Newsletter Q3

The House of Finance • 3rd Quarter 2010

NEWSLETTER SUBSCRIPTION

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

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

To subscribe to a printed version of this newsletter, please e-mail:
printed-newsletter@hof.uni-frankfurt.de

To subscribe to an internet version, please e-mail:
internet-newsletter@hof.uni-frankfurt.de

EDITORIAL

Dear Friends of the House of Finance,

The recent crisis in the financial markets and the ensuing economic downturn have inspired a vigorous and wide-ranging debate about the measures required at the international level to achieve the proposed fundamental overhaul of our financial system. The crisis has served as a painful reminder that both markets and individual freedoms need boundaries and effective regulation.

Blamed for triggering and exacerbating the crisis, the banks have found themselves on the receiving end of most of the criticism. Rebuilding trust in the banking system, restoring its basic credibility and preventing such crises in the future will involve broadening the existing regulatory framework, increasing its sophistication and extending it to all of the relevant players. Tougher rules are being created for banks in an attempt to make the financial sector more stable and less volatile. The planned "Basel III" reform is intended to eliminate the root causes of the deficiencies that have become evident in the global banking system. Most impor-

tantly, capital adequacy and liquidity requirements are to be tightened up in order to make banks around the world more resilient in the face of exceptional economic scenarios.

One of the main lessons to be learned is that banks need to set aside more capital to cover their risks. I certainly welcome this approach in principle: we must enhance the ability of our financial system to cope with risk and it is right, in principle, for institutions to keep not only more, but also better quality capital available to see them through difficult times. We do, however, need to ensure that whatever measures are introduced do not prevent us from striking an effective balance between the need to maintain financial system stability and the capacity of banks to provide finance to the real economy.

An institution's ability to absorb losses is indicated by its Tier 1 capital ratio, which juxtaposes the amount of capital that can be accessed immediately in the event of losses to risk-weighted assets such as loans and securities. However, the more demanding the capital adequacy requirements, the less scope banks have to actually lend money.

Moreover, according to the proposals drawn up by the Basel Committee on Banking Supervision, in future only ordinary shares and retained earnings will be deemed to constitute hard core capital; equity equivalent instruments such as silent deposits will be excluded. Representatives of the German banking sector have rightly questioned the logic of including unrealised gains on valuation in retained earnings while at the same time leaving out the silent deposits that have been shown to be utilizable in practice. If such proven equity instruments for banks are permanently available and fully exposed to any annual loss, they should also be taken into account when assessing a bank's financial strength. The German banking sector is largely dominated by unlisted institutions which find it much more difficult to raise equity via the capital markets than, for example, the major Anglo-Saxon banks. In any case, a high capital ratio does not necessarily make for a more stable bank: what counts more is the business model and the risks involved.

In my opinion, the envisaged liquidity requirements also give cause for concern, as it is intended that loans and advances to

national governments and central banks be the main recognised constituents of a bank's liquidity cushion. Funds that would have to be redeployed as additional liquid resources under this approach would then no longer be available for ordinary lending activities.

The governments of the world's leading economies will decide on the new regulatory framework in November at the G20 summit in Seoul. The timetables for implementation may include some decidedly lengthy transitional periods. Nonetheless, the new Basel requirements are undoubtedly going to introduce fundamental changes in the banking sector in Germany and beyond.

Yours sincerely,

Hans-Dieter Brenner
Chairman of the Board
of Managing Directors
Helaba Landesbank
Hessen-Thueringen and
member of the board of
trustees of the House of
Finance

ECB INTEREST RATE POLICY AND THE "ZERO LOWER BOUND"[1]

Stefan Gerlach

Goethe University and
Executive Director of the
Institute for Monetary and
Financial Stability and member
of the Executive Committee of
the House of Finance

John Lewis

De Nederlandsche Bank

Since the start of the financial crisis, central banks across the world have cut interest rates substantially. In Japan, Sweden, the Unites States, the United Kingdom and elsewhere, short-term interest rates controlled by the central bank are at or close to zero.

There are two reasons why this may have happened. First, in line with their usual responses to inflation and economic activity, a particularly sharp decline in these variables prompted central banks to make a correspondingly sharp cut in interest rates. Second, they may have been worried that economic conditions would worsen to such an extent that negative interest rates would soon be called for, and that the "zero lower bound" – the fact that interest rates cannot be reduced below zero, if macroeconomic conditions make this desirable – would prevent policy from being sufficiently stimulative.

Monetary policy makers can respond in different ways if they come to believe that the zero lower bound may become important. One strategy, which is supported by theoretical work, is to cut interest rates aggressively and set lower interest rates than one would have predicted if the zero lower bound had been irrelevant. This makes sense because it supports economic activity and, thus, reduces the likelihood that negative rates will become desirable.

On the other hand, some policy makers have argued that the possibility of hitting the zero lower bound calls for more caution in cutting rates, so as to retain the possibility to cut interest rates at a later date if the economy worsens further. A central bank following this strategy would, therefore, set higher interest rates than it would do so in the absence of the zero lower bound.

Alternatively, the central bank may not change its behavior at all, unless and until the desired interest rate turns negative and the zero lower bound bites. It will then set interest rates at close to zero. In this case, interest rate setting is unaffected by the zero lower bound as long as it does not bind.

The current environment provides a unique opportunity to explore whether, and how, the presence of the zero lower bound might have influenced central bank interest rate setting. In a recent working paper, we study the ECB – which has let overnight interest rates fall to about 0.25% – to examine whether, and how, the presence of the zero lower bound has affected its monetary policy decisions.

The main problem we face is that we do not observe what interest rate the ECB would have set if the zero lower bound was irrelevant. To overcome this complication, we estimate a statistical model that allows us to study how the interest rate the ECB controls responds to macroeconomic conditions, and how these responses differ between "ordinary" and "crisis" times. We also estimate when, and how rapidly, the transition between the two regimes occurred. We then ask what interest rates we would have expected to see if the ECB had not shifted into "crisis mode."

We find that, in "ordinary" times, the ECB tightens monetary policy in response to stronger economic conditions, higher inflation and a weaker exchange rate. Our estimates of the switch in regimes, place this transition in

the autumn of 2008, just after the collapse of Lehman Brothers and around the time that most commentators recognised the possibility of a large-scale financial crisis. In this "crisis" period, rates were cut more aggressively to 0.25%, and were then held there.

The graph shows our best estimate of what interest rate the ECB would have set if it had responded in the same way throughout and had never shifted into crisis mode.[2] Our estimates indicate that whilst we would have expected the ECB to reduce overnight interest rates by 300 basis points from 4.0% in September 2008 to 1% in September 2009, in fact it reduced interest rates from 4.3% to 0.4% in this same period. These findings are compatible with the idea that the ECB cut interest rates aggressively in order to prevent the economy from deteriorating such that negative rates would be called for.

But other explanations are also possible. It could be that our estimates of the ECB's responses to economic conditions in "good" times (i.e. when the zero lower bound is irrelevant) provide a poor guide (for reasons totally
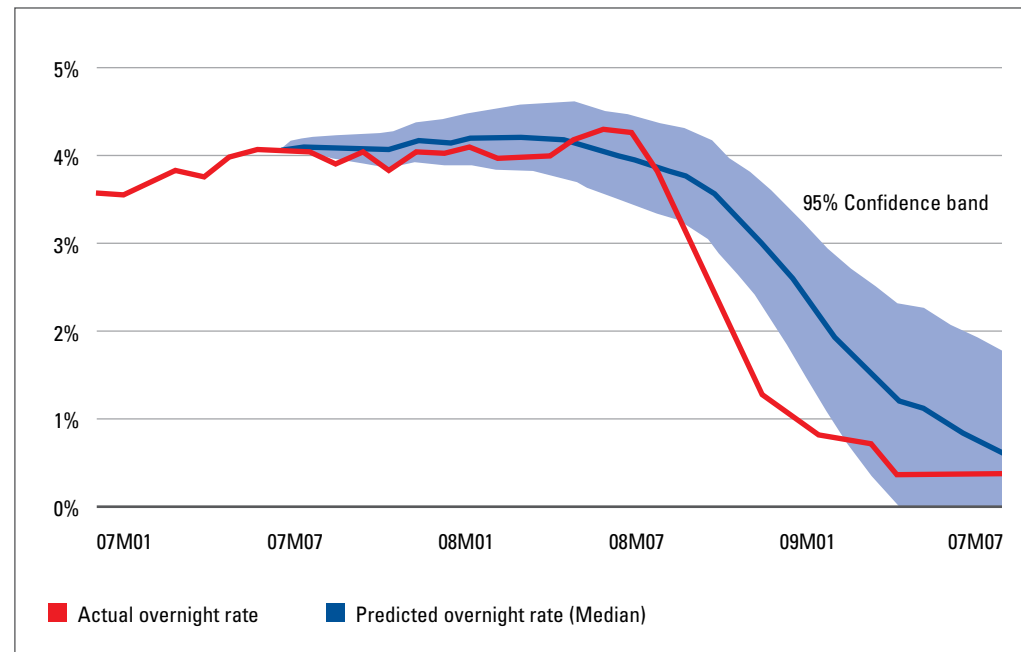

Figure 1: Actual and predicted (assuming no change in the monetary policy regime) overnight interest rate

unrelated to the zero lower bound) of the ECB's reactions to the economy when it is weaker. Or it could be that the ECB responds to variables that we incorrectly omitted from our empirical model and which have nothing to do with the risk of a negative interest rate becoming desirable.

A further reason why one may dispute our interpretation of these findings is that the Governing Council of the ECB, which sets monetary policy, has 22 members. It is difficult to believe that they all share the same concerns at any given point in time. Rather, it seems plausible that there is a range of views and that

policy decisions depend crucially on the median view. Thus, while some members of the Governing Council have undoubtedly been unconcerned about the zero lower bound, others have spoken publicly about the need to recognise the constraint that arises from it.[3]

REFERENCES

Gerlach, S., Lewis, J. (2005)

1 *"The Zero Lower Bound, ECB Interest Rate Policy and the Financial Crisis", February 2010, which is available at www.stefangerlach.com.*

2 *Technically, these are dynamic forecasts, computed using actual values of the regressors but forecasted past values of the endogenous variable.*

3 *See, for instance, the speech by Governor Orphanides on "The International Financial Turmoil and the Economy", given in Limassol on 28 January 2009.*

The full article is available at:
http://www.stefangerlach.com/ECB%20and %20ZLB%20%28July%2011%29.pdf

EXPLORING QUALITATIVE DATA IN THE FINANCIAL DOMAIN UTILIZING MACHINE LEARNING TECHNIQUES

Jan Muntermann
Goethe University and
E-Finance Lab

Sven S. Groth
Goethe University and
E-Finance Lab

Information management is one of the most challenging tasks faced by financial institutions. In the last two decades, much progress has been made in the development of quantitative models and approaches. While a great amount of effort has been put into an extensive analysis of quantitative data such as historical price series, little attention has been paid to an (automated) analysis of the textual data which undoubtedly represents a large source of information in this context.

Prior empirical research has shown that certain news stories, such as corporate disclosures, can cause abnormal market behavior on publication. This provides further evidence that textual data represents a highly relevant source of new information. On the basis of a dataset comprised of corporate news stories and intraday stock prices, this article explores how such textual data can be analyzed with the help of machine learning techniques.

WHAT IS MACHINE LEARNING?

Machine learning techniques involve a group of methods that attempt to enable machines to acquire knowledge for problem solving by presenting them with historical cases. In a financial context, such historical cases can for instance be a sample of news publications that have been mapped to stock price reactions observed in the capital markets. Decision Trees and Artificial Neural Networks are examples of popular machine learning techniques, and have already been applied successfully since the 1960s and 1980s respectively. Lately, Support Vector Machines (SVM) have been found promising, especially in cases with a large feature space (i.e. textual documents). Nonetheless, each of these techniques has its own specific characteristics, capabilities, and shortcomings. These entail, for example, different learning strategies, dataset requirements, and computing times. In general, these methods aim to predict whether a certain example falls into one of two categories. For instance, on the basis of certain training examples, an SVM can build a model that aims to forecast whether a future news story can be categorized as being "relevant" or "not relevant". What exactly "relevant" and "not relevant" means can be defined by the analyst, who might wish to evaluate whether a price reaction will be "strong or weak" or "positive, neutral, or negative" (Groth & Muntermann 2009).

During the following analysis, we will demonstrate the application of machine learning techniques in the financial domain. Hereby, we aim to forecast whether or not the publication of a new corporate disclosure is likely to be followed by abnormally high volatility levels.

TEXTUAL DATA DOES MATTER

For this purpose, our analysis is based on corporate disclosures and the intraday stock prices that were observed for the individual firms involved both prior to and following the publication of their specific disclosures. For different 15-minute intervals, realized volatilities were calculated in order to explore whether or not such disclosures will trigger significant capital market activity. Furthermore, the volatility measures were adjusted by a correction factor in order to account for market microstructure effects. Consequently, one can only expect that volatility increases during abnormal market phases. Such volatility shocks attract much attention when it comes to financial management, especially in terms of risk management.

As we can see in Figure 1, negligible volatility increases can be observed for the intervals prior to the publication of the corporate disclosures. In contrast, significant volatility increases follow their publication. Over the course of time, the volatility increase adjusts to a normal level. Somehow, it seems, the information provided by the corporate disclosures drives market activity to higher grounds.
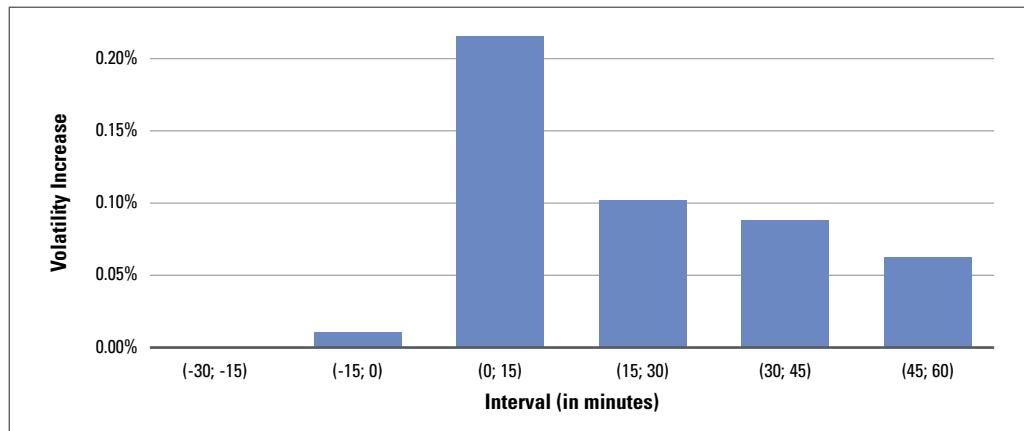
Figure 1: Volatility Shocks following the Publication of Corporate Disclosures

"LEARNING MACHINES" THAT READ

Within our sample of corporate disclosures, there are some that resulted in significantly increased volatility and others that appear to have attracted only a little attention. Traditionally, an analyst would review such disclosures and assess their relevance. Given the corporate disclosures involved and the volatility increases calculated, we define a corresponding learning task: let a computer learn from the historical data with the goal of identifying those disclosures that resulted in the 25% highest volatility increases during the first 15 minutes following the publication of a corporate disclosure. In other words, based on a disclosure's content, the computer should automatically assign this to either the class for which abnormally high volatility levels are expected or to the class for which normal volatility levels are expected. This task is, in turn, divided into two sub-phases: a learning phase during which the computer develops a model from the observations provided, and an application phase during which this model is then applied. Here, other observations are evaluated that were not part of the initial learning dataset. We applied different machine learning techniques, including Support Vector Machine, Neural Net (NNet), K-Nearest Neighbor and Naïve Bayes, in order to find a model that can be applied to textual corporate disclosures.

FORECASTING RESULTS

Our results provide evidence that the proposed machine learning approach is capable of detecting patterns in the content of corporate disclosures. We applied different evaluation metrics in order to evaluate how well automated text analysis works. One has to differentiate between how many cases were identified correctly (preci-

sion), and how many of all relevant disclosures were identified (recall). Usually, a higher precision rate can only be achieved by accepting a lower rate of recall and vice versa. In order to influence this inherent trade-off, we also included misclassification costs as a steering mechanism. We were, for example, able to modify settings in such a way that each corporate disclosure that was assigned to the "abnormally high volatility" class actually belonged there (i.e. 100% precision). Under NNet, however, merely 11.32% of all disclosures in this class were actually captured.

While the "classic" evaluation methods mentioned above allow for the discovery of possible dominance relationships among classifiers, the insights here do not help us to draw a final conclusion about the general applicability of the proposed text mining approach. Therefore, classification quality was further assessed by means of a domain-specific simulation-based approach. Thereby, a "straddle option" evaluation vehicle was used to evaluate volatility forecasts for the period following the publication of corporate disclosures. We show that the strategies based on the classifiers' volatility forecasts perform significantly better than a competitive benchmark strategy.

CONCLUSION

The latest machine learning techniques, such as Support Vector Machines, represent a promising way of capitalizing more efficiently on the

massive amounts of textual data available in financial processes. Under our empirical analyses, applied algorithms were able to detect patterns in the contents of corporate disclosures, and forecasting results were significantly better than simple random guessing. The application of these methods in the financial context is manifold (e.g. see Fung et al. 2005). One possible area of application could be algorithmic trading, whereby transactions might be triggered on the basis of textual data analyzed, as can already be observed in the latest industry developments. With regard to the observed volatility increases, market monitoring tools may support the management of intraday market risks.

For more information on this topic, please see An Intraday Market Risk Management Approach Based on Textual Analysis by S.S. Groth and J. Muntermann, which will soon be forthcoming in Decision Support Systems.

REFERENCES

Fung, G.P.C., Yu, J.X., Lu, H. (2005)
"The Predicting Power of Textual Information on Financial Markets",
IEEE Intelligent Informatics Bulletin, 5 (1)

Groth, S. S., Muntermann, J. (2009)
"Supporting Investment Management Processes with Machine Learning Techniques",
Internationale Tagung Wirtschaftsinformatik, Wien

THE ROLE OF DEFERRED LIFE ANNUITIES IN THE PORTFOLIOS OF PRIVATE HOUSEHOLDS

Raimond Maurer
Goethe University

Ralph Rogalla
Goethe University

Previous research on dynamic portfolio choice over the life cycle argues that purchasing annuities with immediate life contingent payouts is important to financing the consumption of risk-averse households with uncertain lifetime and no bequest motive. Life annuities are financial products that allow investors to protect against outliving retirement assets while enhancing expected returns through the 'mortality credit'. Despite a convincing theoretical argument, investors around the world are reluctant to voluntarily annuitize their wealth. Consequently, the number of advocates for embedding annuitization as a default option in tax-sheltered pension plans is increasing. In this context, deferred life annuities are increasingly attracting the attention of policymakers, regulators and financial intermediaries.

Similar to an immediate annuity, the provider of a deferred annuity promises lifelong periodic payouts to the annuitant in exchange for a non-refundable premium. While payments from immediate annuities start at the date of purchase, those from deferred life annuities only commence after a certain number of years (the deferment period) have passed, subject to the individual's survival. Due to the discounting effect as well as the possibility that the annuitant perishes before payouts start, a deferred annuity is much cheaper than an immediate annuity with identical payouts. The comparably low price of deferred annuities may help overcome psychological barriers to voluntary annuitization.

Cash flow patterns similar to those of deferred life annuities are provided by state-organized social security systems and occupational pension plans of the defined benefit variety. In both pension schemes, workers contribute a certain fraction of their labor income during their working life. In retirement, they receive pension benefits determined by their contributions and working years for as long as they live. Consequently, in a world where state-organized social security systems are declining in relevance and occupational pension schemes are shifting from the traditional defined benefit plans to defined contribution plans, the importance of deferred life annuities offered in the private sector might increase in the future.

While immediate life annuities have recently been studied in great depth, the role of deferred annuities for households has not yet been considered in the literature on dynamic portfolio choice over the life cycle. Our study seeks to fill this gap by incorporating life annuities with deferred payouts into a life cycle portfolio choice model, and by deriving optimal consumption, saving and asset allocation patterns for a household facing an uncertain lifetime, unspanned labor income, and risky capital market returns. Subsequently, we also account for stochastic mortality rates that result in uncertainty with respect to future prices of deferred annuities and individual survival probabilities.

We set off by analyzing the relevance of annuities with an age of deferment of 65, which is equal to the retirement age. Hence, they serve as a direct supplement to retirement income from the social security system. We show that investors with moderate risk aversion and some exposure to labor income risk will start

purchasing deferred life annuities in their early forties and will then gradually shift funds from liquid wealth into annuities until their retirement. At that time, deferred annuities will already account for 78 percent of total financial wealth, with the rest being invested in stocks.

With increasing risk aversion, higher labor income risk, lower replacement rates for state pensions, as well as stochastic mortality rates, annuity purchases commence even earlier and the fraction of total financial wealth invested in annuities increases. Consistent with the findings of other studies, earlier in the life cycle liquid wealth is fully invested in equities and then gradually shifted into annuities. Liquid bonds in most cases play only a minor role and are quickly crowded out by annuities.

We also find that households use deferred life annuities to actively hedge against longevity risk. Even when payouts only commence at the very advanced age of 85, the investor begins purchasing deferred annuities at age 42. In case the household faces stochastic trends in life expectancy, investments in deferred annuities already begin at age 31 and

Asset Allocation					
Age	**45**	**55**	**65**	**75**	**85**
Constant Mortality					
Equities (%)	92.1	71.2	21.8	26.2	23.6
Bonds (%)	4.9	3.3	0.0	0.0	0.2
Annuities (%)	3.0	25.5	78.2	73.8	76.2
Liq. Wealth	10.6	12.8	4.5	4.2	2.3
Stochastic Mortality with Trend					
Equities (%)	85.4	63.8	32.0	37.1	40.2
Bonds (%)	1.2	1.7	0.0	1.1	3.2
Annuities (%)	13.4	34.5	68.0	61.8	56.6
Liq. Wealth	10.8	13.1	7.9	8.6	7.7

Constant Mortality — Age 1st Ann. Purchase 40; Annuity Income 1.01
Stochastic Mortality with Trend — Age 1st Ann. Purchase 34; Annuity Income 0.93

Figure 1: Life Cycle Asset Allocation under Alternative Mortality Dynamics

the allocation to annuities is significantly higher compared to a constant mortality scenario.

In line with prior studies on immediate life annuities, we find high welfare gains from including deferred life annuities in the investment menu. In a world with stochastic trends in mortality, even an investor aged 20 is willing to give up one quarter of average labor income to have access to deferred life annuities with payouts starting at age 85.

Consequently, due to their comparably low price, deferred life annuities might be a good instrument to help overcome the reluctance of many individuals to voluntarily annuitize their retirement nest eggs.

The above table shows optimal expected asset allocation, liquid wealth, age at first annuity purchase, and annuity income. A constant mortality case assumes the retirement and deferment age = 65, replacement rate $\zeta = 68\%$,

risk aversion $\rho = 5$, median labor income risk with volatility of transitory/permanent income shock = 15%/10%, and no loadings. Stochastic mortality with trend: mortality rates follow a bounded, symmetric 9-level trinomial tree with pu = pd = 0.1 and jump size equal to 5.77% of the original morality rate. Additionally, mortality rates decline geometrically by 1.42% per year (other parameters being equal to the constant mortality case). Asset weights are reported as a percentage of total wealth (liquid wealth + present value of annuity claims), and liquid wealth and (lifelong) annuity income at age 65 as a multiple of initial labor income. Expected values are computed by simulating 50,000 life cycle paths based on the optimal policies derived by the numerical optimization.

REFERENCES

Horneff, W., Maurer, R., Rogalla, R. (2010) *"Dynamic Portfolio Choice with Deferred Annuities"*, Journal of Banking and Finance 34 (11), 2652 – 2664.

The full article is available at: http://www.ica2010.com/docs/200_final_paper_Horneff,_et_al.pdf

CORPORATE GOVERNANCE,

MARKET DISCIPLINE & BUSINESS ETHICS

Prof. Klaus Hopt, a member of the German National Academy Leopoldina in Halle, was a Director at the Max Planck Institute for Foreign Private and Private International Law from 1995 until his retirement in 2008. His main areas of research are corporate (German and European), capital market, commercial, banking and business law.

Klaus Hopt
Member of the
German National
Academy Leopoldina

What is your stance on the recent European Commission Green Paper on corporate governance in financial institutions and remuneration policies?

Prof. Hopt: The financial crisis has revealed serious deficiencies in the corporate governance of financial institutions – the faulty incentives created by compensation practices, deficiencies in board profile and practices, and failures in risk management and internal control. These were exacerbated by complex and opaque bank structures. The Commission cannot count on shareholders to demand reform. Shareholders want a return on their investment and are risk-prone while debt holders want their money and are risk-averse. Equity governance is different from debt governance. More promising reform targets are the board and bank structure. This would involve, for example, having a separate risk committee, dealing with the problem of complex and opaque bank structures, and instituting group-wide corporate governance. All this must be supervised and rigorously enforced by regulators, and it would be great if there were more market discipline and business ethics at the top.

What are the risks and opportunities of implementing corporate governance codes?

Prof. Hopt: I am a supporter of corporate governance codes. Just think of the advances made by this idea since the Combined Code of the Cadbury Committee in the UK in 1992. Today there is no major industrial country without such a code. Corporate governance codes are part of self-regulation. I know that pleading for self-regulation is not very timely after the financial crisis. But self-regulation is much more flexible than any law: it is based on cooperation; it can try out new solutions; and it can be changed quickly if it does not work or new challenges arise. Yet self-regulation only functions well in the shadow of the law. Without the threat of a "big stick", free-riding becomes rampant and outsiders are taken advantage of. This has been the American experience and can also be seen here in Germany.

What kind of research do we need on corporate governance?

Prof. Hopt: Take self-regulation and corporate governance again. In Germany, the legal method is basically doctrinal. What is needed is theoretical and empirical research and interdisciplinary cooperation. For example, how does self-regulation work? What are its deficiencies? Which mechanisms are needed in order to enforce it? Does mandatory disclosure help? Traditionally, lawyers have not been interested in the forces that have shaped the law and how effective the law is in practice. Here economics can help. One could, for example, conduct an event study after the change of a corporate governance rule, or observe how finance theory helps us better understand what is happening in the markets. Of course, there are caveats – just think of the efficient capital market theory in its weak, semi-strong, or strong forms. Having said this, economists also need lawyers. We lawyers know the relevant institutions and how they work. Without this knowledge, the models employed may omit decisive variables.

THE THREE CRUCIAL DELIVERABLES IN EXECUTIVE EDUCATION

Wolfgang Amann
Goethe Business School

INTRODUCTION

The financial crises of the past few years have also affected business schools. The process of 'right-sizing' companies has inarguably affected HR development budgets. But external economic conditions are only partially to blame for the lack of growth at many executive education providers. Many providers have not yet holistically understood or properly managed executive education's three main deliverables. In what follows, I outline a three-dimensional framework of deliverables – critical success factors – for these times of crisis and subsequent economic recovery.

TEACHING SKILLS

There is an army of trainers and faculty afoot, especially since the content for many topics – including readily formatted slides – can easily be obtained through a Google search. With the exception of a few schools that truly excel at thought leadership, the content of executive education seminars is no longer the main differentiator for schools. For example, even MIT posts the slides and reading lists for hundreds of courses online, where they are available at no charge. Merely teaching skills with a focus on content (e.g. marketing or entrepreneurship) is not the way forward for business schools. Goethe Business School has a holistic understanding of its task. We seek to create an outstanding customer learning experience – something like a refreshing mind spa beyond merely focusing on content.

PROVIDING ANSWERS

Beyond skill and knowledge seminars, the other primary dimension of executive education is excellence in the co-creation of answers. An Asian car manufacturer wants to conquer European markets and prepare for its distribution and after-sales service. But how should this emerging player proceed? While this was traditionally the preserve of consultants, companies are increasingly turning to business schools to tap into their brainpower and knowledge generation capabilities. They do not seek ready answers. They seek environments in which they can co-create answers with selected experts from the business school network. Providing such services represents future growth opportunities, alongside skills seminars.
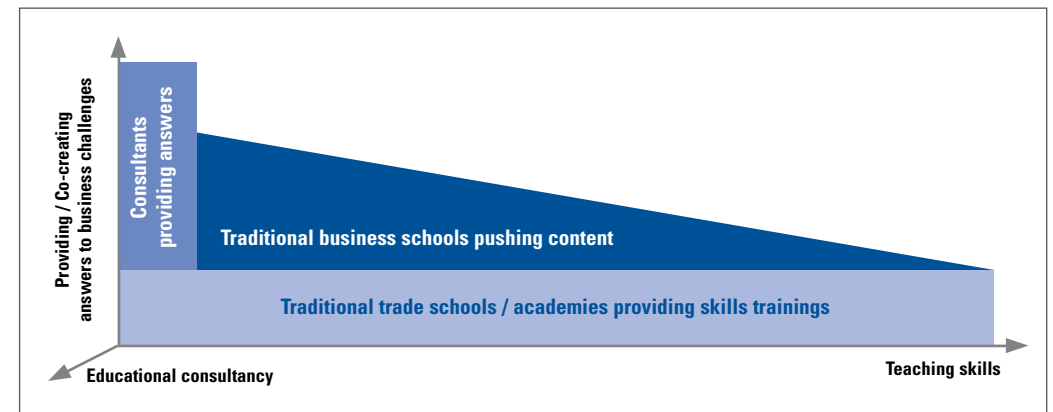
EDUCATIONAL CONSULTING

Business schools must do extremely well at educational consulting for individuals and organizations. The best schools excel at matching courses and learning paths with specific individual needs. Business schools should be trustworthy partners, rather than salespeople. Organizations currently scrutinize all areas in HR development for cost saving, outsourcing, and other optimization opportunities. Helping firms revisit their value chains (beyond merely offering courses) allows for close relationships based on trust. Such relationships survive economic crises more easily.

CONCLUSION

Executive education courses at many business schools have mushroomed, just like MBA programs have. In the past few years, an increasing supply of such courses has not been met by a corresponding rise in demand from the corporate world. As companies continue to restructure and optimize, so will business schools. Understanding these three dimensions is the crucial first step to preparing for sustained growth in executive education.

Business Challenges and Educational Consultancy

SELECTED HOUSE OF FINANCE PUBLICATIONS

Baums, T. (2010)
"Risiko und Risikosteuerung im Aktienrecht", White Paper, Policy Platform at the House of Finance, http://www.hof.uni-frankfurt.de/images/policy_platform/baums_risiko_und_risiko-steuerung_im_aktienrecht.pdf

Cahn, A., Donald, D. C. (2010)
"Comparative Company Law: Text and Cases on the Laws Governing Corporations in Germany, the UK and the USA",
Cambridge University Press

Gewald, H. (2010)
"The perceived benefits of business process outsourcing: An Empirical Study of the German Banking Industry",
Strategic Outsourcing; Vol. 3; Issue 2; 89 – 105

Groth, S., Muntermann, J. (2010)
"An Intraday Market Risk Management Approach Based on Textual Analysis",
forthcoming in Decision Support Systems

Hanauske, M., Kunz, J., Bernius, S., König, W. (2010)
"Doves and hawks in economics revisited: An evolutionary quantum game theory based analysis of financial crises",
Physica A: Statistical Mechanics and its Applications; Vol 389; Issue 21; 5084 – 5102

Horneff, W., Maurer, R., Rogalla, R. (2010)
"Dynamic Portfolio Choice with Deferred Annuities",
Journal of Banking and Finance 34 (11), 2652 – 2664

Kraft, H., Seifried, F. (2010)
"Foundations of Continuous-time Recursive Utility: Differentiability and Normalization of Certainty Equivalents",
Mathematics and Financial Economics

Messerschmidt, C., Berger, S. C., Skiera, B. (2010)
"Web 2.0 im Retail Banking: Einsatzmöglichkeiten, Praxisbeispiele und empirische Nutzeranalyse",
Wiesbaden, Gabler Verlag

Molitor, D., Hinz, O., Wegmann, S. (2010)
"The Interplay between Psychometric and Sociometric Data and the Willingness to Adopt New Products",
forthcoming in Zeitschrift für Betriebswirtschaft (ZfB)

Pahlke, I., Beck, R., Wolf, M. (2010)
"Enterprise Mashup Systems as Platforms for Situational Applications – Benefits and Challenges in the Business Domain",
forthcoming in Business & Information Systems Engineering, 5/2010

Siekmann, H. (2010)
"Das neue Europäische Finanzaufsichtssystem",
IMFS Working Paper No. 40,
http://www.imfs-frankfurt.de/documents/WP_40_2010_Siekmann

Wahrenburg, M. (2010)
"Risikomanagement und Diversifikation in der Finanzindustrie – Eine akademische Perspektive",
Zeitschrift für betriebswirtschaftliche Forschung, 61/2010, S. 1 – 17

Wandt, M. (2010)
"Kommentierungen der §§ 163, 164 VVG (Lebensversicherung)",
forthcoming in Langheid/Wandt, Münchener Kommentar zum Versicherungsvertragsrecht, Vol. 2

Wieland, V. (2010)
"Quantitative Easing: A Rationale and some Evidence from Japan",
L. Reichlin and K. West (eds.), NBER International Seminar on Macroeconomics, NBER Book Series, University of Chicago Press

Wolf, M., Beck, R., Vykoukal, J. (2010)
"An Integrated Perspective on IT Project Alignment in Highly Dynamic Environments – A Multi-Level Analysis",
conditionally accepted at the 31st International Conference on Information Systems (ICIS 2010); Saint Louis, Missouri, USA

Zickert, F., Beck, R. (2010)
"Because Effort Matters! – A Mapping Model for Assessing Project Effort in Requirements Engineering",
Business & Information Systems Engineering Vol 2; Issue 3, 165 – 173
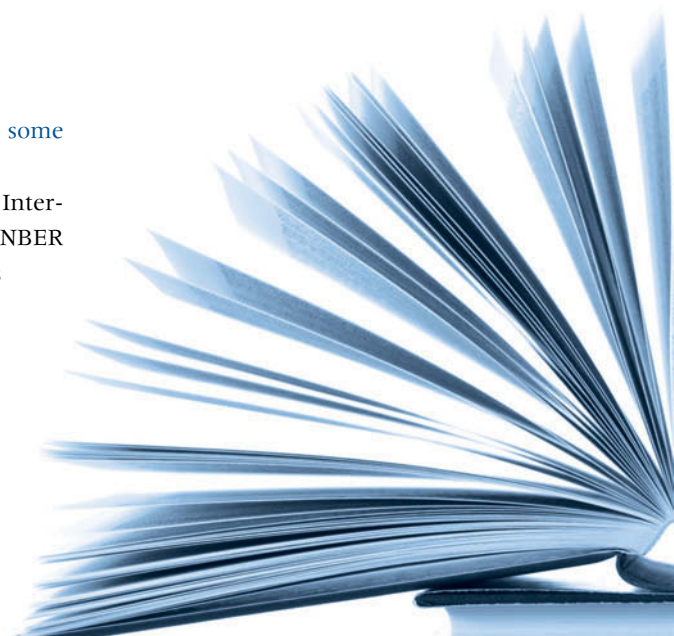
37TH ANNUAL MEETING OF THE EUROPEAN FINANCE ASSOCIATION HELD IN FRANKFURT

Welcome Reception

EFA Panel

From August 25–28, 2010, Goethe University and its House of Finance hosted the 37th Annual Meeting of the European Finance Association (EFA) at Campus Westend. The meeting, chaired by Jan Pieter Krahnen, was the third of its kind held in Germany, after those of Bad Homburg (1979) and Berlin (2000). EFA annual meetings have come to be the leading academic conference on finance-related topics in Europe, with researchers from all over the globe in attendance. As in previous years, the academic pro-

gram put together was based on a rigorous review process; one guaranteeing the high quality of papers accepted for presentation at the conference. 1,494 papers were submitted for consideration, from which 224 were finally selected for inclusion in the academic program. 650 participants were registered in total.

A special highlight of the conference was the keynote lecture given by Douglas Diamond from the University of Chicago. His speech focused on short-term debt as the main reason for the financial crises observed in history. Diamond noted that during the latest crisis of 2007–2009, financial institutions such as banks and hedge funds used too much short-term debt for the refinancing of long-term projects. He concluded that regulation should limit excessive use of short-term debt for refinancing purposes, and that it should apply to all financial institutions, rather than just to banks. Furthermore, Diamond argued in favor of requirements for increased equity provision, more specifically, whereby a third of requirements are fulfilled via so-called "regulatory hybrid securities". These securities are to be transformed into equity, and thereby strengthen financial institutions, when two conditions are first met: (i) the regulatory

authority declares that the financial system suffers from a systemic crisis; and (ii) the financial institution falls short of its equity provision requirement.

Part of the program contributed to contemporary policy debates. In particular, there were three Policy Panels with well-known personalities from academia, industry and politics, which were devoted to an open discussion on highly relevant policy issues. The panel on Bank Resolution discussed alternative ways to address the problem of moral hazard in banking, and how to re-introduce restructuring as a viable option for systemically important banks.

Reinhard H. Schmidt and Christian Sewing

The pros and cons of contingent capital as a new financial instrument were also addressed, as well as the difficulties emanating from the wind down of banks with large derivative posi-

tions and the impact of large bank failures on liquidity and prices in capital markets. The panel on the Future of Financial Regulation covered the challenges that regulatory authorities face in their efforts to redesign rules for financial institutions and markets. Finally, the panel on Transaction Taxes and Short-Selling Restrictions focused on scientific evidence regarding the consequences of such measures for market efficiency, and discussed their repercussions for financial stability in general.

Conference participants generally agreed that the 2010 EFA meeting in Frankfurt was an outstanding success marked by an excellent, high-

Jan Pieter Krahnen and Günter Franke

level academic turnout. Goethe University and Campus Westend were greatly appreciated, as were all persons involved in the organization of such a rewarding and inspiring event.

ROMAN INDERST WINS RENOWNED GERMAN RESEARCH AWARD

Roman Inderst has been awarded the Gossen Prize of the Verein für Socialpolitik, Germany's oldest and most important association for economists. This prize is endowed with €10,000 and is bestowed annually to a distinguished young economist whose work has gained international recognition. Inderst is Professor of Finance and Economics at Goethe University, and Director of the Institute for Monetary and Financial Stability.

Roman Inderst

JAN KRAHNEN TO BECOME NEW PRESIDENT OF THE EUROPEAN FINANCE ASSOCIATION (EFA)

Jan Krahnen, a member of the House of Finance and a Director of the Center for Financial Studies, will become the new President of the prestigious European Finance Association. He is supposed to take over the presidency from Kristian R. Miltersen of the Copenhagen Business School in 2011. The EFA aims to provide a professional society for academics and practitioners with an interest in financial management, financial theory, and its application.

Jan Krahnen

ALEXANDER VON HUMBOLDT STIPENDIARY TO COME TO THE HOUSE OF FINANCE

On October 1, 2010, Sergey Volchenkov will join the research team for the Chair of Investment, Portfolio Management, and Pension Finance for one year. Volchenkov's visit will be facilitated by a German Chancellor Fellowship from the Alexander von Humboldt Foundation. This foundation grants up to ten such fellowships annually to prospective leaders from the US, China, and the Russian Federation. Recipients of a German Chancellor Fellowship can carry out a project of their own design in cooperation with a German host that they have selected.

HELMUT GRÜNDL TO JOIN THE HOUSE OF FINANCE

Helmut Gründl will assume the Chair of Insurance and Insurance Regulation in October 2010. This chair was endowed by the Federal State Government of Hessen and the Gesamtverband der Deutschen Versicherungwirtschaft and is embedded in the International Center for Insurance Regulation. Gründl will be leaving his position as Professor of Insurance and Risk Management at the Humboldt University of Berlin.

Helmut Gründl

HELMUT SIEKMANN RECEIVES HONORARY DOCTORATE FROM UNIVERSITÉ PARIS-DAUPHINE

The Université Paris-Dauphine will award an honorary doctorate to Helmut Siekmann, Director of the Institute for Monetary and Financial Stability. During a long and distinguished legal career, Professor Siekmann has acquired an extensive international experience. He has been a visiting scholar in the US and also in Europe, where he has previously taught at the Université d'Orléans and the Université Paris-Dauphine. His research focuses on all aspects of government finance, the institutional framework for the European System of Central Banks, the role of central banks and their legal foundations, as well as the Stability and Growth Pact of the EU, and the supervision of financial markets.

Helmut Siekmann

NEW HOLDER OF EUREX-ENDOWED ASSISTANT PROFESSORSHIP

Grigory Vilkov assumed the EUREX endowed Assistant Professorship for Derivatives on September 1, 2010. Vilkov studied business administration at the University of Rochester in the US and at INSEAD in France. His areas of interest are portfolio optimization, asset pricing, and derivatives.

Grigory Vilkov

TWO NEW ASSISTANT PROFESSORS TO JOIN THE DEPARTMENT OF MONEY AND MACROECONOMICS

Pooyan Amir Ahmadi has become a Assistant Professor for Empirical Macroeconomics at Goethe University. He studied economics at the Humboldt University of Berlin, where he was a research assistant to Prof. Harald Uhlig. Before starting his doctoral studies, Ahmadi went to Princeton University as a visiting graduate student. On obtaining his Ph.D., he continued his research activities in the Monetary Policy Research Division of the European Central Bank. Ahmadi's main area of research is Bayesian econometrics, monetary policy, and macroeconomics. Ctirad Slavik studied economics at Charles University in Prague and at the University of Minnesota before joining Goethe University as a Assistant Professor for Macroeconomic Theory. While completing his Ph.D. program, Slavik worked as a research analyst at the Federal Reserve Bank of Minneapolis from 2007 until very recently. In his work, he focuses on the role of microeconomic frictions on macroeconomic outcomes, for example, how financing frictions at the firm level can help us understand the high stock market volatility observed.

Pooyan Amir Ahmadi

Ctirad Slavik

QUARTERLY EVENT CALENDAR

OCTOBER

September, Wednesday, 29th – October, Friday, 1st
German Economic Association for Business Administration:
"XI. Symposium zur Ökonomischen Analyse der Unternehmung"
Organisation: Prof. Dr. Reinhard Schmidt

Monday, 4th
5pm
EFL Jour-Fixe:
"Corporate Cost of Borrowing: TRACE on Syndicated Loans"
Speaker: Markus Fischer, E-Finance Lab

Thursday, 7th – Friday, 8th
9am – 6pm
CFS Executive Education:
"Workshop Zinsderivate: Analyse und Bewertung in der Praxis"
Speaker: Prof. Dr. Wolfgang M. Schmidt, Frankfurt School of Finance & Management

Thursday, 7th
7pm – 9pm
ILF Conference:
"Frankfurter Forum für kapitalmarkt-bezogene Restrukturierung"
Speaker: Daniel Weiß, Hengeler Mueller

Monday, 25th
6pm – 7.30pm
IMFS Distinguished Lecture:
"Central Banking after the Financial Crisis"
Speaker: Prof. Dr. Jürgen Stark, Member of the ECB's Executive Board

Thursday, 28th
12am – 1pm
HoF Brown Bag Seminar

NOVEMBER

Monday, 1st
5pm
EFL Jour-Fixe:
"An Analysis of International Bank Profitability, Dynamics and Its Persistence: A Focus on Germany"
Speaker: Christian Stammschulte

Tuesday, 2nd
6pm – 7.30pm
IMFS Lecture:
"Financial Crisis: Causes, Consequences, Reform"
Speaker: Dr. Alessio M. Pacces, Associate Professor of Law and Economics Erasmus Instituut Toezicht & Compliance

Friday, 5th
9.45am – 5.45pm
ILF Conference:
"Too Big To Fail – Brauchen wir ein Sonderinsolvenzrecht für Banken? Do we need Special Rules for Bank Resolution?"
Speakers: Dr. Andreas Dombret, Bundesbank, Prof. Dr. Martin Hellwig, MPI for Collective Goods, Bonn (among others)
Participation at this conference is by invitation only

Friday, 5th
10.15am – 5pm
ILF Conference:
"Tagung zum Wirtschaftsstrafrecht"
Participation at this conference is by invitation only

Wednesday, 10th
5.30pm – 7pm
CFS Colloquium:
"Supervision of International Financial Markets"
Speaker: José Viñals, Financial Counselor and Director, Monetary and Capital Markets Department, IMF

Friday, 19th – Saturday, 20th
9am – 6pm
ILF 3rd Symposium:
"Economy, Criminal Law, Ethics (ECLE)"
Participation at this conference is by invitation only

Tuesday, 16th
5.15pm – 6.30pm
Finance Seminar:
Speaker: Astrid Schornick, INSEAD

Tuesday, 23rd
5.15pm – 6.30pm
Finance Seminar:
Speaker: Claus Munk, Aarhus University

Thursday, 25th
12am – 1pm
HoF Brown Bag Seminar

Tuesday, 30th
5.15pm – 6.30pm
Finance Seminar:
Speaker: Stefan Nagel, Stanford Graduate School of Business

DECEMBER

Thursday, 2nd
tba
IMFS Distinguished Lecture:
"The Fault Lines in Cross-Boarder Banking: Lessons from the Iceland Case"
Speaker: Már Guðmundsson, Governor of the Central Bank of Iceland

Saturday, 4th
5pm
Doctorate/Ph.D. Program in Law and Economics of Money and Finance:
First Interdisciplinary Doctoral Workshop,
Participation at this conference is by invitation only

Monday, 6th
5pm
EFL Jour-Fixe:
"Consequences of Organizational Mindfulness in IT Innovation Assimilation Processes – Results from the Financial Services Industry"
Speaker: Martin Wolf

Wednesday, 8th
5.30pm – 7pm
CFS Colloquium:
"Capital Requirements"
Speaker: Nout Wellink, President, De Nederlandsche Bank

Tuesday, 14th
5.15pm – 6.30pm
Finance Seminar:
"A Lintner model of dividends and managerial rents"
Speaker: Bart Lambrecht, Lancaster University

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

HOUSE OF FINANCE
— Goethe-Universität Frankfurt —

Address:

House of Finance
Goethe University Frankfurt
Grüneburgplatz 1
D-60323 Frankfurt am Main
Contact Person:
Prof. Dr. Wolfgang König

Tel. +49 (0)69 798 34000
Fax +49 (0)69 33910
E-Mail: info@hof.uni-frankfurt.de
Internet: www.hof.uni-frankfurt.de