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Editorial

Yes, inflation is back on the agenda.

After 11 months of first aid, heavy medication, personalized therapy and localized surgery, the fears of financial system breakdown and widespread recession are subsiding. These fears were most pronounced in the United States, where the strongest medicine in terms of monetary and fiscal stimulus was administered earlier this year (see our analysis on pages 3-7). But even former U.S. Treasury Secretary Lawrence Summers has changed his tune: "for the first time since last August, I believe it is not unreasonable to hope that in the U.S., at least, the financial crisis will remain in remission," (FT, Mar. 31). And former Under-Secretary John B. Taylor has pointed to the danger ahead: "if you come out of this and inflation is still high or rising, that is going to be a challenge for the Fed for the next few years,"(SFC, Mar. 23).

On our side of the Atlantic, policy makers have been warning for months that higher inflation rates may become entrenched in the economy. Bundesbank President Axel Weber said: "I am concerned that, with regard to the conduct of wage and fiscal policy, the recent temporary heightened inflation rate could be consolidated for longer than is necessary above the tolerance level of the Eurosystem. Should indications of this increase, we must react with interest rate policy" (Welt, Apr. 26).

Inflation, however, is measured differently by the ECB and the Fed. The ECB has defined its price stability objective in terms of overall consumer price inflation, i.e., the harmonized index of consumer prices (HICP). The Fed has not committed to a particular measure, but its preferences are indicated by the inflation projections of the Federal Open Market Committee (FOMC) published twice a year in a report to the U.S. Congress. In 2000 FOMC inflation projections changed from the overall consumer price index (CPI) to the deflator for personal consumption expenditures from the national accounts, the PCE index. In July 2004 the FOMC switched again, this time to the core PCE index excluding food and energy prices. Last November they began publishing quarterly projections for core and overall PCE inflation.

Inflation 2008Q1	U.S.	Euro area
CPI /HICP	4.2	3.4
Core CPI/HICP	2.4	2.5
PCE	3.4	
Core PCE	2.0	

Minor details, you might think, but take a look at the annual rate of inflation in the first quarter of 2008: Euro area inflation measured by the HICP stands at 3.4 percent compared to 2.5 percent if food and energy prices are excluded. U.S. headline inflation is 4.2 percent measured by the CPI, but only 3.4 percent according to the PCE. Excluding food and energy reduces U.S. inflation to 2.4 percent in terms of core CPI and 2.0 percent in terms of core PCE. And conveniently, the FOMC just predicted that overall PCE inflation will decline towards core inflation by next year.

Should the ECB also switch to a core PCE measure? The FOMC's track record with PCE projections suggests otherwise. In 2003 and 2004, FOMC projections substantially underpredicted inflation. In February 2004, for example, the FOMC projected PCE inflation of 1 to 1.5 percent for that year. Retrospectively, it is measured at 3.1 percent. This forecast provided crucial support for the federal funds rate target of 1 percent maintained till summer 2004 and for the slow pace of subsequent policy tightening. With the benefit of hindsight, Fed policy has been criticized for fueling U.S. housing prices and contributing to the environment that eventually caused the 2008 credit crisis. Had the Fed focused on forecasts of CPI inflation similar to those of private sector experts at the time, it would have raised interest rates more quickly as shown in CFS Working Paper 2008/16 by Orphanides and Wieland.

Thus, with inflation back on the agenda, measurement ought to be a key concern today.

Volker Wieland, CFS Director

Gesellschaft für Kapitalmarktforschung e.V.: Chairman Board of Trustees: Prof. Dr. Dr. h.c. mult. Otmar Issing; Chairman Managing Board: Dr. Rolf-E. Breuer
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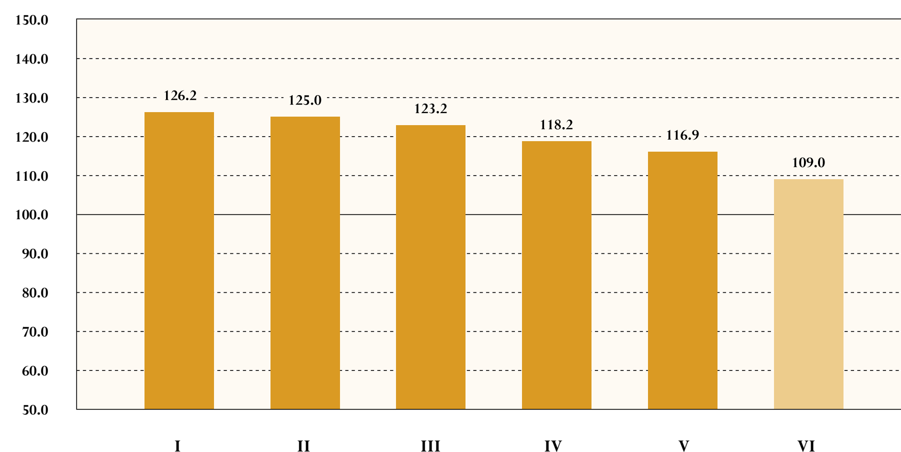
CFS Financial Center Index

Project Team: Stephan H. Späthe & Christian Knoll (CFS)



After showing only a mild decline in the last quarter of 2007 and the first quarter of 2008, the CFS Financial Center Index has now been seriously hit by the credit market crisis. The sixth CFS Financial Center Index survey which took place in April 2008 produced an index value of 109 – 7.9 points lower on the previous survey result. This is the strongest decline the index has registered since it was started in the first quarter of 2007. The index was pushed down by the considerable cutback in turnover and earnings that the core group of banks and insurance companies suffered during the first quarter of 2008. However, the forecasts for the second quarter are slightly optimistic, thus the index is next expected to rise to 110 correspondingly. In general, the financial industry doesn't seem to envisage more negative surprises in the current quarter. "The financial crisis is now for the first time clearly reflected in the index value; the expectations indicate the worst is already behind us," says CFS director Professor Jan Pieter Krahnen.

Special Surveys IKB Deutsche Industriebank AG

The special survey conducted in April 2008 dealt with the IKB rescue action. The executives interviewed were asked their views on crisis management in the IKB case, as well as its impact on investor confidence within the German banking system. A majority of respondents viewed this action negatively; indeed, two thirds of those interviewed observed a decrease in confidence within the German banking system. The survey also revealed that the bank itself (i.e. its management and supervisory board) is regarded as being responsible for its own crisis.

Concerning the €8 billion used to support IKB, 41% of the experts considered this amount too high and would rather have had an insolvency scenario, while 37% said the rescue was necessary and the amount used acceptable. The financial community, as a whole, is roughly equally divided between those for and against the IKB rescue action.

Subprime Crisis

The special survey held in the first quarter of 2008 analyzed business sentiment vis-à-vis the subprime crisis. Around three quarters of the interviewees were convinced that the crisis will weigh on banks' balance sheets for the rest of 2008. Concerning the damage for the real sector, 90% of respondents believed this will be moderate to serious, while only 5% said they expected the crisis will not affect the real economy.

More than 50% of the finance experts interviewed reckoned the crisis will have consequences throughout all of 2008. Another 30% of the interviewees believe it will even expand to 2009.

The CFS Financial Center Index is a quarterly index that measures the evaluation and expectations of financial market agents for Germany as a financial center. The index is based on surveys of leading executives from the financial community in Frankfurt and Munich. The maximum attainable index value is 150, the minimum index value 50. An index value of 100 indicates a neutral business sentiment.

Further details can be found at http://www.finanzplatzindex.de/

Fiscal Action versus Monetary Stimulus? A Faulty Comparison

By Volker Wieland[1]

Volker Wieland

Recent calls for fiscal stimulus in the United States have been based in part on papers that claim that targeted fiscal stimulus can boost economic activity more rapidly than monetary policy with less impact on inflation. In this brief, I evaluate that claim in the context of several well-known economic models.

This article was written while the author visited the Stanford Institute for Economic Policy Research (SIEPR). It was first circulated as SIEPR Policy Brief in February 2008. The article provides quantitative policy analysis using macroeconomic models built by academics and central bank researchers. These models are included in a larger database of quantitative macroeconomic models that is currently under development. This project referred to as the *Macro-Modelbase* is a CFS-SIEPR cooperation initiated by John B. Taylor and Volker Wieland. SIEPR conducts research on important economic policy issues facing the United States and other countries. SIEPR's stated goal, which is shared by CFS, is to inform policy makers and to influence their decisions with long-term policy solutions.

In one recently released paper, The Case for Fiscal Stimulus to Forestall Economic Slowdown (January 18, 2008), the Council of Economic Advisers in the Executive Office of the President writes:

Effectively timed and temporary fiscal policy measures could help reduce the risk of a broader economic downturn ... fiscal action could boost near-term economic growth,
... research indicates that monetary policy affects the economy over time rather than immediately, with the greatest impact in the year following rate cuts, not in the year in which the cuts are made.

In another recent paper, If, When, and How: A Primer on Fiscal Stimulus (January 10, 2008), Douglas Elmendorf and Jason Furman of the Brookings Institution write:

A key potential advantage of fiscal stimulus relative to monetary stimulus is that it can boost economic activity more quickly,
... true fiscal stimulus implemented promptly can provide a larger near-term impetus to economic activity than monetary policy can.

These papers refer to quantitative economic research in claiming that fiscal policy can boost economic growth in the near term, while monetary easing influences economic activity with a substantial delay and may lead to higher inflation down the road.

Elmendorf and Furman (2008), for example, report on research with the Federal Reserve's quantitative model of the U.S. economy. Their analysis indicates that lowering the federal funds rate by 1.5 percentage points—the cumulative effect of the FOMC decisions on December 11, January 21 and January 30—would add nothing to GDP in the same quarter, only 0.15 percent in the next quarter and 0.6 by the fourth quarter. By contrast, they estimate a temporary tax rebate of 1 percent of GDP to raise GDP in the same quarter by about 0.3 percent, and if targeted to households with little liquidity that spend all their income even three to four times as much.

These and other recent contributions (see also CBO (2008)) seem to depart from an earlier consensus among macroeconomists. For example, Eichenbaum (1997) writes, "There is now widespread agreement that countercyclical discretionary fiscal policy is neither desirable nor politically feasible." Feldstein (2002) concurs, "there is now widespread agreement in the economics profession that deliberate countercyclical discretionary policy has not contributed to economic stability and may have actually been destabilizing in the past." Taylor (2000) concludes "...it seems best to let fiscal policy have its main countercyclical impact

[1] Helpful comments by Michael Boskin, John Cogan, Nicholas Hope, Gernot Müller, Gregory Rosston, John B. Taylor and John C. Williams are greatly appreciated. All errors are my own. Tobias Cwik and Maik Wolters provided excellent research assistance.

through the automatic stabilizers [and] discretionary fiscal policy to be saved explicitly for longer-term issues."

The case for discretionary fiscal action is not as clear-cut as suggested by the CEA. The effects of monetary easing implemented by the Federal Reserve today may well materialize sooner than claimed. Implementing fiscal stimulus, instead, may take quite some time because of political negotiation and the administrative burden of providing extra government funds or tax relief to households and firms. Once fiscal stimulus is implemented, it is likely to boost economic activity immediately but may also drive up interest rates and inflation later on.

Truth be told, macroeconomists remain quite uncertain about the quantitative effects of monetary and fiscal policy. This uncertainty derives not only from empirical estimation but also from different views on the proper theoretical framework and econometric methodology. Therefore, recent research has emphasized robustness as a crucial criterion in policy design. Robustness requires evaluating policies from the perspective of competing, empirically tested macroeconomic models.

How the Federal Reserve can boost economic activity in the near-term

Households and firms make their spending decisions in a forward-looking manner. For this reason, a change in interest rates today may influence economic activity within a shorter horizon than indicated above. Furthermore, decision making by forward-looking households and firms takes into account that Federal Reserve policy will respond systematically to changes in future economic conditions.
A simple exercise serves to confirm these conjectures. **Table 1** compares the effect of an unexpected reduction in the federal funds rate by 1.5 percentage points in several estimated macroeconomic models.

From the perspective of the Federal Reserve's model, monetary policy easing in the first quarter only feeds through to real output in the second quarter. The effect builds up throughout the year and peaks at the beginning of next year. The other models, however, suggest that Federal Reserve policy can raise output within a quarter. They indicate that the output response peaks already in the second or third quarter. The near-term effectiveness of monetary policy is due to the role assigned to forward-looking decision making by households and firms.

The delay in the Federal Reserve's model is built in by assumption in order to match the evidence from empirical studies that aim to identify policy shocks with minimal structure. However, these studies have been questioned, because the policy shocks they identify bear little resemblance to estimates obtained by using federal funds futures or real-time data.

What about inflation? Of course, the surprise reduction in interest rates not only boosts output but also causes some inflation. The increase in inflation occurs more slowly than the increase in output. According to the models considered inflation peaks within four to six quarters and then returns to the central bank's target rate. The inflationary effect is moderate, between 3 and 12 basis points at the peak. However, the benign behavior of inflation depends crucially on market participants perception of the Federal Reserve's commitment to price stability and the clarity of its long-run target for inflation. If households and firms were to believe that the Federal Reserve's "comfort zone" on inflation has moved up, then monetary easing will have more lasting consequences for inflation.

Table 1: GDP Increase due to 1.5 Percentage Point Reduction of Federal Funds Rate

	Percent Increase in GDP			
Model	**1 st Quarter 08**	**2 nd Quarter 08**	**3 rd Quarter 08**	**4 th Quarter 08**
Federal Reserve Model	0.02	0.20	0.35	0.39
Taylor's Model	0.24	0.30	0.30	0.26
Small Fed Model	0.17	0.33	0.38	0.33
Small ECB Model	0.24	0.30	0.29	0.24

Sources:
Levin, Wieland and Williams (2003) and own calculations. Federal Reserve Model: the large-scale macroeconomic model used for quantitative policy analysis at the Fed. Taylor's Model: an estimated macroeconomic model of the G7 economies that embodies forward-looking behavior by households and firms developed by Taylor (1993). Small Fed Model: a small model of the U.S. economy developed at the Federal Reserve by Orphanides and Wieland (1998) similar to the U.S. block of Taylor's model but with a greater degree of inflation persistence. Small ECB Model: an example of the most recent generation of New-Keynesian macroeconomic models with micro-economic foundations developed at the ECB for policy analysis in the euro area by Smets and Wouters (2003).

Table 2: GDP Increase due to Fiscal Stimulus as Estimated by Elmendorf and Furman (2008)

	Percent Increase in GDP		
Fiscal Stimulus (1 Percent of GDP)	**2 nd Quarter 08**	**3 rd Quarter 08**	**1 st Quarter 09**
Sustained Increase in Federal Purchases	1.0	1.0	0.7
One-Off Tax Rebate (20% spent)	0.30	0.0	0.0
One-Off Tax Rebate (50% spent)	1.0	1.2	-0.2

Sources:
The calculations by Elmendorf and Furman (2008) are based on the Federal Reserve's Model.

Table 3: GDP Increase Achieved by Fiscal Stimulus in Other Models

	Percent Increase in GDP		
Fiscal Stimulus (1 Percent of GDP)	**2 nd Quarter 08**	**3 rd Quarter 08**	**1 st Quarter 09**
Sustained Increase in Federal Purchases			
Taylor's Model	1.1	0.9	0.6
Small ECB Model	0.8	0.7	0.5
One-Off Increase in Federal Purchases			
Taylor's Model	1.0	-0.1	0.0
Small ECB Model	0.9	-0.1	0.0
One-Off Tax Rebate			
Taylor's Model	0.15	0.08	0.03
Small ECB Model	0.0	0.0	0.0

Sources: Own calculations.

A key assumption in this analysis concerns the Federal Reserve's systematic policy response to changing economic conditions in the periods following the initial impulse. The findings in Table 1 are conditioned on an estimated interest rate reaction function. This reaction function includes the previous interest rate, current inflation, the level of current output as well as its growth rate.

The inclusion of the lagged interest rate is important. As a consequence, the initial, one-time reduction in the federal funds rate partially carries over to the following quarters. Forward-looking households and firms will expect a sustained monetary easing and make decisions accordingly.

The promise of discretionary fiscal stimulus

While the Federal Reserve can act immediately and preemptively, enacting a fiscal stimulus bill takes time. Even more time is needed to deliver the funds into the pockets of consumers. This implementation lag is well-known and is the primary reason why many economists have recommended that the job of countercyclical policy be left to the Federal Reserve and such automatic fiscal stabilizers as social security and unemployment insurance.

Putting aside any doubts regarding the quick implementation of fiscal stimulus, economists largely agree that increases in government purchases, once implemented, raise aggregate demand right away. But how much does output increase, for how long and with what consequence for inflation? Again, there are no clear-cut answers. The magnitude of this effect importantly depends on the forward-looking behavior of households and firms and the systematic response of monetary and fiscal policy. Regarding the effect of tax changes, macroeconomists possibly face an even greater degree of uncertainty. Forward-looking consumers are likely to take into account higher interest rates due to increased public debt or future tax increases when the government pays back the additional debt. Whether spending

increases or tax relief are considered, a robustness analysis with multiple models helps providing useful answers.

Elmendorf and Furman (2008) estimate spending increases and tax rebates to have immediate and large positive effects on U.S. GDP. They assume that the fiscal stimulus is implemented by the second quarter of 2008 and boosts GDP in that same quarter. In terms of magnitude they compare stimuli on the order of 1 percent of GDP just like the packages debated at the moment.

Their estimates are summarized in **Table 2**. They show that a sustained increase in government purchases on the order of 1 percent of GDP is found to raise GDP for several quarters by 1 percent.

Regarding temporary tax rebates they identify a temporary boost to GDP. The magnitude varies between 0.30 and 1.2 percent of GDP depending on how well they are targeted at households that spent all income immediately.

Are these findings robust? Evidence from two competing models is shown in **Table 3**. A sustained increase in government spending by 1 percent of GDP boosts real output in the first quarter by 1.1 percent in Taylor's model and 0.8 percent in the small ECB model. The spending-induced boom slowly dissipates over the following eight quarters.

However, higher government spending may also lead to higher inflation down the road. The maximum impact on inflation occurs by the beginning or the end of the second year, respectively. Fiscal stimulus adds up to a quarter percentage point to inflation according to Taylor's model. In the small ECB model the inflationary effect is less than half the size. Thus, a sustained fiscal expansion would not only cause budgetary complications but also drive up inflation.

Both models predict a sustained increase in response to a one-off spending shock because that is what has typically happened in the past. In more technical terms, both models include a measure of the systematic response of government spending that incorporates a high degree of persistence of discretionary changes in spending. In the models it is easy to turn off this persistence in spending. If the one-off shock in government spending can be prevented from spilling over into subsequent quarters, then output can be raised in the same quarter without significant consequences for output and inflation later on.

The calculations regarding the impact of spending increases on output indicate substantial agreement. Unfortunately, macroeconomists disagree more about the consequences of tax changes. This uncertainty is highlighted by comparing the estimated effect of tax rebates that increase household's disposable income. The small ECB model fully incorporates the idea that forward-looking households understand that lower taxes today will either imply higher taxes in the future to pay back the additional government debt or higher interest rates and debt service costs due to the lasting increase in government debt. Consequently, a one-off tax rebate would have no effect on current consumption and output. Taylor's model allows for the presence of households that consume all income and therefore will spend the tax rebates on consumption goods. Real GDP would then increase by 0.15 percent in the first quarter and return to its original level over the following three quarters. This effect is quite a bit smaller than suggested by Elmendorf and Furman (2008). It emphasizes that the effect of tax relief very much depends on the government's ability to target households that are likely to spend rather than save these funds.

Summing up: Expect recent FOMC actions to boost growth this year but remain sceptical of fiscal engineering

The cumulative 1.5 percentage point reductions in the Fed's federal funds rate target in December 2007 and January 2008 may already boost U.S. GDP in the first quarter, and stronger effects should be expected for the second, third and fourth quarters of 2008. A necessary condition is that the policy easing is expected to be sustained in a systematic manner similar to past Federal Reserve policy. All indications are that this condition is met. In fact, further easing throughout the year is likely. Some commentators have cautioned that the recent sub-prime financial crisis may have weakened the effectiveness of Fed interest rate policy. But if that is so, the Fed simply needs to lower interest rates somewhat more than it would have planned otherwise.

Sustained monetary stimulus will lead to higher inflation. However, as long as the Federal Reserve maintains its commitment to price stability and removes the policy accommodation next year, the increase in inflation is likely to remain moderate. It is important that the Federal Reserve watch inflationary developments carefully. If households and firms were to become convinced that the Fed's long-run "comfort zone" on inflation has moved up, then monetary easing will have more lasting consequences for inflation.

Hopefully, fiscal authorities will succeed quickly in overcoming the hurdles to implementing fiscal stimulus. Additional government purchases in the next quarter would boost GDP in that quarter. But if this increase is sustained for a longer time, it will also lead to higher inflation. For good reasons, the policy proposals advanced for the U.S. economy in 2008 focus on putting money into the pockets of households rather than increasing the budget of governmental authorities. However, there is greater uncertainty about the likely effect of tax relief on near-term growth. Without success in targeting funds to those consumers that are not able to save and need to spend all their income on consumption, the effect of tax relief will dissipate quickly. Chairman Bernanke was well-advised in warning Congress that fiscal stimulus, if protracted, badly targeted and too late, "will not help support economic activity in the near term, and could be actively destabilizing if it comes at a time when growth is already improving."

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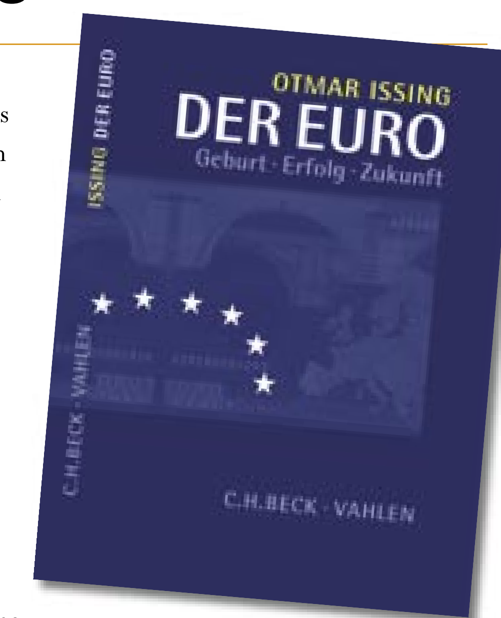
Otmar Issing presents his new book "Der Euro – Geburt - Erfolg - Zukunft"



On 15 April 2008 Otmar Issing (former member of the Executive Board of the European Central Bank, President of the Center for Financial Studies) presented his new book "Der Euro – Geburt - Erfolg - Zukunft" ("The Euro – its birth - its success - its future") to the public.

After welcoming addresses by both Felix Hey (Beck and Vahlen Publishers) and Jan P. Krahnen (Center for Financial Studies and Frankfurt University), Jean-Claude Trichet (President of the European Central Bank) gave a speech entitled "A unique perspective". He began by focusing on Issing's substantial contribution towards paving the way for the Euro and establishing it as one of the greatest successes in monetary history. He then stressed the beneficial effects of the Euro for the performance of the Euro area economies over the last nine years. Trichet concluded his speech with the comment that Issing's book on the Euro is so "remarkable because it offers a unique perspective of a unique actor and a unique witness of this historical endeavor".

Axel Weber (President of the Deutsche Bundesbank) then held a speech titled "Zwischenbilanz und Ausblick" ("An interim appraisal and a view to the future"). He first pointed out that the fact that it had been possible to establish the Euro as a stable currency was largely due to the independence statute of the

Otmar Issing, Jean-Claude Trichet and Axel Weber

ECB and a monetary policy strategy that is geared towards stability. However, said Weber, these are only necessary conditions for the success of EMU. As sufficient elements he stressed the importance of a monetary authority that has internalized the stability orientation of the common central bank system to the full extent. And in this context he considered Issing to be one of the key contributors to the remarkable degree of reputation that the ECB has been able to build for itself. Weber concluded that Issing's book, distinguished by its informative character, its individual observations and its clear perspective, may be regarded as a profound analysis by one of the main architects of the Euro.

Jean-Claude Trichet

The third speaker was Otmar Issing himself. His address on the book was titled "Der Euro – Erfolg und Gefährdungen" ("The Euro – its success and its endangerment"). Issing said that from the start of his time at the ECB many colleagues had encouraged him to write a book on this historically unique event. In the meantime somewhat misleading publications had created additional motivation. However, in particular he wanted to show that the success of the Euro was anything but preordained as many now like to believe. The success of the Euro is in fact the outcome of hard work and taking the right decisions. Although the Euro is well established as a stable currency, said Issing, there is no reason for self-contentment because the stability and growth pact has been violated and the reforms necessary to make markets more flexible have not been completed. He concluded that despite its great success, EMU requires politicians to keep their promises as laid down in the Lisbon Agenda and that, despite turbulent times, the ECB will steadfastly pursue its goal of monetary stability.

Axel Weber

After the speeches Issing, Trichet and Weber responded to questions from the audience and gave interviews.

Marcel Bluhm (CFS)

→ The Transcripts of the speeches can be obtained from the CFS website

CFS Working Papers

The CFS Working Paper Series presents the result of scientific research on selected topics in the field of money, banking and finance. The authors are either participants in the Center's Research Fellow Program or members of one of the Center's Program Areas. More than 200 working papers are currently available and can be downloaded from our website: www.ifk-cfs.de

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Volker Wieland

CFS Colloquium

Finanzinstitutionen: Neue Produkte – Neue Stategien?
Financial Services Providers: New Products – New Strategies?

Participants in this year's colloquium series – "Financial Services Providers: New Products – New Strategies?" – have been treated to many excellent speeches. In this Newsletter we report on two particular events with two prominent speakers: Peer Steinbrück and Josef Ackermann.

Finanzplatz Deutschland - Wachstum oder Krise?
Financial Center Germany: Growth or Crisis?

28 February 2008

A speech by Peer Steinbrück (Minister of Finance of the Federal Republic of Germany)

In his introductory remarks, Peer Steinbrück emphasized the significance of the financial sector for employment and economic growth in Germany. He noted that there is much room for improvement, as German financial services exports do not correspond to the size of the country's financial sector.
The remainder of his speech focused mainly on current challenges the German financial system is facing as a consequence of international financial market turmoil.

Jan Krahnen and Peer Steinbrück

Financial market crisis threatens economic and social cohesion

Towards the beginning of his speech, Steinbrück warned that a general perception of greed, decadence and immoderateness could erode the moral basis for the current social market system in Germany. He pointed out that protectionism and structural conservatism would prevail if people were to lose faith in the fairness and justness of this system. In order to ensure social and economic cohesion in Germany, he elaborated, it is important that the country's elites resume a sense of responsibility for social balance. Steinbrück quite frankly addressed the failures of bank managers, whilst pleading for more moderateness and responsibility on their part. His comments here were well-received by the audience.

German banking crisis confined

In the second part of his speech, Steinbrück defended the rescue of the IKB Deutsche Industriebank AG. He argued that public intervention in the case of IKB was warranted in order to prevent a further broadening of the crisis. Public funds have been used in a responsible manner, shielding the private sector's deposit insurance scheme and the taxpayer from even higher future costs, he specified.

Steinbrück further elaborated on the problems faced by several German Landesbanken due to excessive risk taking. He questioned whether these institutions still have viable business models and regretted that Landesbanken consolidation had not taken place earlier.

Consequences of the crisis

The final part of Steinbrück's speech dealt with the consequences of the present financial crisis and possible fields for action. He pointed out three areas where there are deep-rooted problems and where action is needed, as per the general consensus among G-7 finance ministers.

First, he called for increased capital requirements during periods of distress. An option here would be to adjust Basel II rules in order to provide for additional buffers at such times. Second, rules on liquidity management should be improved. For instance, stress testing should be conducted under the assumption of limited market liquidity. Finally, transparency needs to be enhanced in order to allow supervisors and investors to get a clearer view of the true risks associated with a bank's business. A key issue here is the adjustment of disclosure rules in order to prevent deliberate concealment of risk through off-balance sheet financing.

Steinbrück also identified an incentive problem and conflict of interests with regard to the general practice of rating agencies. Notably, he criticized that rating agencies are not prevented from assisting in the structuring of the very same financial product for which they may later provide a rating. However, he did not call for regulation to settle this matter, but said instead that he expects rating agencies to propose a set of best practices.

Jan Krahnen and Peer Steinbrück

Discussion

In the discussion with Jan Krahnen, which followed, Steinbrück confirmed that a failure of IKB could have threatened the stability of the German banking system. In fact, he admitted that there had been a systemic threat. Furthermore, Steinbrück noted that local patriotism has so far prevented consolidation amongst the Landesbanken and will also make it difficult to progress with structural reforms in the future. Needless to say, this is an issue for governments at the state level, as the federal government holds no direct stake in the Landesbanken.

When asked by a member of the audience if there was any chance of a merger between a Landesbank and Deutsche Postbank AG – the federal government still holds a majority share – Steinbrück responded with a wink: "Interesting thought". However, he made it clear that he currently has no particular preference as to with which other institution the Postbank should be merged.

Christian Weistroffer (CFS)

Strategieentwicklung im Spannungsfeld globaler und nationaler Orientierung
Strategy Development: Conflict between Global and National Orientation

23 April 2008

A speech by Josef Ackermann

(Chairman of the Management Board and the Group Executive Committee, Deutsche Bank AG)

Dr. Josef Ackermann was a guest speaker at the CFS Colloquium on 23 April 2008. In his speech on business strategy in times of globalization, he emphasized the importance of having a sustainable business model. Although the title of his speech might suggest otherwise, Ackermann explained that he sees no conflict between a firm's international expansion and its maintenance of a key role in its home market. Indeed, the success of Deutsche Bank is based on a strategy of complementing a global orientation with a strong domestic base.

Josef Ackermann

The opportunities and challenges of globalization

In times of globalization it is crucially important for a company to have a global orientation and to be able to access new markets with different cultural, legal and economic frameworks. Ackermann explained that a successful international enterprise must be engaged in big well-established markets like the United States as well as in rapidly growing emerging markets. However, the foundation for profitable global expansion and success in foreign markets is laid in a firm's domestic market, with the establishment of a stable local customer base. Strategic positioning between foreign and domestic markets is a key to success, but also represents a complex challenge. The current credit market crisis, Ackermann added, has demonstrated how closely interdependent global financial markets and the economy are, and is also going to reveal which financial institutions have had a sustainable business model.

Ackermann illustrated the immense change that the world has undergone in recent years. Between 1980 and 2007, he noted, world GDP doubled, whilst global trade quintupled. Within this same period, foreign direct investment worldwide grew on average by 13% per annum and emerging markets became capital exporters.

The globalization has offered banks huge business opportunities, arising from the need to fund economic expansion, the strong growth in stock and bond markets and an increasing demand for investment products. Ackermann emphasized that whilst German industrial firms have been among the winners of globalization, this has also opened up chances for Deutsche Bank in terms of being a "German partner" at the side of these firms.

However, globalization also poses new challenges. One of them, according to Ackermann, is the so-called "War for Talent". In order to attract strong talent, a company needs to have an outstanding profile that is recognizable and unique. At the same time, a company needs greater staff diversity, both in terms of experience and cultural background, in order to fulfill local customer requirements. In meeting this challenge, Ackermann said, Deutsche Bank's organizational culture has developed from that of a "One Culture Bank" to a "One Bank Culture".

The current credit crisis

Ackermann pointed out that, despite the current crisis, the United States remains not only the biggest economy on earth, but also the market with the largest growth potential in absolute terms. Thus, every institution seeking to play a leading role in international banking must be present in the U.S. market.

Josef Ackermann, Jan Krahnen and Hilmar Kopper

Even though the U.S. financial market has been tarnished by the crisis, Ackermann remains confident that this market is capable of reforming itself. "A large number of initiatives – such as resolute action by the central banks, reform efforts, economic programs and the successful recapitalization efforts of U.S. banks – were evidence of the unwavering determination to overcome the current crisis," said Ackermann.

Deutsche Bank has demonstrated its resilience during the ongoing financial crisis. Ackermann explained that three factors, in particular, have contributed to the bank's current stability - first, its successful business model, with private clients and asset management on the one side and investment banking on the other. According to Ackermann, this model has made it possible to reduce any investment banking dependence on external funding. Second, strong liquidity and risk management. And third, a broad international structure which has provided additional risk diversification.

Ackermann, however, stressed that considerable deficits remain in the general and regulatory framework for international banking. He said that the international regulatory framework has not kept pace with the global business models of banks. He called for closer cooperation between supervisory authorities worldwide and for a further liberalization of entry barriers in certain markets. He also spoke about the need for improved accounting methods and underlined the importance of risk-adjusted prices in the decision making process for capital appropriation. Ackermann further warned against a resurgence of protectionism.

The future perspective for Deutsche Bank

Ackermann concluded his speech by reiterating the importance of a firm having both a strong domestic client base and a global orientation. "Success in the international arena and the home market are not mutually exclusive, but are, in fact, mutually dependent," Ackermann said. He also highlighted that the German banking market is still very fragmented and that Deutsche Bank will continue to play an active role in the consolidation of this market.

On concluding his speech, Dr. Ackermann responded to questions from the audience.

Lut De Moor and Kotryna Gailiute (CFS)

→ For other events in this CFS Colloquium Series please consult the Timetable of Forthcoming Events on Page 31

Joint Lunchtime Seminar Series

The Joint Lunchtime Series, organized by the European Central Bank, the Center for Financial Studies and the Deutsche Bundesbank, continues into its 8th consecutive year in 2008. It creates a platform for economic experts, particularly in the area of monetary policy, to present their current research findings to a selected circle of central bankers and macroeconomists. Individual meetings with the speakers before or after the seminar allow for further discussion and consultation. These meetings are highly appreciated by invited economists.

Monetary Policy Questions and Answers in the United States and the Euro-Area

9 January 2008

A lecture by Ricardo A. Reis (Princeton University)

On January 9, 2008 the organizers of the Joint Lunchtime Seminar, welcomed Prof. Ricardo A. Reis from Princeton University as a guest speaker to the seminar series. Reis presented his research paper "A Few Model-Based Answers to Monetary Policy Questions in the United States and Euro-Area", in which he reviewed past monetary policy experience as well as the design of optimal policy. In his presentation, he focused on key questions concerning policy in the United States and the Euro-area. Reis makes use of a macroeconomic model developed jointly with Greg Mankiw. A key working assumption in this model is that market participants only update their information on economic developments sporadically. In technical discussions this feature is described as "sticky information" or "rational inattention". Reis's answers derived in this model suggest a number of lessons to be learned regarding applied monetary policy.

What policy rule has best described policy?

In examining what U.S. monetary policy has been, Reis found that monetary policy shocks have had a persistent and delayed impact on the output gap and inflation. Furthermore, interest rates responded strongly to output fluctuations, which proved to be beneficial for stabilization of the economy. Assuming that all deviations from the policy rule might be understood as costly mistakes, Reis presented estimates of the welfare loss due to such deviations corresponding to 5% of consumption. He also found that announcing monetary policy shocks in advance, raises their effectiveness at changing inflation and lessens their impact on output. Moving interest rates gradually enhances their overall impact.

With respect to Euro-area monetary policy, Reis showed that monetary policy shocks have a comparable delayed and persistent effect on inflation and the output gap. Reis found that the interest rates are more sensitive to output than in the U.S.A., but the benefits from stabilization policy are smaller. The welfare effect of eliminating policy errors is smaller than in the U.S. and corresponds to 1.4% of consumption. Announcing monetary policy shocks in advance and moving interest rates gradually proved to be just as beneficial as in the United States.

What is the optimal policy design?

In the second part of his analysis, Reis investigates what monetary policy could have been. "In the United States, the optimal Taylor rule has interest rates responding much more strongly to the output gap than is currently the case and, doing so together with eliminating policy errors, could raise welfare by as much as 5.5% of consumption," wrote Reis. He found that the best performing policy rule under commitment would raise economic welfare by 6.3%. When taking into consideration parameter uncertainty, the robustly-optimal Taylor rule responds more aggressively to both output and inflation. Welfare benefits, however, relative to the optimal rule that ignores parameter uncertainty, are small.

The optimal Taylor rule reacts much more strongly to inflation, but less strongly to output fluctuations in the Euro-area. Reis discovered that "adjusting the coefficients of the Taylor rule raises welfare by 0.6% of steady-state consumption, which together with the 1.4% benefit of eliminating policy errors, leads to an overall benefit of 2% of implementing the optimal Taylor rule." The optimal price-level standard corresponds to the strict price-level target and works almost as well as the optimal Taylor rule. Hence, the best policy rule under the assumption that the central bank would be able to commit to it in a credible manner would raise welfare by 2.7% of consumption. Robustly-optimal policy rules perform only marginally better than the rules that ignore parameter uncertainty.

Celia Wieland (CFS)

Professor Reis received his PhD in Economics from Harvard University in 2004 and is since then Assistant Professor of Economics and Public Affairs at Princeton University. He is also an NBER Faculty Research Fellow and CEPR Research Affiliate.
He has held visiting positions at prominent universities among which, Stanford University, Columbia University and the University of Chicago.

In 2008 the three organizers have again invited a number of economic professionals from academia, central banks, private institutions and consulting companies from all over the globe. In the first half of the year, the Joint Lunchtime Series expects 25 speakers, who will discuss the most recent findings of their research projects:

Date	Speaker and topic
9 Jan 2008	**Ricardo A. Reis** (Princeton University) A Few Model-Based Answers to Monetary Policy Questions in the U.S. and the Euro-Area
16 Jan 2008	**Jacek Osiewalski** (Cracow University of Economics) Bayesian Comparison of Bivariate GARCH, SV and Hybrid Models
23 Jan 2008	**Lars Ljungqvist** (Stockholm School of Economics & ECB Duisenberg Fellow) Taxes, Benefits, and Careers: Complete Versus Incomplete Markets
30 Jan 2008	**Mark Carey** (Federal Reserve Board) The Bank as Grim Reaper: Debt Composition and Recoveries on Defaulted Debt
6 Feb 2008	**Damiano Brigo** (Derivative Fitch London) Interest Rate Models: Paradigm Shifts in the Last Thirty Years
13 Feb 2008	**Michael Rockinger** (University of Lausanne) The Economic Value of Distributional Timing
20 Feb 2008	**Franck Portier** (Toulouse School of Economics) Gold Rush Fever in Business Cycles
27 Feb 2008	**Florin Bilbiie** (HEC Paris Business School) Endogenous Entry and Product Variety: Business Cycles, Welfare and Policy Implications
5 Mar 2008	**Maximo Camacho** (University of Murcia) Forecasting the Euro Area GDP in Real Time
12 Mar 2008	**Lars Lochstoer** (London Business School) Long-Run Risk Through Consumption Smoothing
19 Mar 2008	**Frank de Jong** (Tilburg University) Liquidity & Liquidity Risk Premia in the CDS Market
26 Mar 2008	**Maria Nieto** (Banco de España) Determinants of National and Cross Border Bank Acquisitions in the European Union
2 Apr 2008	**Bauke Visser** (Erasmus University Rotterdam) Is Transparency to no Avail? Committee Decision-Making, Pre-Meetings, and Credible Deals
9 Apr 2008	**Samuel Reynard** (Swiss National Bank) Modeling Monetary Policy
16 Apr 2008	**Kjetil Storesletten** (University of Oslo) The Macroeconomic Implications of Rising Wage Inequality in the United States
23 Apr 2008	**Sylvia Kaufmann** (Central Bank of Austria) Analyzing Jointly Euro Area M3 and Aggregate Loan Growth to Assess Conditional Inflation Prospects
30 Apr 2008	**Tullio Jappelli** (Centre for Studies in Economics and Finance) Does Financial Integration Affect Consumption Smoothing?
7 May 2008	**Charles Calomiris** (Columbia University) Profiting from Government Stakes in a Command Economy: Evidence from Chinese Asset Sales
14 May 2008	**Michel Strawczynski** (Bank of Israel) Cyclicality of Fiscal Policy in OECD Countries: Permanent and Transitory Shocks
20 May 2008	**Ayhan Kose** (International Monetary Fund) How Does Financial Globalization Affect Risk Sharing? Pattern and Channels
28 May 2008	**Virgiliu Midrigan** (New York University) Inventories, Markups, and Real Rigidities in Menu Cost Models
4 Jun 2008	**Skander van den Heuvel** (University of Pennsylvania) Temporal Risk Aversion and Asset Prices
11 Jun 2008	**Volker Wieland** (Frankfurt University & CFS) Economic Projections and Rules-of-Thumb for Monetary Policy
18 Jun 2008	**Christos Koulovatianos** (Frankfurt University) Confronting the Robinson-Crusoe Paradigm with Household-Size Heterogeneity
25 Jun 2008	**Gara Minguez Afonso** (Princeton University) Liquidity and Congestion

For further information and registration please contact Celia Wieland, email: JLS@ifk-cfs.de

CFS Presidential Lectures

Transformations in the European Financial Industry: Opportunities and Risks

22 November 2007

A lecture by Mario Draghi (Governor of the Banca d' Italia)

The speech given by Mario Draghi, Governor of the Banca d' Italia, on 22 November 2007 was the third event in the CFS Presidential Lecture series on the topic of European Integration. Governor Draghi spoke about trends and transformations in the European financial industry and about the risks and opportunities associated with those changes. The following paragraphs contain a brief summary of the key issues featured in this speech.

The financial sector's share of total value added has risen from 5 to more than 7 per cent. The main drivers of growth have been innovation and deregulation, followed by a wave of consolidation and a shift towards new business models in the industry. Draghi analyzed four different aspects of the financial sector in more detail: the banking industry, the asset management industry, the financial market infrastructure, and the effect on monetary policy.

Mario Draghi

Banks

Two main trends have been instrumental in reshaping the banking industry in the last decade, namely consolidation and emerging new patterns of intermediation, the so-called originate-to-distribute model (OTD).

Since the 1990s, there has been a wave of financial consolidation, mainly through domestic and within-industry mergers resulting in large financial conglomerates. This wave has brought efficiency through economies of scale and scope, but it has also heightened the complexity of operations and risk management. The share of cross-border mergers has also risen. In Europe, domestic concentration in the financial sector might have reached its limit and it is likely that cross-border deals will be stimulated by the harmonization of accounting and supervisory practices.

The risk-return profile of the banks is changing. Thus, financial stability depends increasingly on the way in which large financial institutions deal with complexity and with capital markets, not just on credit risk.

The shift from traditional banking to the OTD model has resulted in a major change in the financial landscape. As a result, asset-backed securities, which were almost negligible ten years ago, have increased in value manifold. The extraordinary success of this model in the last five years has had two structural consequences: first, traditional banks (retail, corporate, mortgage lenders) have been allowed to expand their activity to unprecedented dimensions, and second, the distinction between commercial and investment banking has become blurred.

It is too soon to tell how the current financial crisis will affect the OTD model, although that it is in fact a crisis of the OTD business model itself. It is characterized by faulty origination, weak incentive structures in the securitization chain, excessive complexity of the resulting products, serious shortcomings in the rating process and its perception by investors, and most importantly a general repricing of risk. However, it is unlikely that the industry will abandon the model because it is nevertheless still too valuable to all parties concerned. Thus, it will be primarily the responsibility of the private sector to adapt the model in a manner that restores market confidence leaving the public sector to provide support for these efforts by adding discipline where needed.

Asset Management

The asset management industry as the second player in the financial sector has grown globally at almost 10% per annum over the last decade, and its total net assets in Europe have reached € 8 trillion (or about 70% of GDP). The continental European asset management industry is dominated by banks and insurance companies, and this has an influence on its structure. Mutual funds are largely distributed through captive networks and the industry is fragmented and structured along national lines.

However, two forces may soon reshape the European industry. On the supply side, regulatory changes are opening up the field for competition. The newly implemented MiFID directive has strengthened investor protection by introducing new rules on advice, disclosure, conflicts of interest, and fees paid to and received by intermediaries. At the same time, demand is changing considerably in response to aging and pension reforms, which expose households to financial and longevity risk. These two factors – cross-border competition and demand for new products – increase the fixed costs of research and marketing and require efficient "product factories" and distribution networks, thus leading to more consolidation.

Changes in the asset management industry are already underway. Vertical integration, for example, is decreasing as banking and insurance groups evaluating the costs and benefits of producing investment products as opposed to distributing third-party products, choose to concentrate on core activities in order to avoid the conflicts of interest inherent in the marketing of in-house products. This could set the stage for the emergence of a few specialized asset managers.

Although MiFID and other regulatory initiatives are moving in the right direction towards integrating domestic asset management markets, many issues of policy intervention remain unresolved. First, it will be crucial to ensure a consistent interpretation and enforcement of the regulations throughout Europe, as well as effective cross-border supervision. This requires the convergence of national supervisory practices and coordination among the competent authorities. Second, supervisors ought to tighten regulation of institutional investors investing in hedge funds in order to avoid excessive risk-taking in households' retirement savings. Another area of policy intervention that still needs improvement is financial literacy. And finally, there is the issue of longevity risk, particularly its systemic dimension, as it affects the entire population.

Market Infrastructure

The infrastructure of financial markets, i.e. trading exchanges, post-trading systems and payment systems, is crucial to the competitiveness and stability of the financial system.

With regard to **trading exchanges,** the stock market turnover has nearly quadrupled over the last ten years in the U.S. and Europe. Innovation and deregulation have sharpened competition and today's main trends in the industry are towards consolidation and competition with intermediaries. Consolidation allows financial exchanges to benefit from the network externalities that are necessary to reach a critical mass of issuers and investors and to attract international trading. Examples of consolidation can be observed in the creation of Euronext and the merger with NYSE, as well as in the mergers between Borsa Italiana and LSE, and between Nasdaq and OMX.

Nevertheless, new competitors, such as the Turquoise project set up by leading investment banks, are also emerging. These trends present policy makers with new challenges. One of the issues involved is the need for regulatory convergence in a rapidly integrating marketplace. More closely integrated markets require a greater degree of cooperation between authorities in order to avoid a deleterious "race to the bottom" in regulation. The MiFID represents a great step forwards towards creating a more integrated and efficient European capital market by removing barriers to competition. However, it still might not be sufficient, as harmonization should really be approached on a transatlantic, if not indeed a global, basis.

Post-trading systems – the complex network of securities settlement systems, central counterparties, and specialized intermediaries – are another important component of the financial infrastructure, since they affect the liquidity and integrity of trading, portfolio diversification, and risk sharing.

In Europe the industry remains highly fragmented, based on local systems originally designed to serve the needs of domestic markets. Much remains to be done by the private sector and public authorities to dismantle the existing technical and procedural national barriers.

In this context, the Eurosystem is currently evaluating opportunities to provide settlement services via the so-called TARGET2-Securities system. This single platform for the settlement of domestic and cross-border securities transactions in central bank money would increase the security and the efficiency of settlement and speed up

Mario Draghi and Otmar Issing

market integration. The new system would bring efficiency gains and more intense competition between central depositories in core functions such as custody and asset servicing.

With regard to the **payment systems,** the number of payments processed by large-value payment systems continues to grow rapidly, with card payments experiencing the most rapid growth in EU retail markets. The role of non-banks in European retail payment has increased and is expected to continue growing. This trend is fostered by an ongoing consolidation within the payment industry and by the integration of retail markets, of which the Single Euro Payment Area (SEPA) project is an example. A single payment system for the whole area would generate significant economies of scale and network externalities. However, European financial markets today are still fragmented and based on national systems. For this reason, the Payment Services Directive (PSD) has established a new category of players – "payment institutions"– that, as specialized service providers, can offer a wide range of commercial and financial products and services in all E.U. countries. The competition and innovation enhanced by this directive will allow customers to benefit from payment services based on new technologies like mobile phones and digital platforms.

Jan Krahnen

Monetary Policy

The international development of the financial services industry has been extraordinary and has had profound consequences on the operation of monetary policy and its channels of transmission. The effect of monetary policy on bank credit supply and transmission through the "bank-lending channel" has become less powerful than in the past. However, central bank communication has become more important. Monetary authorities have an additional instrument for affecting the economy, through their influence on market expectations. As a consequence, central banks strive to avoid surprises and to be predictable in order to reduce uncertainty and volatility in financial markets.

Events since last summer have shown that the current financial system is inherently prone to liquidity crises. These crises are large and sudden, and affect both banks and non-bank intermediaries. Central banks face a double challenge: to achieve their institutional objectives – price stability, in the case of the ECB – and to maintain financial stability while ensuring that the liquidity they inject reaches those areas of the financial system where it is most needed. This last objective has proven more difficult than expected.

The financial turmoil of recent months has tested all our institutional arrangements, but central banks generally and the ECB in particular have maintained a monetary policy stance consistent with their target while doing everything in their power to preserve world financial stability. They have shown how important it is to keep a firm anchor for price expectations, especially in times of great market turbulence.

Lut De Moor and Kotryna Gailiute (CFS)

→ The transcript of the speech can be obtained from CFS. Please contact L. De Moor by email (demoor@ifk-cfs.de)

European Integration and the Market Economy

7 February 2008

A speech by Professor Mario Monti (President of the Bocconi University of Milan)

On 7 February at the CFS Presidential Lectures Series, Professor Mario Monti, European Commissioner for Competition from 1995 to 2004 and currently President of the Bocconi University in Milan, was invited to share his experiences and ideas on European integration and the market economy.

Monti began his presentation with a short introduction acknowledging the significant contribution that the current President of CFS, Otmar Issing, has made by articulating and applying his notions of independent central banking and stability-oriented monetary policy. He then went on to speak about different aspects of European integration and the market economy.

The role of Germany

To illustrate the importance of Germany in the development of the European competition regulations, Monti chose a symbolic day, 1 January 1958. On this day, the Bundeskartellamt (Federal Cartel Office) in Germany commenced its activities in Berlin, and the Treaty of Rome, establishing the European Economic Community (EEC) and the European Commission in Brussels, came into effect. Hence, this day symbolizes the foundation of both the first German and the first European institution for enforcing fair competition. According to Monti, the current European market economy has resulted from a convergence between the German concept of a social market economy and the institutional experience of the United States, namely with respect to its Federal Reserve System and antitrust authorities. This combination inspired the creation of two key institutions – the Deutsche Bundesbank and the Bundeskartellamt – to oversee two crucial components of the market economy, i.e. money and the market itself. The transposition of these ideas to a European level succeeded in two steps: the Treaty of Rome and the Maastricht Treaty. The latter, signed in 1992, formed the basis for establishing the Euro and an independent central bank of Europe.

Mario Monti

The institutional architecture in Europe

Monti went on to talk about Europe's institutional architecture for governing the market economy. In particular, he discussed the way in which monetary policy institutions and competition policy authorities have evolved along

Otmar Issing and Rolf-E. Breuer

different paths. Monetary policy in Europe started as a decentralized concept based on the existence of national central banks, and has gradually moved towards centralization, with the creation of the European Central Bank and the European monetary system. The opposite trend can be observed for those institutions that govern competition. In 1958, a supranational competition authority was created, at a moment when Germany was the only country that had a national competition authority. France, Italy and the Benelux countries had no such institutions at that time (an institution of this nature was established in Italy in 1990 and even later in the Netherlands). Today, there is a trend towards further decentralization. A major modernization of the EU competition policy came into effect in May 2004, enabling national competition authorities to take over several functions of the European Commission. This in turn has allowed the European Commission to concentrate on truly international issues, such as major cross-border deals and the increasingly important international relations in anti-trust matters. Monti added that it was difficult to get countries to agree on this reform. Paradoxically, Germany – the country which always stood up for simplification and respect for subsidiarity – objected most to this reform.

Political culture in Europe today

Monti also spoke about the political culture in Europe and more specifically in France. Some years ago, the political debate in France about a free-market economy was usually accompanied by a negative undertone. President Chirac even declared that "liberalism is as dangerous an ideology as communism and, like communism, it will not prevail". In a survey conducted in 20 countries, France had the highest percentage of negative responses to the question asking whether the market economy can help to achieve economic growth. Today, a profound political re-thinking is happening in France and President Sarkozy has played a major role in this transformation. Last August, the Committee for the Liberation of French Economic Growth was set up. The committee, of which Monti is a member, is composed of 42 experts. This expert panel has now formulated a set of proposals. Monti considers this a great improvement for a country with a tradition of strong intellectual resistance to the notion of the market economy.

Politics and the market

Monti also reflected on certain tendencies of economic nationalism in Europe that are particularly visible when bigger cross-border takeovers and mergers take place. He is confidant, however, that the European integration is strong enough to resist such nationalism. The European Commission has already booked some significant successes in combating protectionist tendencies. Monti illustrated this with several examples, such as the takeover of two medium-sized banks in Italy by foreign banks in 2005, which went ahead despite opposition by local politicians; the European Commission intervening in Spain's attempts to create a national champion in the energy sector; and the decision of the European Court of Justice with regard to the legality of golden shares and the so-called "VW-Gesetz" in Germany. Such cases prove that the European integration is strong enough to stand up to political pressure.

Otmar Issing and Mario Monti

Economic governance and Europe

Even though the contributions of the U.S. in the fields of economic governance with its monetary and competition policy institutions are considerable, Monti pointed out that Europe is gradually developing globally recognized standards in both areas. In competition policy, Europe and the European Commission are increasingly coming to be regarded as the antitrust authority for experts in all countries. To illustrate this, Monti quoted the Wall Street Journal referring to the European Court decision in the Microsoft case as "regulatory imperialism of Europe". In a less critical and more balanced way, the New York Times wrote: "Microsoft's resounding defeat in a European antitrust case establishes welcome principles that should be adopted in the United States as guideposts for the future development of the information economy. American regulators – who have reacted to the European court decision as if it were a mortal blow against capitalism itself – should embrace it as a healthy step in the growth of the information economy". This success in monetary and competition policy is possible because in those two areas the European treaties allow Europe to act and speak as one. Another area where this is the case, is trade policy.

In other fields however, such as foreign policy, a lot still remains to be done. That is why even marginal improvements, such as the progress towards a European foreign policy that was achieved with the Lisbon Treaty, are very important. Monti finished his speech by acknowledging the achievements of the German chancellor in reaching a consensus on this new European treaty that aims to appoint a foreign policy chief and open the way to a future Europe, which works as well in other areas as it already does in the areas of market regulation and money.

Lut De Moor and Kotryna Gailiute (CFS)

CFS Presidential Lectures – Other Events in 2008:

20 May 2008	**Professor Dr. Dr. Udo Di Fabio** (Judge at the Federal Constitutional Court of Germany) Die Gesichter Europas: Was kommt nach dem Reformvertrag von Lissabon? Faces of Europe: What comes after the Lisbon Treaty?
Fall 2008	**TBA**

CFS Conferences

Second Symposium of the ECB-CFS Research Network
"Capital Markets and Financial Integration in Europe"
13 - 14 February 2008

Hosted by the European Central Bank in Frankfurt

The Second Symposium of the Research Network, titled "Capital Markets and Financial Integration in Europe", was hosted by the European Central Bank in Frankfurt on 13-14 February 2008. It addressed the relationship between financial integration and financial stability; EU accession, financial development and financial integration; and financial system modernisation and economic growth in Europe. It comprised 13 research paper presentations, two policy panels and a key note address by Jean-Claude Trichet (President, European Central Bank). After each session, panel and speech the floor was given to the audience for questions.

Lucas D. Papademos

Opening remarks to the Second Symposium were delivered by **Lucas D. Papademos** (Vice-President, European Central Bank). He reminded the audience of the continuing success of the Research Network since its birth, especially during the last three years in which five research conferences were organized in Brussels, Vienna, Berlin, Madrid and Dublin. He then addressed the issue of financial integration, referring particularly to financial innovation and economic performance, and identified the main factors behind the current financial market turmoil. Papademos concluded that it is important to keep in mind the "big picture" when working on certain key areas, such as the construction of models for stress-testing and the exploration of further interactions between financial systems and the real economy.

Philip Lane

Session One, titled "International Financial Linkages and the Real Economy", was chaired by **Michael Binder** (Frankfurt University). The first paper, *"The Drivers of Financial Globalisation"*, which addresses the asymmetric nature of financial and trade globalization, was presented by **Philip Lane** (Trinity College Dublin). Lane showed that developing and emerging market economies have been conservative with respect to risk and have put little emphasis on financial development in the long-run. The second paper, *"Financial Integration, Productivity and Capital Accumulation"*, was presented by **Alessandra Bonfiglioli** (Institut d'Anàlisi Econòmica CSIC). By disentangling the different effects of financial integration on growth, it analyses whether international financial liberalization affects growth positively or negatively. Bonfiglioli finds that financial liberalization is correlated with higher levels of total factor productivity, but not necessarily with capital accumulation. The third paper, *"Location Decisions of Foreign Banks and Institutional Competitive Advantage"*, which studies banks' location decisions based on institutional differences across countries, was presented by **Stijn Claessens** (International Monetary Fund). According to Claessens, banks that are willing to expand their business abroad seek out those markets in which their past experience of working in a certain business climate gives them an institutional competitive advantage. The discussant for this session, **Gikas Hardouvelis** (University of Piraeus and Eurobank EFG), then summarized the main results of these three papers, and addressed potential weaknesses and areas for improvement.

Stijn Claessens

The second session, titled "European Financial Integration", was chaired by **Fernando Restoy Lozano** (Comisión Nacional del Marcado de Valores). **Sebnem Kalemli-Ozcan** (University of Houston) presented the first paper: *"Financial Integration within the EU Countries: the Role of Institutions, Confidence, and Trust"*. It investigates the degree of financial integration within and between European countries and finds evidence that capital market integration within the E.U. is less than that in the United States or as implied by theoretical benchmarks. The second paper, *"Measuring Financial Integration in New EU Member States"*, was presented by **Lorenzo Cappiello** (European Central Bank). It provides an overview of the state of financial integration in the E.U.'s New Member States and shows that money and banking markets are becoming increasingly integrated both amongst themselves and vis-à-vis the euro area. The discussant of this session was **Manuel Campa** (IESE Business School). He noted that both papers have the same general goal, namely to measure financial integration in Europe, and that both reach the same conclusion. That is, financial integration has increased, but neither is there perfect integration nor is it as high as in other economic areas.

Sebnem Kalemli-Ozcan

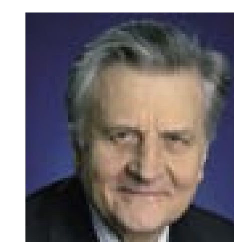
In 2002 the European Central Bank (ECB) and the Center for Financial Studies (CFS) launched a research network to promote research on "Capital Markets and Financial Integration in Europe". The ECB-CFS Research Network aims to coordinate and stimulate top-level, policy-relevant research that significantly contributes to the understanding of the current and future structure and integration of the financial system in Europe, and its linkages to the financial systems of the United States and Japan.

Asli Demirgüç-Kunt

After the second session, Lozano introduced **Asli Demirgüç-Kunt** (World Bank Group), who presented the World Bank Policy Research Report "Finance for All? Policies and Pitfalls in Expanding Access." This report focuses on financial exclusion, its causes and consequences throughout the world. Demirgüç-Kunt pointed out that while many models predict a negative effect of limited access to finance on economic outcomes, empirical work in the field has been scarce due to data limitations. She then presented evidence from all over the world and continued with some policy recommendations. It is crucial, concluded Demirgüç-Kunt, to not simply improve access to finance for the poor, but for all those who are excluded.

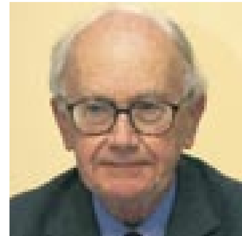
Session Three, titled "Effects of Capital Flows to Central and Eastern European Countries", was chaired by **Kateřina Šmídková** (eská národní banka). The first paper, *"International Finance and Income Divergence: Europe is Different"*, was presented by **Daniel Leigh** (International Monetary Fund). It reports that Europe provides a counterexample to the many studies which conclude that ongoing global financial integration might have had little or no value in advancing economic growth, especially in poor countries. The second paper, *"Lending by Example: Direct and Indirect Effects of Foreign Bank Presence in Emerging Markets"*, was presented by **Steven Ongena** (Tilburg University). The paper analyses the role foreign banks play in credit allocation, cost and access to capital, and shows that a high foreign bank presence benefits all firms in a country. The discussant of this session was **Torbjörn Becker** (Stockholm Institute of Transition Economies). He pointed out that both presentations dealt with very important policy issues – capital flows, financial development and growth. He further stressed that both papers basically conclude that financial integration in terms of both capital flows at the macro level and foreign bank entry play a positive role for economic development in Europe. He finally highlighted potential weaknesses and areas for improvement.

Daniel Leigh

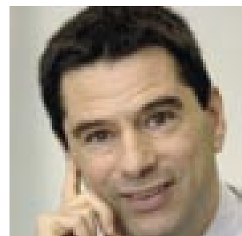

Jean-Claude Trichet

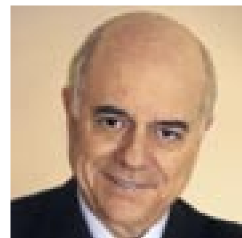
The keynote speech at the Second Symposium was delivered by **Jean-Claude Trichet**. He first of all stressed that financial integration is both an engine of efficiency and a structural component of the Lisbon Agenda and the European Union's Single Market Program. Regarding the ongoing integration of European financial markets, Trichet said the ECB could contribute greatly by giving advice on the legislative and regulatory framework, by acting as a catalyst for collective private sector initiatives, by enhancing knowledge and raising awareness, and by providing central bank services. He also pointed to the ECB-CFS Research Network as a model platform to foster an exchange of ideas between academics, policy-makers and market participants. In the second part of his speech, Trichet focused on deposit insurance as an area that has received relatively scarce attention thus far. He concluded with some remarks on the current financial market correction and pointed out that an overall approach of "Transparency, Holism

and Anti-Cyclicality" could eliminate as much as possible any asymmetry in the treatment of future booms and busts.


Alexandre Lamfalussy

The panel "Supervisory Structures in the Process of European Financial Integration: Experiences from Recent Market Developments" was chaired by **Alexandre Lamfalussy** (former Chairman of the Committee of Wise Men on the Regulation of European Securities Markets). Lamfalussy started with an overview of the achievements of the regulatory process in European financial integration. Regarding the recent financial market turbulence, he suggested taking a forward looking approach and highlighted the fact that a consensus is emerging on the problem areas that need to be tackled. Lamfalussy, however, noted that an innovative and flexible system will to a certain extent, always remain opaque, as one will never know the new channels of transmission and innovation. He then made the case for enhancing crisis prevention capabilities and - in case these should fail - for easing the resolution process. Lamfalussy concluded that it needs to be clarified exactly who is responsible for dealing with future emerging crises. The first panellist, **Danièle Nouy** (Secretary General of the French Banking Commission), stated that close cooperation is needed in both normal and crisis situations. In particular, she recommended four elements for cooperation in supervisory structures: (i) a clear objective for supervisory structures to have the necessary flexibility to respond, an efficient decision making process and an early crisis warning; (ii) regulatory convergence; (iii) convergence in supervisory practices; and (iv) cooperation between supervisors. Overall, said Nouy, the recent turmoil showed the need for "sane" supervisory structures. The second panellist was **Vitor Gaspar** (Acting Director General of the Bureau of European Policy Advisors). With regard to the current financial market turmoil, he stressed that security measures needed to be developed when times are calm. Gaspar also pointed out that prior to the current turbulence there was no scarcity of good information and there were several early warnings in the summer preceding the crisis. He then developed a roadmap that could be used to correct any lack of action in the future. The third panellist, **Vittorio Grilli** (Director General of the Treasury-Ministry of Economy and Finance, Italy), first asked whether today's arrangements, considering the speed and extent of the present challenge, are adequate for supervising world financial markets. Grilli stated that several factors, such as shortcomings in risk management structures and poor performance of credit rating, were identified by the Financial Stability Forum as being responsible for the current turmoil. He recommended focusing on incentives that promote the right actions from market participants and which assure market supervisors that risk management is keeping pace with the development of new financial instruments. He concluded with some recommendations as to how supervisory structures could be improved in the European context.


Vitor Gaspar


Francisco González

During the dinner which followed, Gertrude Tumpel-Gugerell (Member of the Executive Board, European Central Bank) introduced **Francisco González** (CEO of BBVA and Chairman of the European Financial Services Round Table) who presented his speech, "The European Financial System at a Crossroads". He stressed that the current turmoil is affecting the business environment and necessitates a further focus on liquidity management and the securitization framework. From the point of view of the business community, the crisis was long-overdue, said González. He stressed that the crisis, while unpleasant, provides an opportunity to learn important lessons. First, the incentives of agents need to be aligned with the basic principles of prudent finance. Second, information needs to be as transparent as possible. Third, internal prudential procedures and controls need to be reinforced. Fourth, a global crisis requires coordinated actions rather than piecemeal policy measures. Finally, he pointed out the importance of central banks in liquidity provision and in making sure that liquidity problems do not translate into solvency problems.

The second day of the Symposium started with the fourth session, titled "Ownership, Law and Investment", and was chaired by **Xavier Freixas** (Pompeu Fabra University). **Colin Mayer** (Oxford University) presented the first paper: *"Multinational Ownership and Subsidiary Investment"*. This paper analyses whether foreign ownership affects the investment decisions of subsidiary firms and finds evidence that a parent company's Q[1] has a negative effect on its subsidiary's investment opportunities. Mayer concluded that multinational firms reallocate funds towards those subsidiaries with better investment opportunities, which supports a positive view of internal capital markets. **Marco Pagano** (University of Naples) presented the second paper: *"Inheritance Law and Investment in Family Firms"*. It investigates the effect of inheritance laws on family firms and studies the importance of access to capital markets within this context. Pagano showed that both poor investor protection and stricter inheritance laws have a strong impact on family firms, but little or no effect on non-family firms. These findings suggest that poor investment protection and strict inheritance laws may hinder growth of family firms, cause inefficient liquidation, and make the sell-out of a family firm more likely. **Enrico Perotti** (University of Amsterdam) was the discussant for both papers. After summarizing the main results he addressed weaknesses and potential improvements.

Xavier Freixas

Philippe Moutot

Session Five, "Performance of Venture Capital and Private Equity Investment", was chaired by **Philippe Moutot** (European Central Bank). The first paper, *"Venture Capital Performance: the Disparity Between Europe and the United States"*, which focuses on the performance gap in value creation between U.S. and European venture capitalists, was presented by **Frederic Palomino** (Conseil de la Concurrence and ENSAE). Consistent with previous literature, it confirms that US venture capitalists create much more value than their European counterparts. The second paper, *"Corporate Governance and Value Creation: Evidence From Private Equity"*, was presented by **Viral Acharya** (London Business School). It analyses the value added by private equity houses and finds that private equity firms outperform a control sample even when controlling for leverage and sector specific characteristics. The discussant of this session, **Nicolas Veron** (Bruegel), summarized the papers and outlined possible areas for improvement.

Session Six, "Financial Innovation and Economic Performance", was chaired by **Francesco Papadia** (European Central Bank). The first paper, *"Has the CDS Market Lowered the Cost of Corporate Debt?"* was presented by **Angela Maddaloni**[1] (European Central Bank). It aims to evaluate the impact that the onset of CDS (Credit Default Swap) trading has had on the spreads that underlying firms pay at issuance in order to raise funding in the corporate bond and syndicated loan markets. The authors find that the impact of borrower risk and opaqueness is independent of CDS market equity and that liquid CDS trading has a positive impact on spreads for the average firm. The second paper, *"Securitisation and the Bank Lending Channel"*, was presented by **Leonardo Gambacorta** (Bank of Italy). He noted a significant increase in securitization activity in the euro area since the introduction of the new currency and concluded that securitisation activity has a direct positive impact on the average growth rate of supplied lending. The discussant for this session was **Janet Mitchell** (National Bank of Belgium). After summarizing the main results, she highlighted that both papers address interesting and topical questions and have been well-received.

Gertrude Tumpel-Gugerell

The second panel, "Financial Systems as Risk Allocators and Risk Distributors", was chaired by **Gertrude Tumpel-Gugerell** (Member of the Executive Board, European Central Bank). She started by saying that in recent years, financial systems have played an increasingly active role in allocating and distributing risk. She then emphasized that prior to the introduction of the euro, European banks rarely used securitization techniques, whilst the last decade has seen a spectacular increase in this activity, partially due to increased financial integration. Tumpel-Gugerell concluded that the current global financial markets correction is a sign that new developments in the field of financial innovation might need to be revisited. The first panellist was **Franklin Allen** (Nippon Life Professor of Finance and Economics, University of Pennsylvania). He first of all pointed out that in the benchmark model of standard finance risk positions are diversified and Pareto-efficient, whilst in reality there are financial institutions and incomplete markets. In his opinion, besides the usual list of culprits for the current turmoil, one of the main culprits is the U.S. Federal Reserve, which held interest rates too low for too long and thus created the U.S. housing bubble. He added that the Fed was assisted by an arbitrage opportunity peculiar to the U.S., resulting from the fact that mortgage payments are tax-deductible while rent is not, which makes it optimal to own a house on a 100% loan. In this respect, an important question that needs to be asked is whether central banks should pay attention to asset prices. Current regulation tends to be historically-based, but what is in fact needed is theory-based regulation, similar to antitrust and environment regulations, Allen concluded. The next panellist, **Markus Herrmann** (Head of ABS Strategies, HSBC Bank), firstly described the current situation in financial markets as

[1] A firm´s market value divided by the replacement value of its assets

[1] In lieu of the authors João Santos (Federal Reserve Bank of New York) and Adam Ashcraft (Federal Reserve Bank of New York).

Thomas Mayer

one in which global investors think they are justified in asking for large spreads. He also noted, that the current crisis was prompted by a development particular to the U.S., as European securities markets have been growing without bubbles. As regards the future of securities markets, he said that in his opinion it is entirely possible that securities markets develop in such a way that greater risk is held by original issuing banks. Hermann concluded that, in practice, the "originate, distribute and give a loan" model is probably no longer sustainable. The third panellist, **Thomas Mayer** (Chief European Economist, Deutsche Bank – London), pointed out that although the current crisis is not over yet, it is already time to think about what will remain after it has been overcome. A wider distribution of risk around the globe, said Mayer, has contributed to having shorter, shallower recessions. Nevertheless, he admitted, there is an inherent principal-agent problem in the "originate and distribute" model, even within the banks themselves, in the sense that traders and stockholders have a very different set of interests. He concluded that, in his opinion, it is better to manage a crisis than to over-regulate a sector. The closing remarks to the Second Symposium of the ECB-CFS Research Network were delivered by **José Manuel González-Páramo** (Member of the Executive Board, European Central Bank). González-Páramo noted the Symposium takes place at a time when financial markets are under stress and the financial world is struggling with the resulting consequences. He emphasized that the Eurosystem's operational framework has proved crucial to the ECB in terms of being able to continue to influence short-term money market rates, despite prevailing difficult financial market conditions. González-Páramo concluded that the Symposium has contributed greatly to the knowledge of capital markets and financial integration in Europe, and invited participants to the Research Network's next event.

Marcel Bluhm (CFS)
The text is partly based on the Conference Summary, which has been kindly provided to us by ECB staff

The conference program as well as papers and presentations with references to all co-authors not mentioned in this article can be found under http://www.eu-financial-system.org/index.php?id=89

→ The eleventh conference of the ECB-CFS Research Network "The Market for Retail Financial Services: Development, Integration, and Economic Effects"– will be held in Prague in October 2008.

CFS Executive Education

From its early days, executive education has been one of the pillars of CFS activities. In 2007 Professor Dr. Christian Rieck became the new Head of Executive Education. In the following interview, he explains the cornerstones of this CFS education program.

Executive Education – A Short History
In 1995, a working group of economists called for the extension of CFS (then called Institut für Kapitalmarktforschung) activities in the area of executive development. In the following year, a major reshaping of our research institute took place and the CFS executive development program came into being. Since then, its aim has been to provide qualifications and further training to specialists and executive personnel from the financial sector.

Professor Rieck, what are the main features of the CFS Executive Education program?
Our basic concept is to combine practicability with academic depth. To achieve this, our instructors are either adept in business life and research at the same time or we pool two instructors for one seminar, one academic and one practitioner. This approach may appear trivial at first sight, but in fact it sets us apart from most other such seminars now on the market: traditional business education either lacks theoretical foundation or is not immediately applicable. We close this gap by combining the best of both worlds.

Christian Rieck

Will the CFS continue with this concept or do you see room for improvement?
We would certainly like to stick with the basic concept that makes our seminars unique. The content of the program, of course, is always open for change: we can improve the curriculum as a whole, and/or certain seminars in particular. One of my goals is to include even more interactive methods in our seminars so that all participants become part of an inspiring workshop atmosphere. We are currently developing new seminars based around practical cases from which the bridging to underlying theory is made and explained, and not the other way around. This is a difficult balancing act because we want to maintain our close link to the latest research, which typically is not case oriented. Our challenge is to convert dry models into juicy business applications, but without trivializing them.

Indeed, we have had some very good experience with using special personal computer-based models in group work amongst seminar participants. Consequently, we now encourage all our instructors to develop such models for their own education programs. We can use a very individual approach, because all of our seminar groups are small, with typically around 12 participants.

Is there a rotating set of existing seminars or do you also offer new ones?
We continuously seek to improve the curriculum, that is, we develop new seminars. Those of your readers who already receive our invitation emails will have noticed that we have recently launched a number of new seminars. All of these are in the area of finance, of course, but we also experiment with new lines of content.

Can you give some examples of new seminars that are on offer?
One of the new seminars in our core area is on liquidity risk. For this topic we were able to recruit a new instructor who is one of the leading persons in the field of applied risk management: Dr. Robert Fiedler, a mathematician who currently works for Fernbach Software and was formerly employed by Algorithmics (both companies are key players in providing innovative financial risk management software). Meanwhile, a completely new topic is being offered with our seminar, Corporate Foresight. Here, participants get the tools and the opportunity to think about future developments in the finance industry. This is an example of a new seminar with a qualitative approach as opposed to our usual quantitative seminars. In addition, there is the new seminar relating to applications of Behavioral Finance, which is held by our longtime instructor, Dr. Conrad Mattern.

The range of seminar topics appears to be quite broad. Do you plan to combine them into a degree program for participants who book a combination of seminars?
All of our seminars will continue to be open enrollment courses that can be booked independently from each other. We hand out certificates to the participants, but we do not award any degrees yet. Of course, we are aware that there is a demand for some kind of a "degree" as proof of successful participation in a sequence of connected seminars. In fact, we contemplate introducing more "formal" certificates (which I am reluctant to call a degree), but if it comes to that, we will most probably do this in collaboration with the Goethe Business School.

Could you spend a word on the Goethe Business School and your collaboration with it?
In a few words, the GBS has the experts in degree programs, whilst we at the CFS are the experts in open enrollment courses. At the time, we are working together on an informal basis. In fact, we are discussing whether to combine some of our activities because they are complementary. We plan to make an agreement on an "official" partnership, considering our respective specializations in degree programs and open enrollment seminars. And I am looking forward to a new level of partnership because this would lever the strengths of both our institutions.

Will there also be seminars in English at the CFS?
Never say "never", but in the foreseeable future all of our seminars are planned to be held in German.

Have you ever participated in one of the CFS seminars?
Sure I have, actually in most of them. And I was always surprised at how much I learned, even in my own field. This direct experience makes me especially impressed by the hands-on approach of our faculty.

Collegium Glashütten, © *Collegium Glashütten*

Talking about you, what is your academic background?
I am a professor of Finance and teach at the University of Applied Sciences in Frankfurt. Prior to that I was head of a consulting practice within IBM Business Consulting Services and supervised a large number of projects in the finance industry around the world. I also hold a degree in business education (Wirtschaftspädagogik), which is one of the reasons why I am so keenly interested in new teaching approaches.

Where can interested parties get more information about the CFS seminars and how can they enroll?
The best source of information is the list of events that are announced under „Events – CFS Executive Education" on our CFS website http://www.ifk-cfs.de. Alternatively you can dial +49(0)700/2377364627 (0700/cfsseminar) and put your name down on our mailing list.

CFS Executive Education Program – New Seminars 2008

1-2 Oct 2008

Kreditderivate und deren Bewertung – ein Werkstattseminar zum Mitmachen
Credit Derivatives: Products and Pricing – a Hands-on Work-shop

Prof. Dr. Stefan Reitz

This seminar discusses the basic structures of credit derivatives and their typical applications. It covers index trades, portfolio-related instruments and mathematical models for pricing credit derivatives. All of the discussed methods are essential elements in the daily risk management procedures and mark-to-market process of financial institutions.

27-28 Nov 2008

Die Finanzdienstleistungsbranche von morgen denken. Ein Seminar über Zukunftsmanagement.
Thinking about the Financial Services Industry of Tomorrow. A Seminar on Corporate Foresight.

Axel Liebetrau and Stephan Meyer

This seminar is designed for decision makers wanting to prepare their company for the future. Participants will: become acquainted with significant trends in the financial services industry; try out modern instruments of strategic planning; learn how to identify relevant trends as early as possible; and take part in a sneak preview into the way other companies do their own corporate foresight.

4–5 Dec 2008

Werkstattseminar Liquiditätsrisiko
Liquidity Risk Workshop – Effective Cash Flow Management

Dr. Robert Fiedler

Liquidity risk is one of the most underestimated areas of risk management. This seminar covers concepts like exposure measurement (cash flow simulations, Liquidity at Risk), the counterbalancing concept (capital is no buffer for liquidity risk, what to do?), and considers the limiting and pricing of liquidity risk. It also refers to all regulatory requirements and covers special topics, including non-maturing assets and liabilities.

20–21 Nov 2008

Behavioral Finance – Sentiment-related Financial Market Analysis

Dr. Contrad Mattern

This seminar is directed to traders and analysts who want to expand traditional ways of financial market analysis with sentiment-related Behavioral Finance aspects. In the seminar, Behavioral Finance is applied to „real world" business life and is illustrated with lots of up-to-date examples that can be found in financial market analysis nearly every day.

CFS-DAI Seminar

Wertschöpfungskette Risikotransfer: vom Unternehmen zum Kapitalmarkt
Value Chain Risk Transfer: from Corporation to Capital Market

11 June 2008

On 11 June 2008, the third CFS-DAI seminar in the series *Wertschöpfung durch Risikomanagement - Risk Transfer and Value Creation* was organized jointly by the CFS' Insurance and Risk Transfer research program and the Deutsches Aktieninstitut (DAI) in Frankfurt.

The topic of this year's seminar is *Wertschöpfungskette Risikotransfer: vom Unternehmen zum Kapitalmarkt or Value Chain Risk Transfer: from Corporation to Capital Market*. The participants of this seminar analyze the role of alternative risk transfer mechanisms. In particular: how can risks be brought to the capital market in the most efficient way possible, through retention, insurance, reinsurance or securitisation? What risks can be transferred to the capital market directly and which should be transferred through intermediaries? What criteria are important in terms of the construction of alternative risk transfer mechanisms? And how do investors react to new products?

The organizers of the seminar are:
- Walther Kiep (Kiep Consulting)
- Christian Laux (Frankfurt University and CFS).

Speakers at this year's event are:
- Tore Ellingsen (Managing Director, ABN AMRO Bank N.V.)
- Reiner Hoffmann (Head, Corporate Solutions, Allianz Global Corporate & Specialty AG)
- Andreas Müller (Head of Origination/Distribution/ILS Investments, Risk Trading Unit, Münchner Rückversicherungs-Gesellschaft AG)
- Andrew Murray (Senior Director, Fitch Ratings Ltd.)
- Johannes Wedding (Managing Director and Partner, Wedding & Partner).

In addition, there is a panel on the main seminar theme with, among others, Jens Lindner (Head of 3rd Party Securitisation, Commerzbank AG), Henning Ludolphs (Director, Insurance-Linked Securities, Hannover Rückversicherung AG) and Samuel Scherling (Founder, ILS Value Advisors AG).

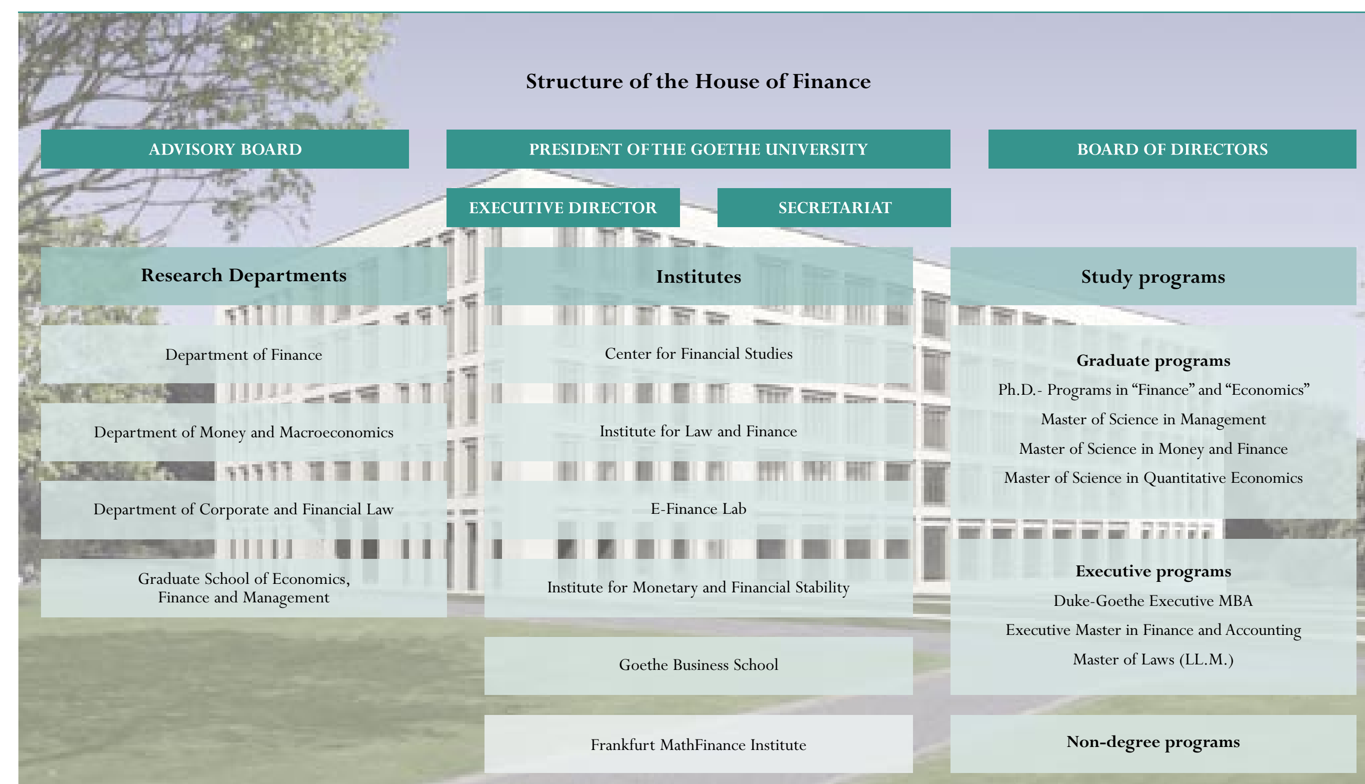
→ We will report more extensively on this seminar in the next issue of our CFS Newsletter.

CFS @ the House of Finance

Together with many other institutions, the Center for Financial Studies will move this year into the newly built House of Finance at the Westend campus of the Goethe University Frankfurt.

> *"I welcome the House of Finance, which will create a critical mass of expertise needed to foster the development of Germany as a European financial center" Prof. Dr. Axel Weber, President, Deutsche Bundesbank*

All of the University's financial research, teaching and consulting institutions, previously dispersed at different locations, will then be found in one location. About 130 researchers with interests in various aspects of finance will work in the new House of Finance. The aim of bringing researchers and practitioners in finance together under one roof is to encourage academic cooperation and networking, to generate new research potential, as well as to deepen the dialogue between academia and the financial industry. Our common mission is to establish the House of Finance as a leading center for finance-related research and education in both Europe and across the globe.



For more information, please consult the House of Finance website: http://www.houseoffinance.eu

New Researchers at CFS

Steffen Juranek joined the Center for Financial Studies (CFS) in March 2008. After graduating in 2007, he entered the Ph.D. Program in Economics at the University of Frankfurt. Simultaneously he began to work as a research assistant at the Chair of Prof. Walz. There he is involved in the regular research of the chair but also participated in the research project "Internetökonomie" (till December 2007). His research interests are in the field of network economics and financial markets.

CFS Colloquium*

Financial Services Providers: New Products – New Strategies? Finanzinstitutionen: Neue Produkte – Neue Strategien?

20 Aug 2008	**Kurt Bock** (BASF AG) Brauchen Emittenten noch Banken?
17 Sep 2008	**Bernd Knobloch** (Eurohypo AG, Commerzbank AG) Europa-Strategien im Immobilien Investment Banking
1 Oct 2008	**Johannes P. Huth** (Kohlberg Kravis Roberts & Co. Ltd.) Entwicklungsperspektiven für das Private Equity Geschäft in Europa
3 Dec 2008	**Siegfried Jaschinski** (Landesbank Baden-Württemberg) Zwischen privatem Wettbewerb und öffentlicher Trägerschaft: Strategie der Landesbanken heute

Admission to the lectures of the CFS Colloquium is only possible after registration. Interested parties who do not receive Email information regularly may contact Isabelle Panther, Tel. +49 (0)69-798 30050 or Email: panther@ifk-cfs.de.

CFS Executive Education*

1–2 Oct 2008	Kreditderivate und deren Bewertung – ein Werkstattseminar zum Mitmachen **Stefan Reitz** (Hochschule für Technik Stuttgart)
9–10 Oct 2008	Zinsprodukte: Analyse und Bewertung: Teil I **Wolfgang Bühler** (University Mannheim)
23–24 Oct 2008	Zinsprodukte: Analyse und Bewertung: Teil II **Wolfgang M. Schmidt** (Frankfurt School of Finance & Management)
20–21 Nov 2008	Sentimentorientierte Finanzmarktanalyse **Conrad Mattern** (CONQUEST Investment Advisory AG)
27–28 Nov 2008	Die Finanzdienstleistungsbranche von morgen denken. Ein Seminar über Zukunftsgestaltung **Axel Liebetrau** (PortaFinancia), **Stephan Meyer** (denkstelle)
4–5 Dez 2008	Werkstattseminar Liquiditätsrisiko **Robert Fiedler** (Fernbach SoftwareAG)

For further information and registration on all CFS Seminars please contact Roberta Ciut, Tel. +49 (0) 700-237 736 46 Fax: +49-(0) 69-798 30077, email: weiterbildung@ifk-cfs.de

CFS Presidential Lectures

„Europäische Integration/ European Integration“

Fall 2008	**TBA**

For further information, please contact Marcel Bluhm, Tel.: +49-(0)69-798 30060, Fax: +49-(0)69-798 30077, email: bluhm@ifk-cfs.de.

CFS Conferences

13–14 Jun 2008	The Industrial Organisation of Securities Markets: Competition, Liquidity and Network Externalities **Peter Gomber, Martin Reck, Erik Theissen**
26–27 Jun 2008	International Research Forum on Monetary Policy **Matthew Canzoneri, Dale Henderson, Lucrezia Reichlin, Volker Wieland**
4–5 Sep 2008	Household Finances and Consumption **ECB-CFS Conference** **Michael Haliassos, Peter Mooslechner, Luigi Guiso, Lucrezia Reichlin**
5 Sep 2008	The ECB and Its Watchers X **Organization:** Volker Wieland

For further information and registration please consult www.ifk-cfs.de.

CFS Summer School

10–17 Aug 2008	Corporate Governance and Ownership **Denis Gromb, Daniel Ferreira**
10–17 Aug 2008	Macroeconomics and Finance **Michael Binder, Thomas Laubach, Glenn D. Rudebusch, Mike Wickens**

For further information and registration please consult www.ifk-cfs.de.

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