of Germany as a financial centre:

And he answered: ***“On the less positive side, Germany still needs to develop some of the infrastructure elements of other financial centres, .i.e. greater depth in the accounting, legal, information technology and other professions needed to support financial activity. Doubtless, any deficiencies in these areas will be rectified.”***



Andrew Crockett

Consors Continues to Support Participation in the Berlin Stock Exchange

On 15th February, 2001 as part of the “Financial markets and E-Commerce” series Reto Francioni gave a presentation on the subject of “Online-Brokers between Stock Exchanges and Banks – How Much Integration Can be Expected?” Francioni, formerly Member of the Board of the Deutsche Börse AG and now spokesman of the Board of the Consors Discount-Broker AG, Nuremberg, reaffirmed support for the concept of the Berlin Stock Exchange. Despite describing the attempt by the Berlin Stock Exchange to build up a retail platform as being extremely complicated, he confirmed Consors continuing interest. He emphasised within this context, however, that Consors was still in a position to make optimal choices on the behalf of customers since “the online broker must leave the choice of stock exchange location to the client”. Participation in the Berlin stock exchange continued to be a goal, but not with the intention of assuming any dominant position. The decision by all the other online brokers to forgo any participation in the Berlin retail initiative is, according to Francioni, a lost historic chance to create in Europe the biggest online stock exchange. And in this connection he was convinced that in the long term the trend towards more transparency was unstoppable.

Anja Wodrich

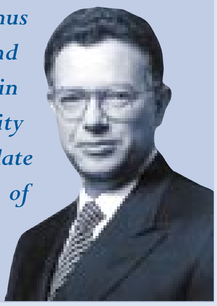
We asked Reto Francioni about:

the biggest plus point of Germany as a financial centre:

And he answered: ***"There is a good mixture of qualities like political stability and reliability, people have good skills, the scientific education is widespread and produces solid results, the financial centre is disciplined and well organised. On top of that the pure size of the German financial market gives Germany a clear scale advantage on a financial centre in Europe. The biggest strength in my opinion is the ability to accelerate, which often results in breathtaking speed to catch up and win the race. And when the finance professionals in Germany begin to be convinced of an opportunity they get there faster than any other financial centre in the world."***

the biggest minus point of Germany as a financial centre:

And he answered: ***"The biggest minus points are the still complex and expensive tax structure especially in the financial sector and the inability of German regulations to accommodate innovations efficiently in terms of financial products, market structures or online access."***



Reto Francioni

The Consolidation Process of the European Market Continues to Make Progress

On 29th March, 2001 the final talk in the CFS colloquia series "Financial markets and E-Commerce" was given by Sir David Walker, Chairman of Morgan Stanley Dean Witter (Europe) Ltd., London. Just as the recent talks between the Allianz insurance group and the Dresdner Bank go to show, Walker pointed out in his lecture entitled "Investment Banking in the New Europe" that the consolidation process within the European financial sector is by no means nearly completed. However, he also noted that positive impulses deriving from the consolidation of the similarly affected investment banking sector as well as from that of other branches could indeed be detected. According to Walker, we face the prospect in Europe of building a capital market comparable to that of the United States. This will bring huge benefits in terms of flexible access to capital at a reasonable cost as well as an array of investment opportunities and taken together, this will contribute significantly to wealth and employment in Europe. There are many steps on the way, including appropriate regulation, and there is an urgent need to create a pan-European market infrastructure with respect to the clearing and settlement of securities transactions. But in all of this, the role of the investment bank as analyst, adviser and means of execution seems likely to continue to be of critical importance. Despite the slower pace in many revenue areas in the present business environment, the prospect in the medium-term and beyond for the talented investment banker and for the well-organised investment bank continues to be extremely attractive, nowhere more so than in Europe.

Sir David Walker

Anja Wodrich

Is there a Future for Company Customer Business?

On 16th May, 2001 Klaus-Peter Müller, a member of the board of the Commerzbank AG, opened the colloquia series entitled "Cross Border Financial Integration – Trends, Strategies and Lessons Learned" with his talk on "Relationship Lending and Corporate Bonds: New Tasks for Company Customer Business?". This presentation attracted a large audience not least owing to its topicality in view of the impending Basle consultation deadline.

There is no future for company customer business! Klaus-Peter Müller spoke out strongly against this hypothesis deriving from the structural change currently taking place in the banking industry and was not of the opinion that traditional credit transactions would be pushed out by alternative capital market models. The clear increase in the issue of securities by West European, in particular German, firms for outside financing via capital markets can be traced backed to just a few large companies from specific sectors and thus does not imply the existence of an alternative to bank loans for any contingent outside financing for the majority of companies.

Even those companies with direct access to the capital market cannot dispense with bank loans. By way of example, Müller mentioned in this context those loans used for plant engineering and construction or bidding procedures as well as bridging loans in the course of a stock exchange flotation or bond issue and stand-by credit lines for commercial paper programmes. Bank loans in the context of company purchases also have a comparative edge over capital market financing owing to their flexibility, short term accessibility and the fact that they can be dealt with discretely.

The specific advantages enjoyed by banks with respect to the capital market and the financing of loans predestine them to link both forms of financing in a way which makes sense. On the basis of their long-term customer relationships they possess specialised knowledge on companies and their (regional) environment and as capital market investors they are better able to count on receiving detailed information from companies; they are so to speak the "natural rating specialists" for financial risk taking. Since banks are in a position officially to convert into security form outstanding accounts via asset-backed securities or synthetically to convert the risks associated with debt claims via so-called guarantee provisions, they are able to make these credit risks tradable on the capital market (and release regulated shareholders' equity).

Müller places his hopes for the safeguarding of loans as a method of financing in favourable decisions on the part of the legislative and supervisory authorities. In this context he was particularly critical of the current distortion of competition deriving from the advantages currently enjoyed by Sparkassen (savings banks) and Volks- und Raiffeisenbanks (co-operative banks) in refinancing and the hitherto proscribed across-the-board calculation of the regulatory shareholders' equity. With respect to the Basle II proposals, Müller called for amendments to the surcharge factors affecting the credit period (long-term loans are at a disadvantage) and the computational formula (disadvantageous to small and medium-sized businesses owing to potentially higher shareholders' equity requirements).

Müller introduced the Commerzbank's strategic answer to the challenges arising from structural changes in the banking industry in the form of the company project "CB21", as a result of which on 1st January of this year a new format for the company departments ("private customers and asset management" as well as "business clients and investment banking") was implemented focussing on customer requirements rather than product lines. It is the goal of this project to realise an integrated supervision concept for company clients along the lines of "relationship banking".

Anke Leiser

We asked Klaus-Peter Müller about:

the biggest plus point of Germany as a financial centre:

And he answered: ***"The long-term approach to financing and the existence of a strong SME sector (the "Mittelstand"). In their combination of relationship-based corporate finance and transaction-based capital market business they both offer enormous potential for integrated banks."***

the biggest minus point of Germany as a financial centre:

And he answered: ***"The distorted terms of competition on the German banking market, since they are an obstacle to fair market conditions and thus a threat to the flexibility of a financial centre."***

Klaus-Peter Müller

Centralising Asset Management Makes Sense

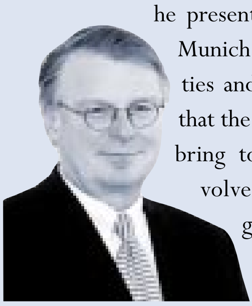
On 19th June, 2001 the colloquia series "Cross-Border Financial Integration – Trends, Strategies and Lessons Learned" was continued with a talk on the subject of "MEAG – The Global Asset Manager of the Munich Re-Group" given by Thomas Kabisch, who since 1999 has been the Chairman of the board of executives of MEAG Munich ERGO AssetManagement GmbH. This company has an administrative volume of more than Euro 140 billion and is thus one of the largest asset managers.

Kabisch began his presentation with a survey of the structure of the Munich Re-Group which can be divided into three areas of activity relating to reinsurance, primary insurance and asset management. MEAG was established in 1999 as the latest asset management subsidiary of the

Munich Re-Group and is responsible world-wide for a large proportion of capital investments of the entire Re-Group. Kabisch confirmed that the MEAG in its capacity as the financial services provider of the group is pursuing the goal of being a successful global player in asset management and aims to increase significantly the group's total return. He went on to name the arguments which support a centralisation of asset management, that is, know-how and the fact that the procedures and systems of current asset management units do not conform to global standards, capital investment activities are still too strongly anchored in the insurers' way of thinking, entering a new or more complex asset class is only worth it for larger units, many small asset management units drive up costs, and fragmented asset management offers no opportunities for conquering new fields of business.

Kabisch explained that MEAG supports clients in drawing up a framework plan and that an optimal mandate fulfilment is achieved via a concentration of the entire know-how. He discussed the clear responsibilities in the asset allocation process and emphasised the relevance of timely reporting in the back as well as in the front office. MEAG manages centrally all important asset classes and is stationed globally via locations in three time zones, that is, MEAG in Munich (shares, fixed income securities, foreign exchange, property), MRACM in Hong Kong (shares) and MRCM in New York (shares, fixed income securities). Kabisch described how MEAG has developed into an active provider of financial services in several fields and emphasised in particular the high rate of growth for many years now in the German retail funds market. Moreover, through ERGO, MEAG has a powerful marketing agent and enjoys settlement certainty having set up its own FondsServiceBank.

Kabisch discussed in detail the types of risk insured through securitisation and their transfer to financial markets. In particular as part of a market survey he focussed on the demand and supply sides and presented an outlook for the future, emphasising that the further development of risk transfers on capital markets is still uncertain. Finally, he presented the business strategy of the Munich Re-Group and described activities and tasks in detail. He emphasised that the Munich Re-Group would like to bring together the interests of all involved by combining the different goals and perspectives of insurers, reinsurers and investors.



Thomas Kabisch

Roman Kräussl

events

We asked Thomas Kabisch about:

the biggest plus point of Germany as a financial centre:

And he answered:

- *largest single economy in Europe*
- *located in the centre of Europe with a large airport (Frankfurt) and very good infrastructure*
- *proximity to Eastern Europe and Russia*
- *very well educated population*

the biggest minus point of Germany as a financial centre:

And he answered:

- *strongly regulated and inflexible labour market*
- *only loose ties to the Anglo-Saxon financial markets (unlike UK)*

CFS*forum*

Venture Capital – Quo Vadis?

On 1st March, 2001 as part of the CFS*forum* Holger Frommann, Managing Director of the Bundesverband Deutscher Kapitalbeteiligungsgesellschaften – German Venture Capital Association e. V. presented a survey on "Venture Capital – The Product and Market in the National Trend". Venture capital (VC) is shareholders' equity which is placed at the disposal of innovative and potentially expanding small and medium-sized businesses and entrepreneurs for the realisation of planned projects. This is frequently accompanied by management consulting and supervision of the equity investors, for example in the form of a seat on the company's supervisory board. Frommann underlined that the investment companies are neutral partners with no aspirations for acquiring the casting vote or make a bit for leadership, rather the aim is to realise large profits through the sale of equity holdings based on the increased value of the company. It is conceivable that such sales of holdings be made on the one hand to existing stockholders, to industrial or financial investors, but can also be effected via the stock exchange. Frommann specified as a peg for the expectations of investors a yield of at least 15% after deducting management fees and the profit share of the management company. With respect to the individual equity holding, this would correspond to a target yield of approx. 30%. In reality a 20-60-20 structure usually emerges from the performance of equity fund portfolios since only 20% of the equity holdings overshoot expectations (sometimes by much more than 30%), 60% of expectations are not fulfilled but nevertheless generate a positive yield, and 20% of holdings lead to a negative yield or even result in a total loss. Overall, according to Frommann, the VC market, particularly during the last five years, has exhibited an extraordinarily positive development owing to changes in the investment milieu (i.e., the setting up of the New Market and the development of a shareholders' equity culture) and climate (e.g., improvements in the image of entrepreneurship). Whereas those investment companies participating in the German VC market could report in 1985 for the first time a portfolio holding of approximately DM 1 billion, by 1996 this had risen to DM 6.1 billion and by the year 2000 according to preliminary results to circa DM 18.9 billion. Frommann said that the newly invested capital during the past year has flown predominantly into early stage investments, whereas shares in other market sectors, in particular expansion finance have by comparison been strongly modified. How did Frommann evaluate the current situation? The volume of investment is lower because of lower valuations and a relative decline in the start-up field can also be discerned. Given the current slump in share prices, exits from the capital market are hardly feasible; fund raising has become considerably more difficult. A consolidation in the market will go hand in hand with an adjustment. However, Frommann said he is optimistic for the coming future and in particular he expects to see a buy-out boom from 2002 onwards.

Stefanie Franzke

We asked HOLGER FROMMANN about:

the biggest plus point of Germany as a financial centre:

And he answered:

"The will to turn Germany into a recognised international financial centre."

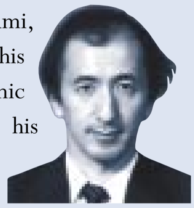
the biggest minus point of Germany as a financial centre:

And he answered:

"The still widely-adhered thinking in terms of outside capital."

Holger Frommann

Japan – Turning Around?



Hiroshi Nakaso

It is now up to Junichiro Koizumi, Japan's new prime minister, to bring his country back on to the path of economic prosperity. So far he has announced his commitment to far-reaching structural reforms. The kind of legal action taken in the past was the topic of the lecture given by HIROSHI NAKASO (Visiting Senior Advisor at the Bank for International Settlements, Basle) on "THE FINANCIAL CRISIS IN JAPAN DURING THE 1990'S – HOW THE BANK OF JAPAN RESPONDED AND WHAT ARE THE LESSONS TO BE LEARNED?" on 1st March, 2001. After reviewing the history of the financial crisis in Japan, which started after the sharp decline in share and property prices in the early 1990's and continued on to the banking crisis in 1997, he focussed on the legal measures taken by officials to ensure the functioning of the financial markets in Japan and to strengthen financial stability in order to return to economic growth.

Bernd Kaltenhäuser

Medicine for the International Financial System

On 22nd March, 2001 ALLAN MELTZER (Carnegie Mellon University, Pittsburgh), Chairman of the International Financial Institutions Advisory Commission (IFIAC) appointed by the US Congress to recommend changes in all major international financial institutions, gave a talk on "THE REFORM AGENDA FOR INTERNATIONAL FINANCIAL INSTITUTIONS". Before presenting the medicine recommended by the IFIAC report, Meltzer discussed some facts of recent financial crises and the response to them by the International Monetary Fund. He also provided a sketch of the longer term problems in fighting poverty and the related actions by the World Bank. He described the severe incentive problems associated with the current practice of the international financial institutions (moral hazard, overlending because of the anticipation of bailouts, slow institutional reforms). Among the prescriptions of the IFIAC are prerequisites for access to internationally-provided funds, such as an open banking system (to adopt international banking practices) and the adoption of the WTO standards. Further, the IFIAC suggests that World Bank loans should be transformed into grants conditioned on appreciable institutional improvements in the receiving country.

Because the US reform agenda will be of prime importance in the process of shaping the future of the international financial system, it is vital for European decision makers to critically debate the IFIAC recommendations. During his visit to CFS Allan Meltzer held a number of informal meetings, amongst others with State Secretary Koch-Weser at the Ministry of Finance in Berlin and with board members of the ECB and the Deutsche Bundesbank.

Bernd Kaltenhäuser

We asked ALLAN MELTZER about:

the biggest plus point of Germany as a financial centre:

And he answered:

"It has stable political, economic and financial arrangements. The rule of law prevails. Property rights are protected reasonably well. In addition, Germans have a high saving rate and are educated."

the biggest minus point of Germany as a financial centre:

And he answered:

Allan Meltzer

"The financial system is not open and competitive to anything like the degree that is found in New York or London. Also, Germany has a long tradition of cartelised banking and weak financial markets. This is changing, but it takes time to overcome history."

CFS*research lectures*

The New Joint Lunchtime Seminars

The start of 2001 saw the launch of a new research seminar series, the Joint Lunchtime Seminars. As the name suggests, the seminars are jointly hosted by the ECB, the Deutsche Bundesbank, and the CFS. The organisers are FRANK SMETS (ECB), HEINZ HERRMANN (Deutsche Bundesbank) and AXEL WEBER (CFS).

The seminar series aims at promoting discussions on top quality research, which is of key interest to central banks. Primarily young, promising academics and economists from policy-making institutions are invited to present their findings. The Joint Lunchtime Seminars take place weekly and presentations, which last about one hour, are typically followed by a general discussion. To date the seminars have mainly covered topics from the fields of international macroeconomics and monetary economics, but occasionally papers on financial economics, econometric methods, and public finance have also been presented. On 23rd May, 2001 PHILIP LANE (Trinity College, Dublin) discussed his research in the field of international macroeconomics on "EXTERNAL WEALTH, THE TRADE BALANCE, AND THE REAL EXCHANGE RATE". Lane broke down the impact of a country's net foreign asset position on its real exchange rate into two mechanisms, that is, the relation between external wealth and the trade balance; and the relation between the trade balance and the real exchange rate. A net international creditor position, through the resulting capital inflow of dividend and interest payments, allows a current account deficit to be sustained. Lane found empirical evidence for this negative link of external wealth and the trade balance. With respect to the second mechanism, a more depreciated real exchange rate should support a more positive trade balance and Lane found empirical support that this is the case. Putting the pieces together again then results in a positive relation between the level of external wealth and the real exchange rate. Accordingly, the growing net external liability position of the US implies pressure on the dollar to depreciate.

Yunus Aksoy

On 21st March, 2001 in a seminar from the field of monetary economics YUNUS AKSOY (KU Leuven and J. W. Goethe-University, Frankfurt) talked about "FOREIGN HOLDINGS OF US DOLLAR AND INFORMATION VALUE OF US MONETARY AGGREGATES", a paper which was jointly written with Tomasz Piskorski. In the context of the information value approach adopted by B. Friedman and Kuttner (1992), the vanishing role of monetary aggregates in helping to predict future fluctuations in US macroeconomic fundamentals was re-evaluated. Using the official US data constructed by Porter and Judson (1996), it was found that the currency component of M1 corrected for the foreign holdings of dollars contains valuable information on US macroeconomic fundamentals. Correcting monetary aggregates in this way proves to be necessary since the role for foreign holdings in total money creation is large and unstable.

On 7th March, 2001 SIMONE MANGANELLI (ECB) presented joint work with Robert F. Engle (New York University and UCSD) in the field of financial economics on "VALUE AT RISK MODELS IN FINANCE". The main objective

Simone Manganelli

of this paper was to survey and evaluate the performance of the most popular Value at Risk (VaR) methodologies, paying particular attention to the underlying assumptions. VaR has become the standard measure that financial analysts use to quantify market risk and is defined as the maximum potential change in value of a portfolio of financial instruments with a given probability over a certain horizon. VaR measures can have many applications, for example, in risk management to evaluate the performance of risk takers and for regulatory requirements. Thus it is very important that methodologies be developed which provide accurate estimates. Manganelli showed that the Historical Simulation method and its variants can be considered as special cases of the CAViaR framework developed by Engle and Maganelli in 1999. Manganelli also offered two original methodological contributions. The first one introduces the extreme value theory into the CaViaR. The second one concerns the estimation of the expected shortfall, that is, the expected loss, given that the return exceeds the VaR, using a simple regression technique. The performance of the models surveyed in the paper was evaluated using a Monte Carlo simulation. Data was generated using GARCH processes with different distributions and the estimated quantiles were compared to the actual quantiles. The results obtained show that CAViaR models are the best performers with heavy-tailed DGP.

International Macroeconomics

16 Jan 01	**Michael Moore** (School of Management and Economics, Queens University, Belfast) and Harald Hau (INSEAD, Fontainebleau): "The Euro as an International Currency: Explaining Puzzling first Evidence."
14 Feb 01	**Mathias Hoffmann** (University of Southampton): "International Risk Sharing in the Short Run and in the Long Run."
21 Feb 01	**Robert Kollmann** (Université Paris XII, Vale de Marne): "Macroeconomic Effects of Exchange Rate Volatility."
18 Apr 01	**Nick Bloom** (The Institute for Fiscal Studies, London): "The Dynamics of Investment under Uncertainty."
23 May 01	**Philip Lane** (Trinity College, Dublin): "External Wealth, the Trade Balance, and the Real Exchange Rate."

Monetary Economics

31 Jan 01	**Christian Upper** (Deutsche Bundesbank) and Andreas Worms (Deutsche Bundesbank): "Estimating Bilateral Exposures in the German Interbank Market: Is there a Danger of Contagion?"
7 Feb 01	**Elena Bisagni** (University of California, San Diego): "The Microstructure of the Federal Funds Market."
21 Mar 01	**Yunus Aksoy** (KU Leuven and J. W. Goethe-University, Frankfurt): "Foreign Holdings of US Dollar and Information Value of US Monetary Aggregates."
28 Mar 01	**Andreas Worms** (Deutsche Bundesbank) and Michael Ehrmann (ECB): "Interbank Lending and Monetary Policy in Germany."
2 May 01	**Alexander Wolman** (Federal Reserve Bank of Richmond): "Discretionary Monetary Policy and Endogenous Fluctuations."
16 May 01	**Peter Brandner** (Österreichisches Institut für Wirtschaftsforschung, Wien) and Helmut Stix (Österreichische Nationalbank, Wien): "The Effectiveness of Central Bank Interventions in the EMS: The post 1993 Experience."
30 May 01	**Hans-Eggert Reimers** (Hochschule Wismar): "Worldwide Evidence on the Money-Price-Link."

Financial Economics, Econometrics, and others

23 Jan 01	**Ronnie Schöb** (University of Western Ontario): "Optimal Factor Income Taxation in the Presence of Involuntary Unemployment."
28 Feb 01	**Manuel Moreno Fuentes** (Universita Pompeu Fabra, Barcelona): "Decomposing Interest Rates in Level and Slope: Derivative Pricing, Empirical Behaviour and Risk Management."
7 Mar 01	**Simone Manganelli** (ECB): "Value at Risk Models in Finance."
14 Mar 01	**Jörg Breitung and Bertrand Candelon** (Humboldt University, Berlin): "Common Cycles: A Frequency Domain Approach."
4 Apr 01	**Hans Martin Krolzig** (University of Oxford): "Computer-automated empirical modeling."
11 Apr 01	**Sylvia Kaufmann** (Oesterreichische Nationalbank, Wien): "The volatility of stock market returns: A Markov Chain Monte Carlo analysis of a switching ARCH model."
25 Apr 01	**Peter Winker** (International University in Germany, Bruchsal): "Indirect Estimation of the Parameters of Agent based Models of Financial Markets."

Elke Hahn / Bernd Kaltenhäuser / Roman Kräussl

Optimal Monetary Policy in Open versus Closed Economies

At a research seminar on 17th April, 2001 organised jointly by the ECB and the CFS, Richard Clarida (Professor of Economics and International Affairs, Columbia University) presented his paper "Optimal Monetary Policy in Open versus Closed Economies: An Integrated Approach", which he wrote with Jordi Gali and Mark Gertler. An open economy framework by comparison to that of the closed economy framework complicates the problem of monetary management to the extent that the central bank has to take into account the impact of the exchange rate on real activity and inflation. Consequently the question of how to factor the exchange rate into the overall design of monetary policy becomes a central consideration. In their analysis the authors show that under certain conditions the monetary policy design problem is isomorphic to the problem of the closed economy. Openness does affect the parameters of the model, suggesting quantitative implications, although the general form of the optimal interest rate feedback rule remains the same as in the closed economy case. In addition, openness gives rise to an important distinction between domestic inflation and consumer price inflation. To the extent that there is perfect exchange rate pass through, Clarida found that the central bank should target domestic inflation and allow the exchange rate to float, despite the impact of the resulting exchange rate variability on the consumer price inflation.

Elke Hahn

Markets are Networks

From 14th to 20th May, 2001 James Angel (Georgetown University) was a visitor to the Faculty of Economics at the J. W. Goethe-University. Supported by the CFS, he gave two lectures during his stay. As part of the course on “International Banking” held by Reinhard H. Schmidt he gave a paper on 15th May, 2001 about “The Structure of the World Equity Market: Past, Present, and Future”, in which he provided a look into the future of stock markets in the face of globalisation and technological progress. The most important message of his paper was that “markets are networks”. Angel did not believe that the European stock exchanges will merge to form one “super stock exchange”. He regards as being more realistic a “Hub model”, which is comparable to a co-operation such as that practised by airline alliances, in order to be able to meet the needs of their customers world-wide, without having to give up their independence.

James Angel

James Angel presented another paper to an academic audience as part of a special CFS Brown Bag seminar on 17th May, 2001 on the subject of “Calling the Open: Price Discovery Evidence from Nasdaq”. In this study he looked at the question whether a uniform opening price at Nasdaq would be more advantageous with respect to price discovery than the currently practised decentral opening mechanism. He came, however, to the (surprising) conclusion that the decentral opening mechanism, which has been sharply (and unjustly) criticised by the banks is more beneficial from a liquidity point of view. A centralised “single opening price” procedure would more tend to result in a disequilibrium between supply and demand.

Eric Nowak

No More Relationship Credit?

An important role of banks is to make relationship lending services available that help resolve problems in providing external finance to informationally opaque small businesses. However, according to Allen N. Berger the banking system’s ability to provide credit to relationship-dependent borrowers might in the future be affected by the consolidation of the banking industry. On 1st June, 2001 Allen N. Berger, member of the Board of Governors of the Federal Reserve System, Washington, gave a talk at the Joint ECB/CFS research seminar. He presented a paper dealing with “The Ability of Banks to Lend to Informationally Opaque Small Businesses”.

Berger explained that the current consolidation of the banking industry creates large banks with headquarters frequently located a long distance away from small business customers. In this context these institutions may have difficulties processing locally-based, and often less quantitative, relationship information.

Analysing a rich data set on Argentinean banks, firms, and loans, strong evidence was found that informationally opaque small businesses tend to receive less credit from large banks and foreign banks. Berger mentioned that this effect is magnified for small businesses, which tend to delay in repaying their loans. In addition he found that informationally opaque small businesses are more likely to have a single lender than other firms. This is because for these businesses the benefits associated with the acquisition and possession of proprietary information by a single lender tends to outweigh the potential costs of exploiting market power in an exclusive relationship.

Stefanie Franzke

CFS*research conferences*

The German Financial Market – Research and Practice in Dialogue with One Another

On 22nd February, 2001 the final conference for the research programme financed by the German Research Council (DFG) focussing on “The Efficient Organisation of Financial Markets and Financial Institutions” took place at the J. W. Goethe-University of Frankfurt. The conference was hosted jointly by the German Research Council and CFS. The majority of German Chairs for Financial Studies were involved. The aim of the conference was not only to present the research results to business practitioners but also to promote a dialogue on these results. Wolfgang Bühler began the presentation of scientific contributions to the research programme in the auditorium of the J. W. Goethe-University by reporting on the progress and mistakes made in the evaluation of fixed-interest bearing investments. Afterwards there were several sessions on different subjects.


Wolfgang Bühler

Session: "Regulating Financial Markets"

Bernd Rudolph (as well as Tanja Dresel and Markus Kern, University of Munich) presented the project "The Controlling of Market and Credit Risks in Banks". According to the authors, it is important that the risk limits set should be fully utilised. Owing to the various correlations between risk positions the individual risks contribute to the total risk in very differing ways. The authors presented the results of their simulation analysis in which various scenarios for organising a system of limits within a trading area were considered. Usually there is a moderate utilisation of the available Value-at-Risk (VaR) limits. As a solution to this problem the authors suggested the introduction of a treasurer, as well as a dynamic limit allocation.


Bernd Rudolph

In the discussion Gerhard Stahl (German Federal Banking Supervisory Office (Bundesaufsichtsamt für das Kreditwesen)) questioned whether the VaR-risk approach is at all suitable for a uniform limits system or whether traders at the operative level should not be controlled by means of other criteria. Furthermore, he pointed out that a daily limit allocation was not feasible since traders in practice require a constant limits notion. Stahl, however, perceived the essential function of VaR limits to be that they should conform to regulatory requirements and apply to numerous traders with complex products.

The paper by Ekkehard Wenger (together with Renate Hecker, Jochen Knoesel and Martin Ahlers, University of Würzburg) entitled "Takeover and Indemnity Payment Regulations for Listed Companies as Elements of Minority Shareholder Protection" illuminated from a conservative, theoretical and empirical point of view the position of minority shareholders in Germany during changes in the circle of shareholders and company law procedures. These changes lead to, or at least suggest, claims for indemnity payments. The authors showed the conditions under which small shareholders must still look to their rights with respect to structural measures in company law. Indemnity payments made during the conclusion of profit transfer agreements to date have been, on average, lower than the officially-quoted stock exchange price. According to the authors, the same also holds true for integrations and mergers to the extent that the votes of widespread shareholdings are not required for the adoption of the relevant resolution.

The discussion paper was given by Christian Strenger (Deutsche Gesellschaft für Wertpapiersparen mbH).

Session: "Corporate Finance"


Günther Gebhardt

Günther Gebhardt (J. W. Goethe-University of Frankfurt) talked about "Announcement Effects of Financing Decisions by German Companies: Synthesis of an Empirical Research Program". In analysing the announcement effects on the financing and dividend payout policies of German companies, the author found significant differences to studies from the USA. These differences can be explained on the grounds of institutional conditions.

In his discussion of the paper Jan van Nieuwenhuizen (Morgan Stanley Bank AG) voiced the opinion that the advantages of broadening the investor base were gained at the cost of disadvantages for the existing shareholders (redistribution of wealth). Significant capital market reactions could in addition be detected during the preliminary stages of capital stock increases. Capital stock increases could often be recorded at the end of a period of excess yields (timing hypothesis) and a further phenomenon is to be found in the so-called "ex-day effects".

Hans Peter Möller (and Bernd Hüfner, RWTH Aachen) analysed in their project on "The Relevance of Company Information in the German Capital Market" whether the rendering of accounts is actually important for the German stock market. The study showed that a variety of correlations exist between the rendering of accounts and the stock market. Thus the rendering of accounts can be observed to influence forecasts, decisions and evaluations albeit to varying degrees. According to the authors, the results showed that it would be advisable from a stock market point of view to conduct fundamental equity analysis. However, a definite recommendation would require a more in-depth analysis of the effects of the rendering of accounts with respect to other groups of persons.

Franz Schmidt (Trinkaus & Burkhardt KgaA) stated in his discussion that he viewed as necessary further regular investigations of the forecasting quality of profit estimates from the viewpoint of analysts, banks, investors, and the companies involved, since all concerned would stand to gain. It would make sense to continue pursuing empirical research on the subject of accounting policy. The practical side of company analysis demonstrated time and again that the published year-end accounts were consciously carried out. In anticipation that the wave of consolidation and takeovers will persist further empirical studies in this field would be worthwhile.

Session: “Financial Market Trends and Monetary Policy”

Reinhard H. Schmidt (together with Andreas Hackethal and Marcel Tyrell, J. W. Goethe-University of Frankfurt) took an essentially empirical approach to analysing “The Alignment of Financial Systems in Europe”. According to the authors the expectations regarding harmonisation within the EC, at least until the start of monetary union, had quite clearly not been met. The German financial system still appeared to be dominated by the banks and its British counterpart by the capital market. The French system during the sample period from 1980-1998 was subject to the greatest changes and cannot easily be classified today. The authors forecasted two likely developments: either the financial systems will permanently maintain their differences or – possibly as a result of crises within the systems – an international model will prevail.

Norbert Walter

Norbert Walter (Deutsche Bank AG) said in this context that the discussion about the optimality of financial systems reminded him of the debate on exchange rate regimes. A middle course through the various key systems must be rejected on theoretical grounds. In fact, however, just such a middle course had proved successful in the form of the EMS. More recently it has been observed that a fundamental change has taken place within the financial systems of continental Europe. The study did not incorporate these changes because they had largely occurred in the smaller EC countries. Furthermore, the German system during recent years has also changed significantly with respect to certain system characteristics moving towards the Anglo-American system, without however becoming completely the same.

Peter Anker (RWTH Aachen) presented in his study “Monetary Policy and Financial Markets”. He established that an underlying uncertainty in financial markets with respect to the future money market conditions would appear to be unavoidable. The announcement effects of an operative course of action would appear more important with respect to money market control.

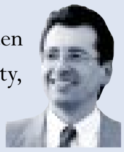
Hermann Remsperger (Deutsche Bundesbank) did not believe that there is any compelling reason for such a serious reorganisation at the operative level along the lines of the American central bank. The interest rate corridor of the ECB has proved its worth, since firstly the ECB has on the whole made successful use of its policy instruments in correctly signalling the course of monetary policy. Secondly, the principles used to guide the Eurosystem whilst the set of monetary policy instruments was being established have retained their validity. Thirdly, considerations are afoot within American monetary policy which would result at least partially in a move towards the operative model of the ECB.

Session: “Stock Exchange Organisation”

Wolfgang Gerke (University of Erlangen-Nürnberg) looked at “The Role Played by Privileges in Organising Stock Exchanges” and came to the conclusion that “privileges for brokers are indispensable”. In experiments it was shown that privileged market participants increase market efficiency, place more liquidity in the hands of investors and reduce the volatility of prices. Using empirical data from the German stock exchanges, it was demonstrated that the designated sponsors open up trading opportunities for investors – particularly during periods of low turnover. These market makers are especially active in situations where they are most urgently needed. This can be seen in the commitment of designated sponsors with respect to less liquid securities. In the organisation of ECN's and the Xetra trading platform Gerke thus recommended that privileges be accorded to specialised market participants, who make a commitment to the current market quotation.

Frank Gerstenschläger (Deutsche Börse Systems AG) believed that in the case of fundamental questions relating to the organisation of stock exchange systems similar consideration should be given on the stock exchange to the optimal use of privileges. Amongst others, so-called hybrid systems in which privileged market participants compete with the limited order book are to be examined.

According to Gerstenschläger Gerke's results are in line with actual stock exchange observations. Gerke's research provides endorsement for the German Stock Exchange for the New Market. The practical discussion, however, was more concerned with the acceptance of privileges since these frequently did not meet with the approval of other market participants.


Jan P. Krahnen

JAN P. KRAHNEN (together with Thorsten Freihube, CFS and J. W. Goethe-University, Frankfurt and Erik Theissen, University of Bonn) presented their project entitled "MARKET ORGANISATION, INFORMATION AGGREGATION AND THE INFLUENCE OF INTERMEDIARIES IN SECURITIES TRADING." Three main results obtained. Firstly, within the framework of an experimental and an empirical analysis the advantages, in the sense of low expected transaction costs for small investors, of an aggregated stock price determination (the so-called "batched auction") can be demonstrated. Secondly, in the case of a market structure with a broker as market maker relatively high transaction costs can be observed, which do, however, fall considerably in the face of competition. Thirdly, an empirical analysis of the Frankfurt Stock Exchange shows that the stock brokers there help to reduce volatility and the price spread without on average being able to profit from the acquisition of trading positions. This speaks in favour of a positive contribution to liquidity on the part of stock brokers. The results emphasise the positive role of the batched auction, of competition amongst market makers and an integration of stockbrokers with respect to the attractiveness of stock exchange trading, in particular in the field of relatively small and less liquid securities.

KURT BÜRKIN (DG BANK AG) underlined in his discussion the advantage of hybrid trading systems. A "Xetra specialist", that is, a specialist in electronic trading platforms would be just as feasible. In this case attention should focus on performance-orientated remuneration with a built-in "minimum wage" and competition. The lessons learnt in the USA should be taken to heart and a segmentation of markets be avoided.

Session: "Stock Exchange Trading"

The subject of the research project entitled "FINANCIAL MARKET RIGGING AND REGULATION" by SIEGFRIED TRAUTMANN (University of Mainz) was trade-based rigging (as opposed to information or action-based rigging) on financial markets. It was found that the structuring of financial contracts to be as heterogeneous as possible can reduce undesirable feedback effects. Furthermore, it was observed that dealer profitability does not increase with average order magnitude. Thus, even in the real world (or at least in the Xetra world) trade-based rigging is not profitable and therefore is not an issue for the financial market supervisory authorities.

In his discussion CHRISTOPH GALLUS (Deutsche Bank AG) commented that the dealer transactions analysed were not necessarily "stand alone" transactions and this would reduce the informative value of the results. A quantitative, theoretical model on the influence of block traders on prices would be desirable and he noted in addition that real markets are restricted and thus hedging is not always viable.

HARTMUT SCHMIDT (University of Hamburg) presented the results of his project "FROM SEGMENTATION TO TRANSACTION CONTROLLING: COMPARATIVE PRODUCT TESTS FOR TRADING PLATFORMS". According to the author, the message to investors is that transactions costs are already incorporated in the invoiced price quotations. Cost differences between platforms are of particular consequence when stock portfolios are frequently switched. Schmidt proposed comparative product tests for trading platforms. Transactions should flow only to those platforms with the lowest implicit transaction costs. In this way international competition would be improved and the cost of capital to firms be reduced.

ROBERT VON HEUSINGER (Börsen-Zeitung) said that Germany did indeed exhibit a low price spread but Xetra, for example, did badly with respect to 'market impact'. He asked why endogenous market makers as in Paris had not been introduced. In addition he pointed out that a trading period extension would not be solely advantageous since it would bring with it a dissipation of liquidity. In the discussion the conclusion was reached that all platforms should provide transparency of operations.

Session: "The Analysis of Spot and Forward Transactions"


Walter Krämer

WALTER KRÄMER (University of Dortmund) informed conference participants about "STATISTICAL PECULIARITIES OF FINANCIAL MARKET DATA". Financial market data on interest rates, stock prices and exchange rates and other speculative prices are distinguished from other economic time series by various peculiarities (such as excessive kurtosis, stochastic trends, ARCH and GARCH effects). The consequences of these peculiarities for the rational evaluation of financial instruments and for various statistical estimation methods and tests used in financial analysis were discussed and the implications for trading strategies were deduced.

Andreas Sauer (DG PanAgora Asset Management GmbH) criticised the use of statistical propositions based on averages. In his view forecasts in practice were important for individual firms. It is precisely with regard to the power of forecast, however, that statistical analysis could be useful since statistical peculiarities in economic data are especially important. He made further suggestions for research with respect, for example, to the stability of various phenomena and relevance in finite events.

Günter Bamberg (University of Augsburg) presented "An Empirical and Theoretical Analysis of the DAX Future Market". The most significant results showed, firstly, that the concentration on nearby contracts is inherent to the system. The long-term contract can therefore be abolished. Secondly, DAX future positions are on average only held for a few days. Furthermore, it was found that the move to "Halbeinkünfte Verfahren" and the big tax reform lead to varying taxation of derivative and equity trading. One modification recommendation, therefore, would be to correct this unequal treatment.

Heinz-Jürgen Schäfer (Dresdner Bank AG) confirmed the relevance of shareholders dividends and the supplementary taxation approach with regard to the DAX and DAX Future. He also confirmed the change in DAX regulations from 1st January, 2002 such that the cash dividend (gross dividend minus 25% "Definitivsteuer") is to be taken into account as a fictive reinvestment. In addition he underlined the significance of the DAX Future market for the issuing activity and the hedging activities for DAX participating receipts.

The conference finished with a discussion lead by a distinguished panel comprising Joachim Faber (Allianz AG), Leonhard H. Fischer (Dresdner Bank AG), Günter Franke (University of Constance), Jan Pieter Krahnen (CFS and J. W. Goethe-University of Frankfurt), Werner G. Seifert (Deutsche Börse AG), and Ernst Welteke (Deutsche Bundesbank) on the agenda for Germany as a financial centre. The main focus was on consolidation and fragmentation of the stock exchanges, securitisation, centralisation and the strengthening of financial market supervision as well as investor protection. In this way all necessary reform attempts could be evaluated and are summarised below.

Werner G. Seifert

Werner G. Seifert was confident that the German Stock Exchange is correctly positioned. ECNs do not really pose any threat since economic acceptance is determined as much by clearing and settlement as it is by technology and an established clientele. As long as the stock exchange guarantees the lowest transaction costs, ECNs will continue not to be a problem.

Joachim Faber

Joachim Faber welcomed all activities which made liquid funds available, however he regarded an efficiently functioning, price-generating stock exchange to be indispensable.

Ernst Welteke

Ernst Welteke said that the level of regulation with respect to securitisation should be kept low in order to enable efficient changes and accordingly, conditions should be adapted to suit the level of activity. To this extent the market would decide with respect to demands for the issue of funded obligations, whether a market or bank orientation is more efficient.

Fischer pointed out that the ABS market was continually expanding and frequently could be looked upon as an efficient financial instrument, however a complete financing via ABS was not feasible. At the end of the day it is the customer who makes the decisions and investment banking provides a service. However, even in this case "relationships" were becoming increasingly more important. Moreover, an active lending portfolio management enables the optimisation of risk allocation even on the own balance sheet.

Leonhard H. Fischer

Günter Franke

Fisher commented that the boundaries between product suppliers were diminishing ever further and for this reason the regulation boundaries should not be artificially upheld. According to him a strong centralised regulation is not necessary.

Welteke countered that harmonisation is more important since core areas of authority should be the main point of reference. Even in the future there would be no all-round financial institutes. The banking supervisory authority should in the future take on a more systematic supervision role and the functional separation of supervision should continue to be maintained. The supervision authorities have difficulties in recruiting personnel and the employment positions should be made more attractive to qualified young professionals.

Faber put forward the argument that in order to improve investor protection, existing regulations should be enforced by the supervision authorities. The example of the New Market showed that it is necessary to make clear to investors the relationship between risks and returns. To this end, publicity regulations for firms must be strictly controlled in the event of a stock exchange flotation.

Seifert replied that the stock exchange could not afford an auditing budget and it was already the most strictly regimented market. The question of who was to blame was superfluous as long as the slowly evolving equity culture understood the concept of risk. Increased regulation must be avoided in order to keep the costs of capital low.

The panel agreed that the following issues should feature on an agenda for Germany as a financial centre:

- **Training initiatives relating to financial market issues in theory and practice.**
- **Attractive jobs in supervision and regulation fields.**
- **Centralisation and harmonisation of supervision.**
- **Rapid “Finanzmarktförderungsgesetz”.**
- **Corporate control law.**
- **Structural reform for the Deutsche Bundesbank with an integrated position.**

Thorsten Freihube

Research Project "National and Regional Price Developments in Monetary Unions: How Far Can We Push the Law-of-One Price?"

Axel A. Weber

The increasing integration of international goods and capital markets is driven by a decline of natural and political barriers to trade. This is unambiguously true for international capital markets; trading and communication costs have been dramatically reduced by the development of modern communication technologies and in addition restrictions on international flows of capital have been abandoned or at least considerably reduced for many capital markets. For international commodity markets, however, the question of increasing integration is not so obvious. Although a considerable decrease in transportation and information costs and an increasing opening of national markets can be observed, the empirical (and theoretical) literature on this subject still reveals strong evidence of insufficient integration.

In their seminal study of the North American goods markets, Engel and Rogers (1996) – using disaggregated price data for 14 US and 9 Canadian cities – show that price dispersion within countries is significantly lower than that across countries. They interpret the strong impact of the border variable on the dispersion of international prices as evidence of strong segmentation of the US and the Canadian commodity markets. Successive studies have confirmed these results. Parsley and Wei (2000) and Beck and Weber (2001a) show for the US and Japan that markets across these two countries are even more segmented.

A recent CFS study by Beck and Weber (2001b) obtains similar results about goods market segmentation for the European Union countries based on price data from 81 European cities in six European countries prior and during EMU (see map below for our regional coverage).

Beck and Weber show that EMU has reduced price dispersion in Europe by roughly 80% within the first two years of EMU. Thus, monetary unification has contributed significantly to a decline in good market segmentation within Europe. But markets are far from being perfectly integrated yet. Beck and Weber (2001b) also confirm for Europe the finding of Cecchetti, Mark and Sonora (1999), who discover a large degree of persistence in inflation differentials across US cities. Owing to such inflation differentials, national governments in the Euro zone face differential real interest rates (under equalised nominal interest rates) and therefore will have differential real tax liabilities in the servicing of the respective national debts. This may cause problems for the policy of the ECB since it will result in different national demands concerning monetary policy (Does One Size Fit All?).

Whilst for the US many of the issues discussed above are analysed as part of a large NBER project, research with European data is still in its infancy. The CFS research project briefly described here aims at pushing this research forward. These CFS research activities are conducted within a pan-European Research and Training Network (RTN) funded by the European Union. After completing an extensive data gathering exercise, a number of research papers are now in the process of being written. Two such papers, already referred to above, will be appearing as CFS Discussion Papers shortly. The research results have been submitted and accepted for presentation at large conferences, such as the Annual Congress of the European Economic Association in Geneva or the Annual Meeting of the German Society for Economic and Social Policy (Verein für Socialpolitik). The authors were also invited to conduct some further research on inflation diversity in Europe as visiting research fellows at the ECB and they presented some of the above findings in an ECB seminar in March 2001. A proposal for studying the "Disintegration Effects of Currency Crises" has been submitted to the International Monetary Fund and there are plans to extend this line of research to emerging market economies in Asia, Southern America and south-east Europe.

After completing this initial set of CFS studies outlined above, the next step will be to make the spatial price data bank available on the Internet and to involve other researchers from outside CFS in these projects. Also, gathering additional European regional data on prices, interest rates, wages, output, employment and fiscal data will enable us to extend our research to studying the regional impact of monetary and fiscal policy in Europe in more detail than national data typically allow.

Axel A. Weber

References

Beck, Günter and Axel A. Weber (2001a), "How Wide is the Pacific?", mimeo.

Beck, Günter and Axel A. Weber (2001b), "How wide are European borders? – On the Integration Effects of Monetary Unions," mimeo.

Engel, Charles, and John H. Rogers (1996), "How Wide Is the Border?" American Economic Review, 86, (December), pp. 1112-1125.

Cecchetti, S.G., C.M. Nelson and R. Sonora (1999), "Price Level Convergence Among United States Cities: Lessons for the European Central Bank," mimeo.

Research Project "Corporate Finance when Cash is Scarce: Bank Behaviour in Distress and Workout Situations"

Participants: Antje Brunner (CFS and Humboldt-University, Berlin), Jan Pieter Krahnen (CFS and J. W. Goethe-University, Frankfurt)
Project duration: 1998 - 2001.

Content: Within the framework of the project the factors of success for a workout in corporate crises are to be identified using a detailed database. To date special attention was given to the question how the danger of a corporate run can be prevented during a crisis. This refers to premature and more or less simultaneous loan repayment demands by lenders, in particular by the banks. Using a sample from the nineties, our study provides an insight into the measures by which banks in Germany influence the success of reorganisation within affected firms. Particular significance is attached here to the readiness of banks in the face of a corporate crisis, typically one accompanied for the first time by a negative rating, to subordinate the individual interests of the financing bank to some group interest. To this end so-called creditor pools are often set up. These pools co-ordinate the creditor bank actions and achieve a significantly higher degree of success in reorganisation. The creation of such pools is made easier when there is a small number of banks involved with approximately equal shares in funding. A comparison with banking behaviour in other countries shows that the readiness of banks to support co-ordinated action aimed at reorganisation is particularly influenced by the structure of insolvency laws.

Jan Pieter Krahnen

Research Project "Venture Capital and the New Markets in Europe"

Under the supervision of Mark Wahrenburg (J. W. Goethe-University, Frankfurt) researchers from the J. W. Goethe-University, Frankfurt (Stefan Feinendegen, Eric Nowak, Daniel Schmidt) and CFS (Stefanie Franzke) are working together on the CFS research project "Venture Capital and the New Markets in Europe". The joint aim is to gain a deeper insight using primarily empirical analysis into the funding of growing companies or the institutionalised pre- and after-IPO venture capital markets respectively. In this context it is above all the venture capital (VC) companies as well as the new markets in Europe in their function as an exit channel that provide the focus of attention.

Mark Wahrenburg

By way of example, the current CFS subproject entitled "The Analysis of Contractual Relations between VC Funds and Fund Investors" is presented here. The aim of the project is to analyse the relation between firm-specific and macroeconomic factors and the organisation of contractual relations between investors and venture capitalists. The key questions looked at in this analysis are the following: what contracts are concluded? What arrangements are made regarding incentives and the sharing of risk? To what extent are investors protected through the funds via covenants on moral hazard behaviour? Has the typical form of contract changed during the period from 1979 until today? What parallels and what differences do European contracts exhibit in comparison with those from the US?

A comprehensive compilation of the relevant data required for the empirical analysis is currently in progress. First results from this analysis are planned for Autumn.

Research

During the course of last year studies were completed based on the extensive data set of the New Market. They include studies on ad hoc publicity, price behaviour in connection with the lock up deadlines as well as an analysis of IPO companies financed with and without venture capital. These papers have in part already been published or presented at big conferences or plans for their dissemination are in the pipeline, for example, at the annual meeting of the Verein für Socialpolitik (Society for Economic and Social Policy): Papers can be downloaded at http://www.ifk-cfs.de.

Further on-going projects are looking at amongst other things the governance structure of companies on the New Market and the costs of a stock exchange flotation for expanding companies.

Mark Wahrenburg

Research Project “Institutional Investors: Behavioral Patterns and Market Impact”

Due to the well-known problems of public pay-as-you-go pension systems the practical importance and thus also the economic relevance of funded systems keep increasing. In addition to traditional products (such as mutual funds, life insurance contracts, savings plans offered by banks, real estate property) innovative instruments (such as ‘Altersvorsorge-Sondervermögen’, index-linked life insurance contracts, and others) are offered in increasing number for the purpose of retirement saving. The problem for the private investor now is to select from this rich spectrum of products an investment program that optimally meets his individual preferences. Safety and return of these products are important quality aspects, which have a significant impact on the investor’s decisions. Besides institutional factors, like tax laws, the design of mutual funds is crucial for their risk and return characteristics. Furthermore the suppliers of mutual fund products must promise a certain minimum return to the investor, as stated in the current version of the ‘Altersvermögensgesetz’ (Retirement Savings Act). This means that the investor will not have to suffer from shortfall risks caused by adverse movements on the capital markets. On the other hand, the mutual fund companies now face market risks, since in the case of a shortfall equity has to be used to fill the gap. The problem for them is to ensure the credibility of these promises by taking appropriate safety measures as well as to allow for sufficient up-side potential in scenarios of positive capital market movements. Besides the question of how much equity a mutual fund firm should have these two aspects are primarily related to an adequate individual product design.

Raimond Maurer

It is the aim of the research project on “Institutional Investors: Behavioral Patterns and Market Impact” to analyse the long-run risk and return characteristics of alternative fund products from a finance perspective. Under the supervision of Raimond Maurer and Christian Schlag (both J. W. Goethe-University, Frankfurt) the view of the investor on the one hand and that of a mutual fund firm which has firmly promised to deliver a certain minimum return will be analysed in different sub-projects.

Raimond Maurer

CFS Working Papers

Since January 2001, 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.

2001/01 *Stefanie Franzke*
Underpricing of Venture-Backed and Non Venture-Backed IPOs: Germany’s Neuer Markt

2001/02 *Roland Beck*
Do Country Fundamentals Explain Emerging Market Bond Spreads?

2001/03 *Markus Kern / Bernd Rudolph*
Comparative Analysis of Alternative Credit Risk Models – an Application on German Middle Market Loan Portfolios

2001/04 *Antje Brunner / Jan Pieter Krahnen*
Corporate Debt Restructuring: Evidence on Lender Coordination in Financial Distress

2001/05 *Ralf Ewert / Andrea Szczesny*
Countdown for the New Basle Capital Accord. Are German Banks Ready for the Internal Ratings-Based Approach?

CFS*executive conference*

Advances in Behavioral Finance

Psychology and economics – a contradiction in terms? Not necessarily for a comparatively young research discipline called "Behavioral Finance". Insights from psychology are used in order to be able to understand better the behavior on financial markets. The most recent research results and their implementation in practice were the subject of a CFS conference, which took place on 26th March, 2001 in co-operation with Joachim Goldberg (cognitrend GmbH) and Martin Weber (University of Mannheim).

Martin Weber

Joachim Goldberg

The meeting was opened by Josef Ackermann (Deutsche Bank AG), who pointed out that factors, referred to simply in the terminology of traditional theory of finance as anomalies, play a far greater role on the markets than is allowed for in the traditional theory of finance. It is, however, the understanding of what drives the market which puts us in the position of being able to assess the situation and the risks, and to make use of investment opportunities.

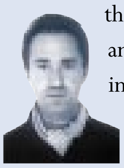
"Risk Perception and Portfolio Structure" was the subject of the first paper. That defined risk often does not coincide with perceived risk was the first hypothesis put forward by Martin Weber. Portfolio decisions are thus not influenced by mathematical measures of risk but are instead driven by subjective factors. Hence, studies on risk perception show that the means of diversification are underestimated since people find it difficult to think in terms of correlations. Moreover, even when market participants are in the position of being able to estimate correlations correctly, they are still frequently not taken into account in diversification decisions. Also the risk attached to foreign equity is estimated to be higher than that of domestic equity, an effect referred to as "home bias". Long-term risks are believed to be lower than short-term risks and market participants have greater faith in mean reversion as historical prices series show. Weber's advice to investment consultants is thus as follows: clients should be warned of the danger of biased risk perception so that they neither miss opportunities nor unintentionally take risks.

"Taming the Devil on your Shoulder – Trading Models to eliminate the Biases" was the title of the paper presented by Herman Brodie (cognitrend GmbH). People are their own worst enemies. They have a distorted perception towards increasing prices (selective perception), tend to be overconfident and become attached to sunk costs. The biggest problem, however, is that losses are left to run and profits realised too early (disposition effect), instead of realising small losses and letting profits run a while. The solution to all these human weaknesses, according to Brodie, is to be found in a computer-assisted trading model, which on the one hand does not of course exhibit these human behavioural patterns, but on the other hand uses knowledge about them and attempts to exploit them in a profitable manner. A trading model has the advantage that it is testable and consistent and has no memory. The development of such trading models is a service which cognitrend offer to their customers.

"Home Sweet Home. No Happiness Alone! On the Subject of Home Sentiments, Competence and Portfolio Structure"– under this heading Dirk Schiereck (University of Witten-Herdeke) analysed the effect known as home bias. Investors only buy what they think they know and therefore prefer to invest in the domestic market, that is, they do not diversify enough. Moreover, the extent of home bias can also not be explained by factors such as transaction costs, legal regulations or inflation hedging. Studies show that investors seem to be generally optimistic with respect to the performance of the domestic market and they also have a more strongly subjective perception of competence. This increased feeling of competence goes hand in hand with a subjective probability distribution for future yields on shares, which for domestic shares exhibit a lower diversification.

"Too Many Heads spoil the Price – Group Decisions on Financial Markets" was the title of the presentation given by Joachim Goldberg (cognitrend GmbH). Goldberg discussed group dynamics, which suggest on the one hand that groups are very popular but on the other hand make it more difficult to arrive at efficient decisions. A group provides security, it socialises failure and allows success to be shared. But there is no room in a group for minority opinions or doubters. There is pressure to conform. If there is a leader in the group then other group members tend to accept her opinion. Groups also exhibit the tendency to make risky investment decisions; the willingness to take on risks is often admired and a failure is shared by the whole group. Goldberg therefore recommends to groups that the person with the least experience should voice her opinion first and the leader of the group last. It is the task of group leaders to question opinions. They should not in the first instance just try to find support for their own ideas. And not only losses should be analysed but also profits: "Could we have made more?" Finally, listen to the "court jester", to loners and take their opinions seriously.

Bruno Biais (University of Toulouse) talked about "Psychological Traits and Trading Strategies". By means of an experiment involving conference participants themselves, Bruno Biais demonstrated the effects of overconfidence. He asked the participants questions such as "What was the stock price of Deutsche Post on 15th March, 2001 and on 22nd March, 2001" and "How many people worked in the construction industry in 1998?" The participants had to choose a 5% confidence interval such that there was only a 5% chance that the correct answer lay outside this confidence interval. The interesting result showed that the more confident some one feels about an answer the smaller the confidence interval that is chosen and thus the chances of being wrong are often higher than with somebody who has no knowledge of the subject. In other words, overconfidence leads to wrong decisions, that is, to a greater number of unprofitable decisions. Biais' advice was to recognise your own cognitive biases, correct them and thus improve the effectiveness of your trading decisions!



Bruno Biais

Imke von Königsmarck

"Financial markets – life in a time-lapse."
(Joachim Goldberg)
"Be loyal to the problem and not to the group."
(Hanspeter Stücheli)
"Behavioral finance – a chance for the financial sector." (Bruno Biais)
"Subjective risk is not measured in volatility."
(Martin Weber)

CFS*seminars*

Moving Ahead with Knowledge

Being well qualified can only be achieved by ensuring a continual update of knowledge. The CFS seminars for specialist and executive personnel as well as interested researchers provide an important basis for efficiently putting into practice at work what has been learnt and they also cover many fields ranging from equity research and the balancing of financial instruments to the evaluation of interest rate products or derivatives. Owing to the close links between research and executive development at CFS and the intensive collaboration with researchers from home and abroad, the most recent insights from financial market research are incorporated directly in the seminars. These seminars take place under ideal conditions at the training centre of the Commerzbank in Glashütten-Oberems (Taunus) as well as at the training centre of the Deutsche Bundesbank in Eltville with the supervision of academic experts and leading practitioners. Special terms are available for all participants from member firms.

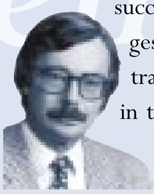
During the second half of 2001 CFS is offering amongst other things the opportunity to acquire qualifications in the following subjects (a complete timetable is included in the Newsletter):

Forthcoming Seminars

Aktienbewertung und Style-Investing

(Seminar in German language)

Successful strategies for stock market portfolio management require a sound knowledge of stock market research as well as a realistic evaluation of the opportunities available for obtaining excess yields through style investing. The evaluation instruments largely used hitherto will not be sufficient in the future because investors are placing higher demands on professional financial analysis and investment consulting. The competent approach to dealing with cash-flow and option-based evaluation methods is rapidly becoming an important factor for the

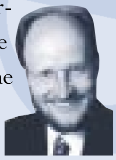

Manfred Steiner

success of asset management. CFS acknowledges the resulting demands for qualification training by imparting the required knowledge in the seminar on "Stock Market Analysis and Style Investing". This seminar will be lead by MANFRED STEINER (University of Augsburg), who is a certified expert in the field of capital market research and portfolio management.
Date: 14th/15th September, 2001.

Customer Relationship Management im Multi-Channel Banking

(Seminar in German language)

In this CFS seminar insights from current research into the intersection of corporate finance, marketing and IT will be analysed using concrete examples from business practice. Under the supervision of HANS ULRICH BUHL (University of Augsburg) and ANDREAS WILL (University of Magdeburg) fundamental and comprehensive knowledge will be imparted about modern and functional concepts relating to the organisation of customer relations in multichannel banking.


Hans Ulrich Buhl


Andreas Will

Date: 19th/20th October, 2001.

Emerging Markets Economies: Risks and Opportunities for Banks and Investors

Understanding emerging financial markets is increasingly important for a successful banking and investment strategy. A balanced judgement is required of both the risks and opportunities for investing in these markets, since the high returns have to be weighted against the potentially higher risks. What are those risks, and do market spreads adequately price them? What alternative risk indicators are available? Can the analysis of the history of financial crises in emerging market economies help to predict future crises? How do policymakers react to such crises and how does official intervention in the markets affect investors and financial institutions? What have international financial institutions learnt from the events in Mexico, Asia and Russia, and, more recently, in Argentina and Turkey? These are only a few questions that will be analysed extensively in this seminar by an experienced practitioner, HARALD EGGERSTEDT (Commerzbank AG), and an academic expert, AXEL A. WEBER (CFS and J. W. Goethe-University). Their in-depth coverage of theories, facts and empirical insights combined with a hands-on case-studies approach will provide a unique account of our current understanding of the causes and consequences of financial crises in emerging market economies. The number of participants is limited thus creating an ideal framework for an intense learning experience. The course language will be either English or German depending on the majority of participants.


Harald Eggerstedt

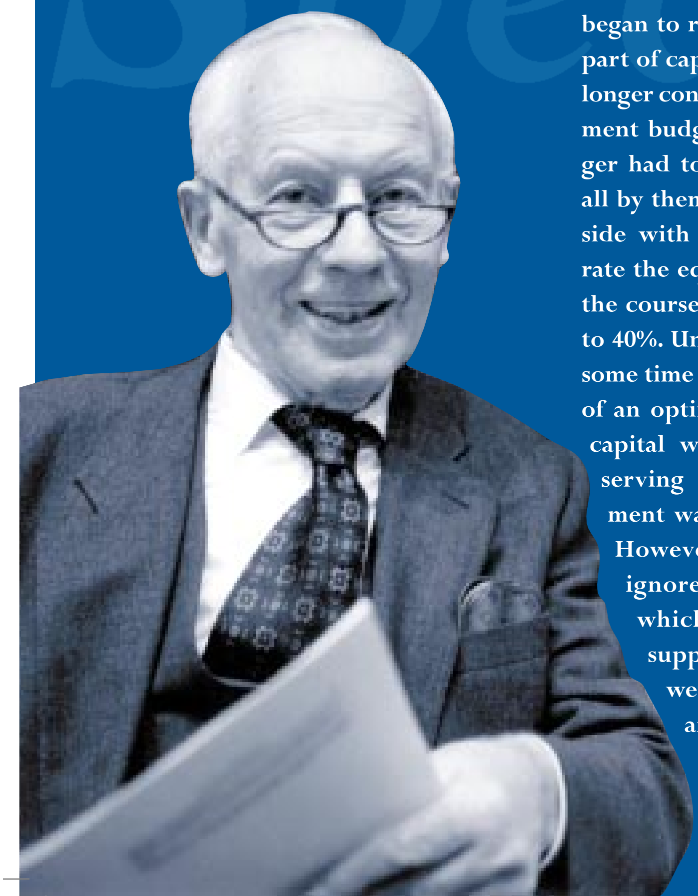

Axel A. Weber

Date: 23rd/24th November, 2001.

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)69-242941-33, Email: bauder@ifk-cfs.de and kleiner@ifk-cfs.de.

Interview with Professor emeritus Dr. Karl Häuser

- Graduate in economics.
- Born on 21.10.1920 in Obermühle/ Württemberg.
- Married to Jutta Häuser, one son, Christoph.
- 1958-1962: Professor for public finance at the University of Kiel.
  1962-1986: Professor for public sector economics at the J. W. Goethe University, Frankfurt am Main.
  1986 Professor emeritus.
- 1968-1992: Director of the Institut für Kapitalmarktforschung (now Center for Financial Studies).



CFS: The Center for Financial Studies was founded in 1967 as the Institut für Kapitalmarktforschung. Why was there a call for a research institute which dealt with capital market issues?

Karl Häuser: Capital markets were still unknown territory in the sixties. Of the three factors of production both labour and land were analysed in economic theory and empirical research but this was rarely the case with respect to the factor capital or capital markets. Through the 2nd World War and its aftermath, such as the currency reform of 1948, practically all monetary capital was destroyed and Germany – West Germany, that is – had to start from scratch. It was nearly a decade after the 1948 currency reform before the capital market slowly began to revive and the greater part of capital resources was no longer controlled by the government budget and firms no longer had to finance investments all by themselves, or at the outside with a bank loan. At any rate the equity ratio fell during the course of the fifties from 50 to 40%. Until that point and for some time afterwards the notion of an optimal use of the factor capital with the interest rate serving as a control instrument was scarcely envisaged. However, it could not be ignored that countries which were rich in the supply of land and labour were still not becoming affluent. The key must therefore rest with the third, hitherto neglected, factor capital. Thus it was deemed necessary to research the institutional and legal conditions which would lead to the optimal employment of capital. The actual idea of founding an institute stemmed from world of practice, that is, the banks, above all the private bankers and the Frankfurt stock exchange.

CFS: Today it is hard to imagine that there was a time when the factor capital received scarcely any attention, especially when that time was only 34 years ago.

Karl Häuser: Germany was a long way behind other countries such as the UK, USA and France in the field of banking, stock exchanges and monetary systems. This was not only true in practice but also with respect to economic research. If you were to carry out a test and take to hand a textbook on economics from the sixties then you would look in vain both in the index and in the page of contents for the key words "stock exchange", "dividend", "capital market" or "long-term interest rate". They were still not part of the academic consciousness let alone that of public authorities or indeed the general public. A savings account was kept for "a rainy day" or to put towards buying a house, but by no means in order to invest money. Only about 3% of the population owned shares and they were

Early Era of Capital Market Research.

Special

usually inherited. I can recall an unusual incident which happened at that time. It must have been 1957. A woman stopped in front of the Frankfurt Effekten- und Wechselbank on Kaiserstraße in order to look more closely at a list of quotations hanging there. This was quite an unbelievable sight at the time not least because there was no official interest shown in the capital market in those days. Shares were something for speculators and not for normal citizens. Also the interested person was a woman and this made the whole situation even more unusual.

CFS: Public interest in the capital market was thus very low in the sixties but academic interest was slowly developing. In what state was the capital market itself at that time?

Karl Häuser: The founding phase of the Institut für Kapitalmarktforschung coincided with a critical period for the capital market. The capital market was still somewhat shaky on its feet and needed crutches, for example, in the form of a central capital market committee deemed to be necessary even by that arch liberal minister for economics, Ludwig Erhard, in order to stabilise the market and the interest rate. In 1965 a coupon tax was introduced. This charged foreigners with 25% tax at source on interest accrued on domestic securities. The aim was to stem the growing flow of foreign money, which made the domestic money supply expand and forced the Bundesbank to pursue continually restrictive policies. The Germany currency, which had been avoided internationally for nearly three decades now had to be protected from too high a demand from abroad. However the coupon tax did not scare off foreign consumers, but severely affected the domestic stock exchange climate instead. The total volume of issues shrank in 1966 to less than half of the previous year's volume. The minister of finance owing to the low market productivity renounced any further borrowing and the "round table" – that is the coalition of public borrowers – recommended that he should do so. Share prices fell in 1969 to their lowest level since 1959. Banks, stock exchanges and financial managers were looking for academic counsel.

CFS: Until 1992, that is for 25 years, you were Director of the Institut für Kapitalmarktforschung. Were you able to realise your personal goal of promoting the capital market?

Karl Häuser: Does anyone ever reach a state of knowledge that might be called sufficient? In those days we had to start by laying the foundations before being able to erect a scientific building and perhaps even lay one or two tiles on the roof.

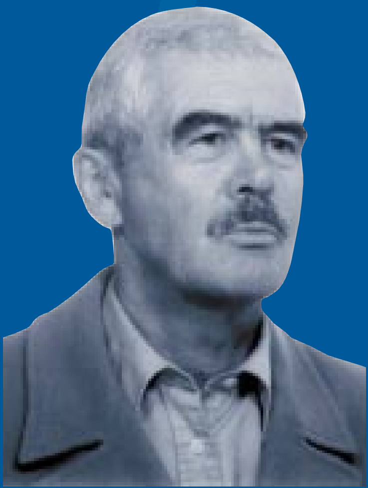
CFS: One final question. Last year you celebrated your eightieth birthday yet you are still very active in capital market research and act as a consultant on many committees. How do you manage it?

Karl Häuser: It is not quite as exciting as all that anymore. Old age takes its toll and you have to accept that the circle is getting smaller. I am extremely grateful that I am still able to work and it is a pleasure to note the goodwill shown to me at the CFS.

Special

Special

The first two academic staff members at
Formerly known as Institut



Dr. János Somogyi

- **Graduate in economics.**
- **Born on 25th January, 1939 in Nagyszékely, Hungary.**
- **Married to Maria Somogyi, one son, Roland.**
- **Academic staff member at the IfK from 1968 to 1971.**

Curriculum Vitae:

1966: graduated in economics at the J. W. Goethe-University, Frankfurt am Main

1968-1971: academic staff member at the Institut für Kapitalmarktforschung

1971: doctoral thesis on the subject of "Kapitalmarktzins – Sparen und Investieren", which was published as the first volume in the IfK "monograph" series

1971-1998: moved to the International Monetary Fund (IMF); first of all in the European and Asian department working on the stabilisation and adjustment programmes; transferred to the IMF institute to supervise the macroeconomic training of officials in member states, first of all in Asia and then in the Caribbean, and after the change in the political system also in Eastern Europe and the former Soviet republics; from 1993 onwards in charge of the setting up and running of the Pacific Financial Technical Assistance Centre, which supervises island countries from the North to the South Pacific through training and ongoing counselling in the fields of budget policy, tax administration, statistics and bank monitoring.

Since 1998 working as a photographer under the name of Jan Savua, with exhibitions to date in America and Europe.

"When I look back on my time spent at the IfK ....I can recall a certain atmosphere, which was characterised by intensive efforts to uncover original insights into economic problems and to pursue animated discussions in the friendly circle of colleagues. It was a commonly held belief that it was vital to come up with and make known new unbiased findings, which would then also lead to professional success. (This experience was not always an advantage in later years. The later experience that in reality conforming to expectations anticipated a priori from above was more likely to provide the key to success and the ease with which many colleagues were able to accept this stance contributed decisively to my decision finally to leave the profession)."

news 2/01 2 24.07.2001 11:13 Uhr Seite 25

THE CENTER FOR FINANCIAL STUDIES (CFS) – FÜR KAPITALMARKTFORSCHUNG (IFK)

Prof. Dr. Norbert Walter

- **Graduate in economics.**
- **Born on 23rd September, 1944 in Weckbach/Unterfranken, Germany.**
- **Married to Christa Walter, two daughters, Christine and Jeanette.**
- **Academic staff member at the IfK from 1968-1971.**

Curriculum Vitae:

1968: graduated in economics at the J. W. Goethe-University, Frankfurt am Main

1968-1971: academic staff member at the Institut für Kapitalmarktforschung, Frankfurt am Main

1971: doctoral thesis on the subject of "Kapitalertragsbesteuerung und Kapitalmarkt"

1971: Move to the Institut für Weltwirtschaft, Kiel; firstly as a research assistant to Professor Giersch, and later as head of a research group; from 1975 head of the department for business cycle research; from 1978 Professor and Director at the Institut für Weltwirtschaft; from 1986 head of the department for resource economics; Summer 1986 for a year as the John J. McCloy Distinguished Research Fellow at the American Institute for Contemporary German Studies at the Johns Hopkins University, Washington D.C., USA

1987: Economist in the economic research department of the Deutsche Bank AG, Frankfurt am Main; since 1990 Chief Economist of the Deutsche Bank Group; since 1992 manager of Deutsche Bank Research and Chief economist of the Deutsche Bank Group, since July 2000 also a member of the Committee of Wise Men on the Regulation of European Securities Markets at the EU Commission in Brussels.

"When I look back on my time at the IfK ....I think first of all of the collaboration with the Frankfurt Stock Exchange and our development work on the setting up of the DAX. But I also recall the morning breaks with Janos Somogyi's hot chillies, which regularly had us moved to tears!"

The Center for Financial Studies

1964 To commemorate the 50th anniversary of the J. W. Goethe-University in Frankfurt, some banks, above all private bankers and the Frankfurt stock Exchange set up a fund for establishing a research institute.

1966 The proclamation for founding a research institute is signed. The institute is funded solely (even today) by donations and membership fees.

1967 The Institut für Kapitalmarktforschung is established as a research institute associated with the J. W. Goethe-University. It is sponsored by the Gesellschaft für Kapitalmarktforschung e.V., which was founded in the same year. It is the first research institute in the German Federal Republic which is concerned solely with issues relating to capital markets.

1968 The Institute takes up its work. Its initial accommodation is in the Robert-Mayer-Str. 20, from 1971 in the Sophienstr. 56 and from 1989 in the Zeppelinallee 29. Prof. Karl Häuser (J. W. Goethe-University, Frankfurt am Main, Chair for public sector economics) is the head of the Institute. In addition there are initially two academic members of staff, two temporary employees and a part-time secretary. In 1968 the lecture series on the theme of "Current problems of the capital market" is established. Two publication series are introduced entitled "Colloquia discussions" and "Monographs". The first research paper focuses on capital market development since 1957. Studies follow on the taxation of capital investment income, the paradox of returns (stocks and shares versus annuities), on money market dependence of the capital market, financial market issues and many more.

1986 Prof. Karl Häuser becomes professor emeritus and concentrates more on his role as the Director of the Institute.

1992 Prof. Karl Häuser retires as Director of the Institute. Prof. Bernd Rudolph and Prof. Wolfgang Gebauer (both from the J. W. Goethe-University, Frankfurt am Main) are made Directors of the Institute. Professor Rudolph is the first business economist to become joint head of the Institute. The research activities can thus be more directly focussed on the link between business studies (finance) and economics (money and exchange rates). The publication series "Contributions to the theory of capital markets" is established.

1993 Prof. Bernd Rudolph moves to the University of Munich but remains a Director of the Institute.

1995 Prof. Wolfgang Gebauer resigns from the Institute. Prof. Jan Pieter Krahnen transfers from the University of Gießen to the University of Frankfurt and becomes at the same time a Director of the Institut für Kapitalmarktforschung. A working group of economists is formed who call for the institute to be extended in the area of executive development.

1996 The Institut für Kapitalmarktforschung is given an additional name "Center for Financial Studies" – reflecting the increasingly international orientation of research activities. The first research conference is organised and takes place. Furthermore, the CFS executive development programme comes into being. Its aim is to provide qualifications and further training for specialists and executive personnel from the financial sector. The financial base of the Institute can be considerably enlarged thanks to support from members of the Society for Financial Market Research. A first network programme is begun on the subject of "Financial Risk Management in German Banks" with the co-operation of the most important German commercial banks.

1997 The CFS moves to quarters in the Landeszentralbank in Hessen, Taunusanlage 6. Dr. Karlheinz Schwuchow becomes Managing Director of the Executive Development Programme. The CFS Working Papers series is set up. The first edition of CFS News appears.

1998 Prof. Rudolph resigns from the CFS. At the end of 1998 Prof. Axel A. Weber from the University of Bonn moves to the University of Frankfurt and becomes Co-director of the CFS together with Prof. Krahnen. The field of research is now extended to include not only the area of "Financial markets and intermediaries" but also monetary economics. The lecture series is also extended.

1999 Dr. Antje Becker becomes Managing Director of the Executive Development Programme.

2000 The fields of research and executive development are now organised jointly under the management of Dr. Antje Becker. CFS becomes the German partner in the European Union's research network on "Understanding Financial Architecture: Legal and Political Frameworks and Economic Efficiency" and "The Analysis of International Capital Markets: Understanding Europe's Role in the Global Economy".

2001 The Center for Financial Studies - Institut für Kapitalmarktforschung is now only referred to as the Center for Financial Studies. In addition to the directors and the managing director, there are currently eight academic staff members and a visiting research fellow, who is here as part of the European Research Training Network (RTN). There are also eight administration staff members involved in the organising of lectures, conferences, seminars and public relations as well as four temporary staff.

Imke von Königsmarck

Membership of the "Gesellschaft für Kapitalmarktforschung e. V."

What is the "Gesellschaft für Kapitalmarkt-forschung e.V."?

The "Gesellschaft für Kapitalmarktforschung e.V." is the organisation which sponsors the CFS. This organisation was established in 1967 with the aim of promoting economic research in the field of capital markets and making the results known to the general public. Furthermore, the organisation was set the task of providing education and executive development training in the field of financial markets. To this end in 1967 the "Gesellschaft für Kapitalmarktforschung e. V." founded the "Institut für Kapitalmarktforschung", which later became the "Center for Financial Studies".

Why does the "Gesellschaft für Kapitalmarkt-forschung e.V." need members?

CFS finances its research and programme of events via membership fees, donations and the proceeds from events and publications. That is to say, CFS does not receive any public funding. CFS is currently sponsored by approximately 120 banks and insurances as well as consultancy firms and business enterprises. A current list of members can be found on our homepages (www.ifk-cfs.de). A wider circle of members would enable us to extend and make more international our activities.

What advantages are there in becoming a member?

Becoming a member of the "Gesellschaft für Kapitalmarktforschung e. V." means you have easy access to international research in the fields of financial and monetary economics. You receive a ticket contingent free of charge to certain CFS events and are given preferential treatment with respect to invitations to research conferences as well as a 10% discount on executive development events. You also receive all CFS publications free of charge. Furthermore, we provide assistance in researching issues related to capital markets and monetary policy. The CFS specialist library is also open to members.

How to become a member of the "Gesellschaft für Kapitalmarkt-forschung e.V."?

To become a member you can contact Christiane Bauder (069/24 29 41-30), send an e-mail (bauder @ ifk-cfs.de) or complete and forward to us as a hard copy the application form from our homepage (www. ifk-cfs.de). The annual membership fee from the year 2002 for individual members is Euro 100, for firm members Euro 1500 and for sponsoring members Euro 7500. Since the "Gesellschaft für Kapitalmarktforschung e.V." is a non-profit making organisation the membership fee is tax deductible.

Interested? We shall look forward to hearing from you!

Publisher
Center for Financial Studies
an der Johann Wolfgang
Goethe-Universität, Frankfurt
Taunusanlage 6
D-60329 Frankfurt/M.
Tel: 069-242941-0
Fax: 069-242941-77
http://www.ifk-cfs.de

Editor
Dr. Imke Gräfin von
Königsmarck

Design
Dirk Stähling,
Darmstadt