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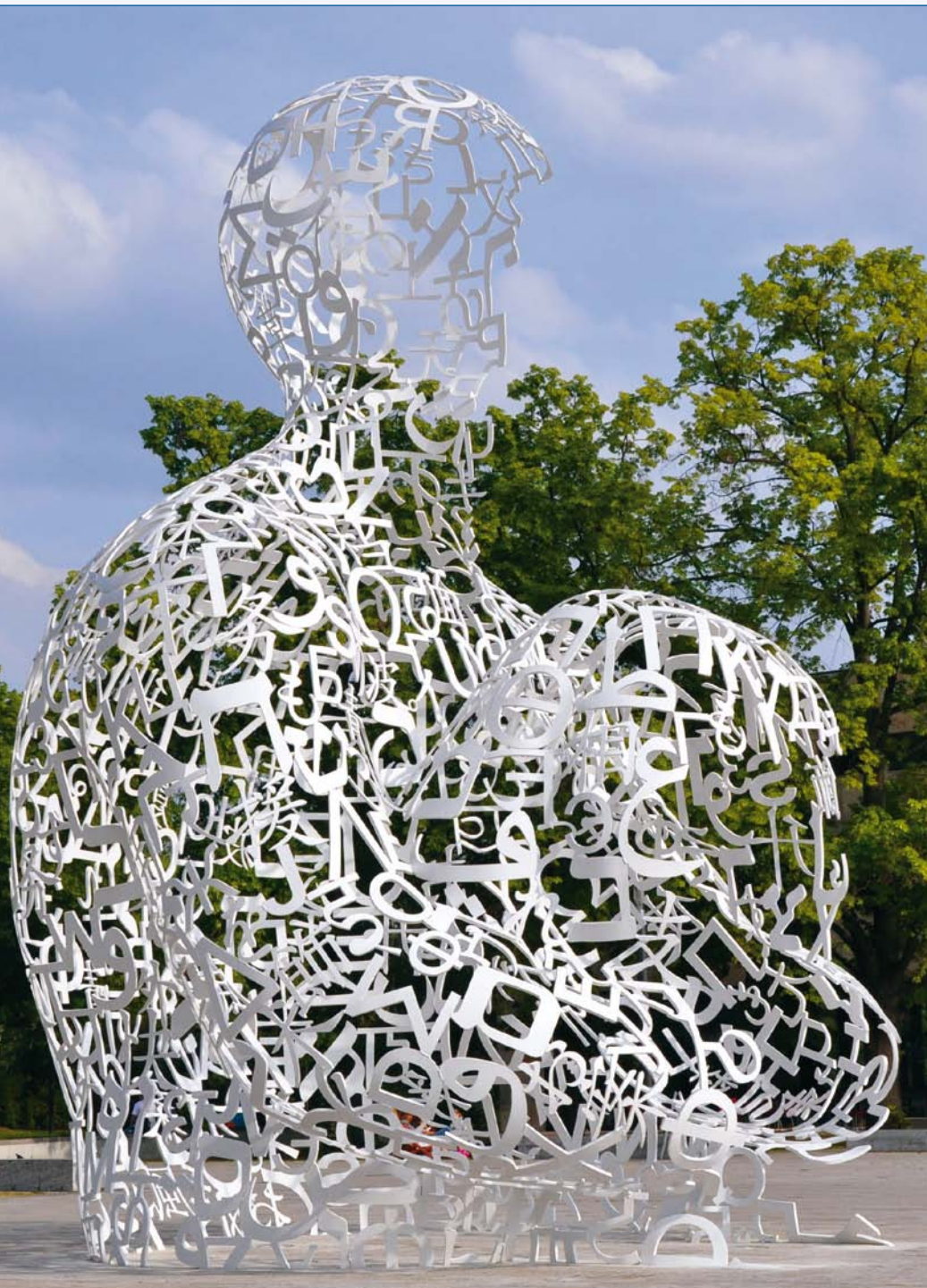
Research and Policy _____	3	CFS Colloquium _____	13
CFS Publications _____	3	CFS Lectures _____	14
CFS Financial Center Index _____	10	The Deutsche Bank Prize in Financial Economics _____	22
Events _____	12	The ECB and Its Watchers _____	25
CFS Visitors Program _____	12	News from CFS _____	27

Editorial

The Bail-in Puzzle

Bail-in has become the favorite focal point, or rather the favorite provocative term in the policy debate about bank rescue programs in Europe. For instance, over the past few weeks, the German government has insistently requested a substantial participation of the private sector in any further debt restructuring. Others, like the President of the European Central Bank have vigorously opposed any step towards a true bail-in. Likewise, most European governments and some prominent economists have warned of the devastating consequences a spreading of default expectations would have on the financial stability of the European banking system.

Such warnings are not without reason. The gradual acceleration of the crisis over the past three years has left many financial institutions holding considerable amounts of once-high quality debt that has turned sour over time. The existing accounting system, however, has trapped these assets in the banks' balance sheets. Selling downgraded debt is tantamount to realizing the accumulated losses – many banks can simply not afford to take the hit, given their rather meagre equity cushions.



The reason why many economists, and a few policy makers, keep on requesting bail-ins is their trust in the general concept of market discipline. A bail-in for private bond holders is the natural counterpart to risk premiums earned by bond holders over the expected life of the bond. A rise of the risk premium exerts healthy pressure on the debtor, as new funding becomes more difficult and more expensive. New bonds will have more stringent covenants, alerting bank management to reduce risk exposure. As funding costs adequately reflect bank risk, it is eventually the shareholder who is punished for excessive risk taking. The concept of market discipline is effective under normal market conditions, as witnessed by the influence rating agencies exert on the valuation of firms across many markets.

Note that the healthy role of bond markets critically hinges upon strict bankruptcy enforcement, which serves to allocate losses to creditors by seniority. This is the simple mechanics of debt market corporate governance.

However, bank markets do not quite work as they should. Under the current conditions of a global financial crisis, notably in Europe's banking industry, the governance role of bond markets is defunct. In fact, investors have understood that bank debt will almost always be rescued with taxpayers' money. No wonder that CDS prices grossly underestimate true bank default risk for almost all major banks in Europe and the U.S., while no such inefficiency is found for non-bank firms. A recent study by two Goethe University doctoral students, Z. Tsesmelidakis and F. Schweikhard¹ finds, for the crisis years until 2009, bank default risk to be underestimated by several hundred basis points. Their analysis is based on CDS prices.

The widespread practice of government-led bank bail-outs has according to their findings severely corrupted the bond market, leading to the underestimation of risk.

Any feasible solution to the *bank-debt-is-too-cheap* problem will have to re-install true default risk for bank bond holders. This is exactly the task of the restructuring laws that are currently introduced in several countries in Europe. Consider the new German restructuring law. It is designed to allow the supervisor to intervene when a bank threatens to trigger a banking crisis, creating a good bank and a bad bank over-night. The good bank will be fully protected by government money, while the bad bank will be liquidated and its creditors are likely to suffer big losses. The new restructuring law, a landmark legislation engineered in the middle of the biggest banking crisis in many decades, is effective January 1, 2011. This is the good news. The bad news is: we do not see any bail-ins. Why not? Furthermore, far from being hailed as the much-needed remedy, the term "bail-in" has become a good candidate for the non-word of the year, the most-aborred term in European politics. Why?

The crux is evidently that bank creditors, who supposedly should expect to get a haircut during an imminent bank default, can confidently expect to be spared any haircut at all. The reason is that bank creditors way too often are banks themselves. A haircut would thus have disastrous consequences.

Thus, what is required to render the restructuring law workable is a certain minimum of bank bond holders that are permanently situated *outside* the banking system. Such bondholders are capable of absorbing losses ('haircuts') without simultaneously triggering a systemic

banking default. I will call such bond holders *haircut-able*, as they are capable to break the vicious circle of bank systemic risk.

Life-insurance companies and pension funds are the prototype haircut-able investors. Of course, these institutions do not like the idea of being haircut-able, and will probably be very quick in selling any sort of "haircut-prone" assets in their portfolios, like bank bonds, whenever they see a banking crisis approaching.

This brings me to the main policy proposal. In order to have bond holders carry the burden of a potential *bank default*, banks need a sufficient amount of truly defaultable debt, and a commensurately sized group of haircut-able debt holders. The required amendment to the restructuring laws in all countries is rather straightforward: banks must issue bonds, from which they – and any other institution within the core financial system – are barred from purchasing. Haircut-able institutions, like pension funds are supposed to buy and hold such haircut-prone bonds. The rate required to hold such debt will again be determined by the market – this time it will be high enough to compensate adequately for expected losses, as a government bail-out no longer can be taken for granted.

As a result, curing the contagious disease of systemic banking risk in Europe, and similarly in the U.S., requires one new treatment, in addition to the measures already taken. This new medicine consists of an active involvement of long-term investors in bank funding. While defaultability may not taste all that well to bondholders, its attractive coupon will be a convincing sweetener, bringing the cost of bank debt back to its true level.

Jan Pieter Krahen (Director CFS)

CFS Working Paper

Lessons for Monetary Policy: What Should the Consensus Be?

By Otmar Issing (CFS)

The paper presents a critical review of the role of inflation targeting, which was widely acclaimed as state-of-the-art monetary policy prior to the financial crisis and is still considered by many to be an optimal strategy.

For several years, central banks have embraced what Issing calls the “Jackson Hole Consensus”, namely that central banks should not target asset prices and not prick bubbles but should rather follow a “clean-up” strategy in the aftermath of events. In Issing’s view, this passive role together with the pre-announcement of the bank’s role as “savior” represents an asymmetric approach, one that might create moral hazard and contribute to even larger bubbles and collapses. Issing particularly points to two fundamental questions: First, can the emergence of a major bubble be identified? Second, what instruments are available to avoid the realization of a major bubble? On the last question, Issing doubts the common arguments that are used to justify why central banks should not lean against emerging bubbles. New research and empirical evidence have shown the potential effectiveness of the central bank interest rate to stabilize financial markets.

The paper then lists a number of strong arguments in favor of “leaning against the wind” of asset price booms by using the interest rate.

Issing continues by pointing to the neglect for many years of money and credit not only in academic research but also in a number of central banks. Monetary factors – in a broad sense – can be used for the analysis and forecasting of asset price developments. A central bank that monitors the development of money and credit and takes these factors into account when making monetary policy decisions, therefore implicitly applies a “leaning against the wind strategy” without having to identify the emergence of bubbles. The challenge is how to integrate asset price considerations into the monetary policy strategy. According to Issing, for inflation targeting this seems very hard to do, as it is based on a forecast using models in which monetary factors do not play an active role.

Despite the fact that monetary factors are and will remain an alien element in inflation targeting, the ECB’s monetary policy strategy gave a prominent role to “Money” from the beginning. The fundamental

question is which role money and credit should play in a monetary policy strategy designed to deliver price stability. Issing raises two points in this respect. Given that inflation is a monetary phenomenon, central banks need to take the relationship between monetary growth and inflation into account, when assessing risks to price stability. Moreover, monitoring monetary developments provides the basis for a medium-term orientation that pays tribute to substantial time lags and protects the central bank from the risk of destabilizing “activism”. At the same time, monitoring money and credit can create a “barrier” against major policy mistakes.

Finally Issing makes a case against increasing the central bank’s inflation target as a way to deal with the challenge from the “zero bound”. Besides the economic and social costs, this would also result in a loss of credibility of central banks after having successfully convinced the public and markets that low and stable inflation is essential.

► The paper originally appeared in the IMF Working Paper series WP/11/97. The paper is also available on the CFS website.

Default Risk in an Interconnected Banking System with Endogenous Asset Markets

By Marcel Bluhm and Jan Pieter Krahen

Goethe University Frankfurt and Center for Financial Studies

In a way that could not have been envisaged a few years ago, the global financial crisis, which began in 2007, has demonstrated how a system of interconnected financial

institutions may be subject to a systemic breakdown, with large effects on the real economy. To investigate systemic risk, the authors develop a numerical model

of interrelated bank balance sheets with endogenous asset markets. The model replicates the main stylized facts that came to light during the financial crisis

and allows the emergence of systemic risk, as well as the banks' involvement, to be analyzed. They then introduce the concept of System Value at Risk (SVaR) and use the model to investigate the relation between a bank's contribution to systemic risk and its optimal macro-prudential capitalization.

There are several definitions of systemic risk. The Financial Stability Board, International Monetary Fund, and Bank for International Settlements describe systemic risk in a report to the G-20 as "a risk of disruption to financial services that is (i) caused by an impairment of all or parts of the financial system and (ii) has the potential to have serious negative consequences for the real economy". Adhering closely to this definition, the authors define systemic risk as the danger that failures within the financial system will mean that an adequate supply of credit and financial services to the economy is no longer guaranteed, so that negative real effects will follow.

A main driver of the recent financial crisis was the state of the financial system at the time. Highly leveraged, and to a large extent, homogeneous (with respect to their portfolio structure) financial institutions, encompassing both the banking as well as the shadow-banking system, with interconnected, mostly obscure balance sheets rendered the financial system fragile. Over the course of the crisis numerous institutions had to be bailed out because their insolvency would have put the financial system at risk by triggering a cascade of defaults in

other financial institutions. The ensuing systemic risk was essentially driven by three factors: (i) size of the financial institutions as well as the (ii) direct and (iii) indirect interconnectedness between financial institutions. The authors' model captures these important risk factors.

To mitigate the risk of future financial meltdowns, it is nowadays commonly accepted that, in addition to micro-prudential supervision, supervisors need to set up an additional layer of macro-prudential regulation and supervision that will allow system-wide risk drivers to be identified, and systemic risk to be monitored, thus making it possible to react in an adequate manner. Systemic risk is a negative externality of financial institutions on the financial system. When they potentially face no charges for this negative externality, financial institutions are provided with an incentive to increase their contribution to systemic risk by becoming too-big-to-fail or too-interconnected-to-fail because it allows them to take advantage of the resulting cheap refinancing opportunities.

A macro-prudential risk management approach should, therefore, feature two specific characteristics. First, it should insure that even when faced with strongly adverse shocks a viable part of the financial system remains solvent. Second, banks should be incentivized to lower their contribution to systemic risk. This can be implemented via charging them a levy according to their contribution to systemic risk. In the proposed SVaR concept a Pigouvian tax is used to

capitalize a systemic risk fund and the capital from the systemic risk fund is re-injected into the financial system to make it more resilient to systemic risk. The optimal amount of capital for the systemic risk fund as well as the necessary proportions of capital to be injected into financial institutions are determined using a parallelized simulated annealing approach.

The paper provides evidence that from a macro-prudential risk management perspective a bank's contribution to systemic risk is not necessarily a sufficient determinant of its optimal macro-prudential capitalization. The analysis has important implications for the design of optimal bank levies. In particular, if a Pigouvian approach is adopted – in which banks are charged according to their contribution to systemic risk – in order to achieve a target level of financial stability, careful distinction must be made between (i) the channels that affect banks' contribution to systemic risk and (ii) the extent to which the instrument chosen to achieve the target affects these channels. Constraining the instrument to be perfectly correlated with a given measure of banks' contribution to systemic risk can result in sub-optimal capital allocations.

References

Financial Stability Board, International Monetary Fund, and Bank for International Settlements (2009): Guidance to Assess the Systemic Importance of Financial Institutions, Markets and Instruments: Initial Considerations, Report to the G-20 Finance Ministers and Central Bank Governors.



From September 2011 onwards Marcel Bluhm will work as Assistant Professor at the Wang Yanan Institute for Studies in Economics (WISE) at Xiamen University (XMU), in Fujian Province, China. The WISE is a research center which has been founded in 2005 to, inter alia, enhance the curriculum in economic studies at XMU, excel in research and nurture a team of young economists and econometricians with academic leadership, taking up a think tank role, and establishing itself as an influential regional center in Asia-Pacific for international academic exchange in economics and finance. In his new position, Marcel Bluhm will do research in macroeconometrics and finance, give courses in macroeconomics and econometrics, and act as intermediary to European universities and research institutes.

CFS White Paper

No. IX - On a Fundamental Reorganization of the Landesbanken and the Savings Banks Sector in Germany

By Heinz Hilgert (former chief executive WestLB), Jan Krahnert (CFS), Günter Merl (former chief executive Helaba) and Helmut Siekmann (IMFS)

The objective behind this white paper is to initiate an open and critical public debate on the savings banks and Landesbanken (regional state bank) sector in Germany. Given the political disarray surrounding the bail-out of the Landesbanken as well as the conflicts of interest between policies at the local, state, and federal level and European competition policy, such a debate is long overdue. Moreover, there is currently a dearth of suggestions proposing a viable structure for this key component of the German financial sector. This article summarizes the ideas presented in the paper.

The situation of the Landesbanken today gives much cause for concern: structural changes imposed by Brussels have not yet been implemented, the savings banks and the German state want to withdraw from their ownership role and there are substantial burdens deriving from recent regulatory changes. Furthermore, the Landesbanken have no viable business model and whilst at first glance, the savings banks themselves appear stable, they are to a large extent (through direct ownership and a high level of outstanding claims) interconnected with the Landesbanken. This could easily lead to a loss of confidence in the savings banks. Under the current joint liability scheme, Landesbanken and savings banks are liable for one another. Following the abolition of the state guarantees, the quality and economic performance of this protection scheme no longer meets the requirements for bailing out even a single larger Landesbank.

At present, the Landesbanken and savings banks pose a serious financial

risk to the German state. The authors argue that the current economic situation affords an opportunity for undertaking the structural reforms necessary to achieving sustained stability and improved competitiveness within the German financial industry.

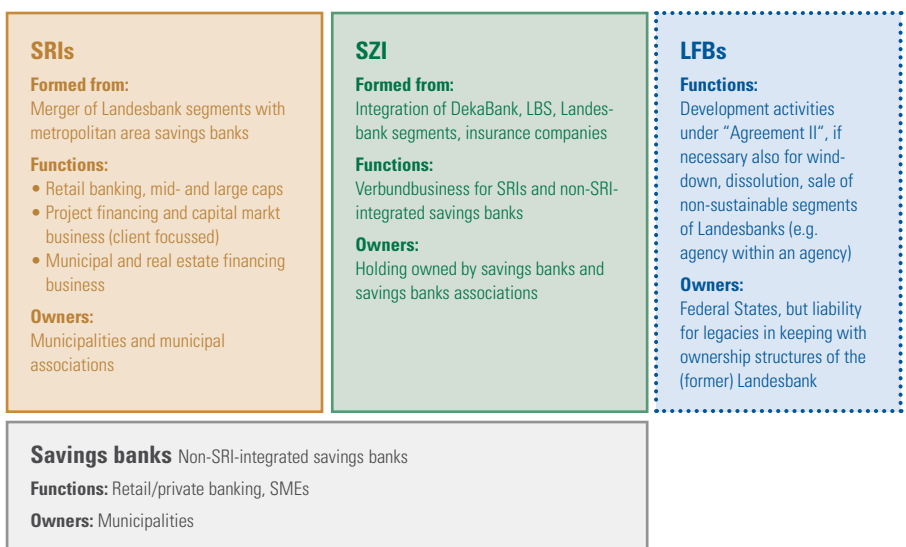
Several considerations lead the authors to conclude that the debate on reform must focus on the entire Landesbanken and savings banks sector. In the authors' view, a form of verticalization is necessary for restructuring the sector.

The authors develop a new structural model that they refer to as 'tripartite model' since it gives rise to three types of financial institutions alongside which the traditional municipal savings banks would continue to exist. Dekabank and the Landesbanken would be either wholly or partly assimilated by the three components. The graph below gives a view of the new structure.

A detailed description of each component can be found in the paper. By way of example, an existing Landesbank would be split and reassigned. The retail

business would be integrated in one of the regionally integrated savings banks (SRIs). At the same time, any joint business will be incorporated into the national financial service institution (SZI). All unsustainable business segments, for which integration in the SRI or SZI is not viable, are to be phased out or transferred to the state investment banks (Landesförderbanken – LFB). The liability for the wind-down facility of the Landesbanken must be carried by the post-owners of the former Landesbank. The savings banks will have the option to join the regional institutions. The ownership of the new units will be divided between municipalities and municipal associations (for SRIs), savings banks and savings banks associations (for SZI) as well as the federal states (for LFB).

The authors expect the proposed reforms to provide a strong boost to financial competition in Germany. They call for the establishment of a government commission with a corresponding mandate to develop a proposal for the whole sector.



No. XIII - Getting Greece Back on Track: How?¹

By Michael Haliassos (CFS) and Dimitri Vayanos (London School of Economics)

The economic crisis in Greece is not a simple consequence of the recent global financial crisis, but is due to deep structural problems of the Greek economy that have accumulated over decades. Consequently, the solution to the crisis consists in a series of structural reforms that will take years. The goal of these reforms is to raise productivity, both in the private and public sector. The increase in productivity is necessary to stem the rapid drop of incomes of Greek households, and to maintain Greece's status as a relatively rich country.

The memorandum that Greece has signed with the ECB-EU-IMF “troika” in May 2010 mainly contains proposals for market liberalization (with an emphasis on labor and product markets and little on financial reforms). The authors however believe that these should be complemented by deep structural reforms in two other key areas, namely the legal system and the public sector. In the absence of structural and long-term reforms, Greece will not be able to exit the crisis, and the austerity measures implemented so far will not bear fruit. The troika should catalyze these reforms by providing pressure and technical assistance. While such engagement is costly and time-consuming, the alternative is much costlier: Greece will experience a deep and prolonged recession as well as significant social unrest, and the huge sums lent to it will be lost.

Market Liberalization and Regulatory Bodies



Market liberalization in Greece has received considerable attention recently, both in relation to the labor market and to the market for goods and services. Markets in Greece are heavily regulated: in 2008, for example, Greece's market for goods and services was the most heavily regulated in the OECD. The

OECD has estimated that proper deregulation – by abolishing inefficient regulations and enforcing rigorously the few that matter – can raise Greece's GDP by more than 15%. Such estimates indicate that the Greek economy has huge growth potential. Some measures to liberalize markets have been legislated recently under the troika's pressure. In some cases, however, the changes have been only marginal because the government has yielded to lobbying pressure by incumbents.

The main changes that are needed in the labor market are to reduce firing costs and to facilitate firm-level agreements, and this to a greater extent than already realized. The liberalization of the labor market should be accompanied by better insurance and training for the unemployed, areas in which Greece lags significantly behind its EU partners. The main change that is needed in the market for goods and services is the abolition of all obstacles to competition, such as minimum fees and geographical restrictions. This change will reduce production costs and will raise productivity and households' incomes. Effective competition also requires strong and independent regulatory bodies to prevent any monopoly practices. Greek regulatory bodies have become more effective recently. Their independence from the state, however, should be strengthened even further.

The presence of strong, independent regulatory bodies is especially important in light of the upcoming privatizations.

Market reform should also concern Greece's financial system. One of the main causes of Greece's current recession is a credit crunch: Greek firms are having difficulty to borrow from banks because the latter are experiencing funding constraints. These constraints are partly due to the sovereign debt crisis, which has caused a flight of deposits away from Greek banks and uncertainty about the value of Greek government bonds that banks are holding in their portfolio. The constraints are also due, however, to choices made by Greek banks, such as the large credit expansion in an unstable macro-economic environment and the investment of an overly large fraction of their portfolio in Greek government bonds. These problems are partly due to the close relationship between banks and the state, which hinders the effective supervision of banks by the relevant regulatory bodies. Reform in the banking system requires making it truly independent of the government. Entry by foreign strategic investors in some banks, at least on a temporary basis, could be useful in that respect.

Greek firms could, in principle, also raise capital from the stock market. Unfortunately, there is a lack of interest by investors in the stock market, which

is to a large extent a rational reaction to the large number of fraud incidents during the stock-market bubble of 2000. Very few of these incidents have been prosecuted successfully then, due to deficiencies in the legal system.

Justice System



Reform of the justice system has not been high up on the agenda of either the Greek government or the troika; yet, it is one of the most powerful growth-promoting reforms that could be undertaken over the next few years. An efficient justice system will lead to fewer incidents of corruption, which discourage entrepreneurial activity, impede the efficient functioning of the state, and poison citizens' trust towards it.

The performance of the Greek justice system is poor and can be improved significantly. According to the World Bank's 2011 Doing Business report, Greece ranked 151st among 183 countries according to the time it takes to try a civil case – this time exceeds the average time in countries of sub-Saharan Africa. Under these conditions, Greece will be unable to attract foreign investment or reduce corruption, which according to Transparency International is highest in Greece among all 27 EU countries.

Improving the justice system requires reforms on many fronts. For example, the discretion of judges to grant postponements must be limited. The Greek state, which often delays its financial obligations towards private parties by seeking postponements even after a final verdict has been reached, should comply instantly with courts' decisions. Courts should also be computerized, a process that has recently taken place in Algeria,

Botswana, etc. but is still delayed in Greece. The performance of each court should be measured and compared to that of other courts. The issue of measuring productivity and efficiency, however, is a broader issue concerning the public sector.

Productivity in the Public Sector



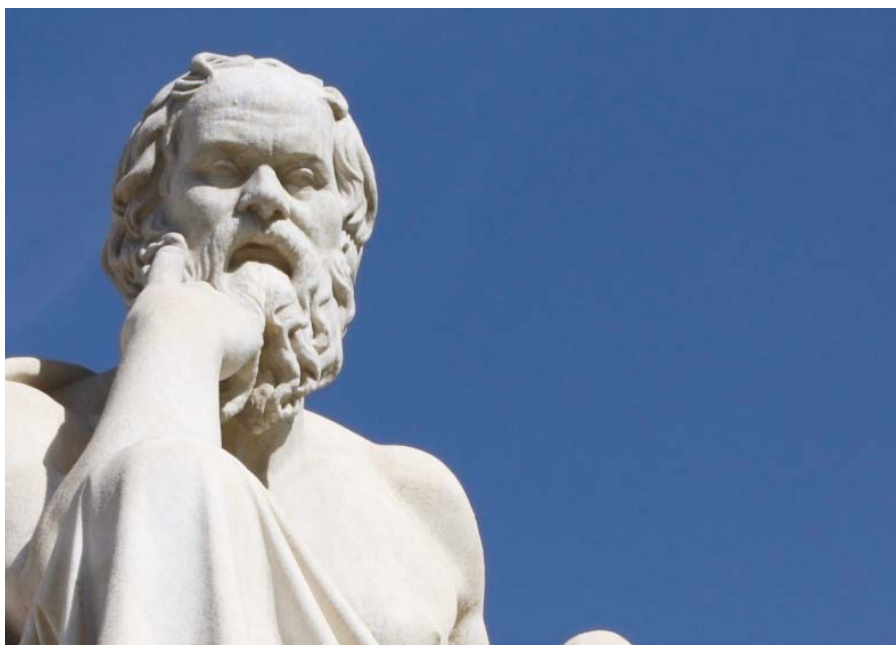
The public sector needs to be transformed from an institution hiring party supporters in exchange for votes to an efficient provider of services to society. The authors consider this to be feasible only in conjunction with the provision of incentives for promoting and rewarding productivity. The big challenge is to provide such incentives in a period that requires severe cuts in government expenditures. Much of the current public debate focuses on the need for spending cuts. However, repeated wage cuts without reference to productivity discourage and ultimately push away the most dynamic public employees. Therefore, the discouraging message of wage reductions must be complemented with a positive perspective, such as promotions and wage increases strictly linked to productivity. Funding of public institutions should be related to quantity but especially quality of their output, using as benchmarks relevant international indices and best practices. Evaluation of schools, for example, may take into account PISA or university entrance exam results. That of public corporations can be based on cost and quality of services, etc. Non-performing agencies should have their managers replaced, or should be merged, abolished, or passed over to the private sector.

The crucial question is who is going to evaluate performance beyond the

shadow of a doubt, so as to reward the most productive employees and to identify the problem cases. How can this be done when there are pockets of corruption and long-standing practices of promoting political allies? Here the authors rely on two principles.

One can be described as a 'transplant' to Greece of international practices promoting meritocracy and trust. For the adoption of performance indicators, we can rely, in some cases, on existing international evaluation agencies, whose reputation depends on their impartiality and adherence to high standards (e.g., accreditation agencies for educational institutions or programs). Further, there are foreign scientists and businessmen or Greeks living abroad who show genuine interest to transfer international experiences and best practices.

The other is based on the alignment of interests of evaluators and of those being evaluated, with a focus on promoting productivity. The criteria for evaluating individuals can be applied by senior managers of public sector agencies, provided that they are themselves evaluated on the basis of international standards. The efficiency of advisory committees, which should be flexible and limited to a minimum, should be assessed by the Government on the basis of their observed contribution to promoting productivity and competitiveness. In this way, the incentives of employees, management, and advisory committees are aligned to a maximum degree and are focused on efficiency. This proposal can extend the role of the public sector to be a catalyst for change. The authors call it a 'transplant' because it can spread a culture of meritocracy and efficiency throughout the Greek public sector and this will in turn result in less need for involvement of outsiders in the future.



Do Greeks Respond to Incentives?

Can these objectives be accomplished? Do Greeks respond to incentives or are they doomed to wasteful spending, low productivity, and corruption? More generally, is Europe divided into two groups of countries, one of 'high flyers' in which meritocracy and productivity can flourish, and another one of 'laggards' condemned to permanent misery and corruption? Very often, such strange views are voiced in public discourse.

The authors consider the 'genetic theory' of Europe very dubious. Another widespread wrong perception outside Greece is that, because the Greek public sector is over-indebted, the same applies to Greek households, and that the latter exhibit over-spending and excessive risk taking. This perception is not valid, as a recent study has shown.² If one examines net household wealth (i.e., all assets minus loans of all forms, even from friends and family) of Greek households aged 50 or more, one finds that its level at the lower 25th percentile of the 2004 distribution was bigger than that of the U.S., five times that of Germany, and close to France. Median net household

wealth was comparable to that in Austria and larger than in Germany. At a time when U.S. households were accumulating mortgages, older households in reckless and over-indebted Greece had the smallest participation rate in mortgages for their primary residence among all developed European countries the study considered (5.5%) despite exhibiting the second largest homeownership rate after Spain. This outlook has a lot to do with the priority attached by Greeks to acquiring and bequeathing homes and other real estate. Since the burst of the stock market bubble in 2000, Greeks exhibit one of the smallest stock market participation rates. It is thus particularly surprising that Greeks managed to combine consistency in the management of their own assets, with complete neglect of state finances.

A credible and drastic change, with institutional reforms consistent with international best practices, can restore the lost confidence. This effort can succeed only if financially strong European countries support it, not only with funding, tough conditions and penalties, but also with transfer of internationally recognized practices and relevant experience, and above

all with confidence in the ability of their ailing partners to perform under a healthy institutional and economic environment. What is needed most, though, is for Greeks themselves to believe in their future. It is here that the media and the level of the political discourse play a decisive role. It is crucial for the investment and social climate that attention be shifted, from the few who lose to the many that stand to gain from a more competitive economy. Only then can we hope that Greeks will channel their resourcefulness away from aggressive protests, and towards the discovery of new paths to growth and economic well-being.

▶ Both White Papers can be downloaded from the CFS Website or the House of Finance Policy Platform

Eurobonds and European Policy Coordination: The View from the German Financial Sector

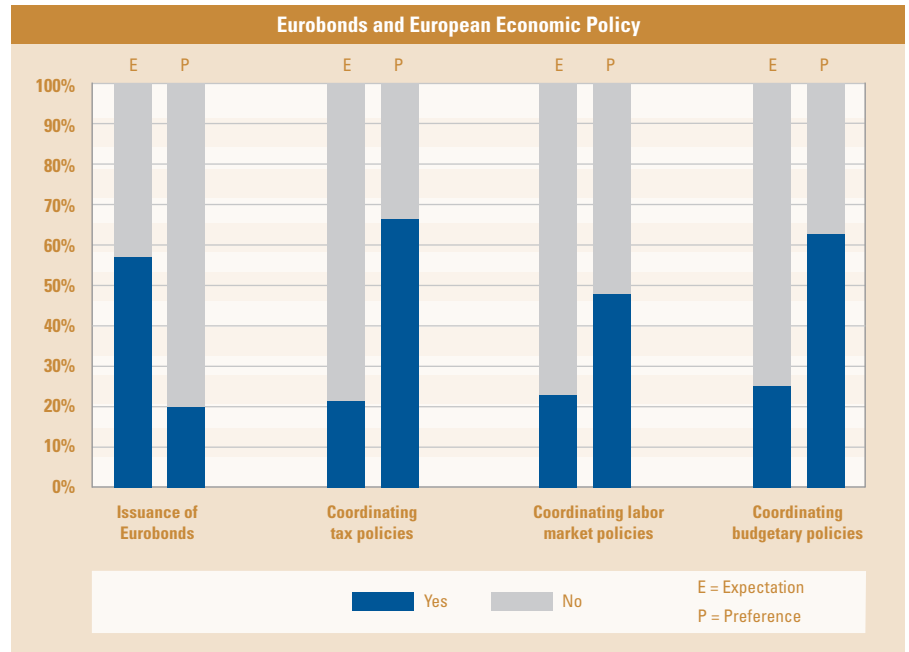
Michael Haliassos, Christian Knoll, and Jan Krahen (CFS)

In this note, the authors make use of recent survey data to shed more light on the views of the German financial sector on Eurobonds. Although the German government has taken a rather strong stance against the issuance of such bonds, Eurobonds are currently being debated as a potential solution to the financing problems of some European countries with fiscal imbalances. If they are to be successful, Eurobonds require considerable harmonization of EU government fiscal and labor market policies.

The authors try to uncover systematic patterns in the responses of top managers of the financial sector and policy makers in Germany. The panelists were asked to distinguish between their expectations and their own personal preferences on a number of issues, such as the issuance of Eurobonds and the coordination of tax, labor and budgetary policies in the European Union.

The findings show that the German financial community does not expect the euro crisis to be over soon. This is quite consistent with the prevailing high spreads on long-term yields of troubled euro countries.

The majority also expects that a common bond will be issued by the euro area in 2011, even if four out of five respondents state that they oppose the issuance of Eurobonds. Despite this dislike, a majority of panelists regard fiscal and labor market policy coordination and harmonization (in addition to the already achieved monetary policy harmonization) as necessary within Europe. Many however are not very



optimistic about the chances that such coordination will be successful.

In order to better understand this survey, the authors run a regression using the stated expectations on Eurobonds and harmonization. Interestingly, expecting Eurobonds is not systematically related to any expectations about a move to coordinate fiscal and labor market policy in the euro area. Eurobonds are being perceived as a political necessity rather than an outcome of a policy harmonization process.

In a second run, they look at the preferences instead of expectations. The authors were unable to find a systematic

relationship between a preference for Eurobonds and a willingness to support tax and budgetary coordination within Europe. Although managers of larger entities are significantly more likely to oppose Eurobonds, views do not depend on firm type (e.g. financial institution, financial sector service providers, or monetary policy makers)

Taken together, the findings suggest a rather gloomy perception by the German financial sector: Eurobonds are expected to come, but without the necessary policy prerequisites; and the minority who want them to come do not necessarily support fiscal coordination measures.

► The full article appeared on: www.greekeconomistsforreform.com
This blog publishes articles by leading academic economists on issues relevant to economic policy and reforms in Greece. The articles aim to offer constructive proposals and impartial analysis of potential, proposed or implemented reforms that are based on the principles of modern economics and on lessons from recent cutting-edge research.

The Cost Channel, Indeterminacy, and Price-Level versus Inflation Stabilization

By Sebastian Schmidt (CFS)

Traditional monetary models of the business cycle emphasize monetary policy transmission channels that operate through the demand side of the economy. In contrast, so-called supply-side or cost-side channels have typically been ignored. More recently, empirical evidence in support of such supply-side effects of monetary policy has led economists to introduce a cost channel into structural business cycle models to study implications for optimal monetary policy and for equilibrium determinacy. A common finding is that inflation targeting may become susceptible to a multiplicity of equilibria. Intuitively, in the presence of a cost channel, changes in the nominal interest rate have a direct effect on firms' variable production costs, thereby weakening the effectiveness of the countervailing demand channel of monetary transmission.

In modern macroeconomics it is widely recognized that a reasonable monetary policy strategy should in any case prevent

such equilibrium indeterminacy.

This paper evaluates the desirability of an alternative monetary policy regime, price-level targeting, in a New Keynesian model with a cost channel. Specifically, Schmidt assumes that monetary policy is delegated to a central banker who acts under discretion and follows either a price-level target or an inflation target. The main results are twofold. First, determinacy regions under price-level targeting remain nearly unaffected by the introduction of the cost channel, whereas determinacy regions shrink under inflation targeting. Second, price-level targeting continues to be successful in stabilizing inflation and the output gap – the two target variables that enter a welfare-based loss function – whereas the stabilization trade-off deteriorates under inflation targeting.

Due to the weak demand channel, the ability of the central banker to manage private sector expectations takes center

stage. Under price-level targeting, monetary policy becomes history dependent. Specifically, any above-trend inflation episode has to be followed by enough below-trend inflation in order to bring the price level back to its target path. Under rational expectations lower expected future inflation dampens current inflation, which reduces the trade-off for the central banker in the contemporaneous period.

This ability of a policy strategy to use the expectations channel effectively turns out to be especially important once the supply-side effects of monetary policy are explicitly taken into account.

▶ Schmidt, Sebastian
 “The Cost Channel, Indeterminacy, and Price-Level versus Inflation Stabilization”, *The B.E. Journal of Macroeconomics*, Vol. 11 (2011), issue 1 (Topics), Art. 3.



CFS Financial Center Index Remains on High Level

The business sentiment in Germany's financial sector continues to be positive, notwithstanding that the CFS Financial Center Index stayed flat in the second quarter, gaining a mere 0.1% compared to last quarter's value.

The various groups participating in the survey (i.e. financial institutions and brokerage firms, financial sector service providers, supervisory and academic institutions, and other connected enterprises) showed different trends in their outlook for transaction volume,

profits, employment, and investments, which together comprise the four index components.

The business sentiment among financial sector service providers continues to be very good. Despite falling short of expectations, they report a further rise by 2.9 points. Investments and employment, in particular, have increased considerably and the outlook for the next quarter continues to be bright.

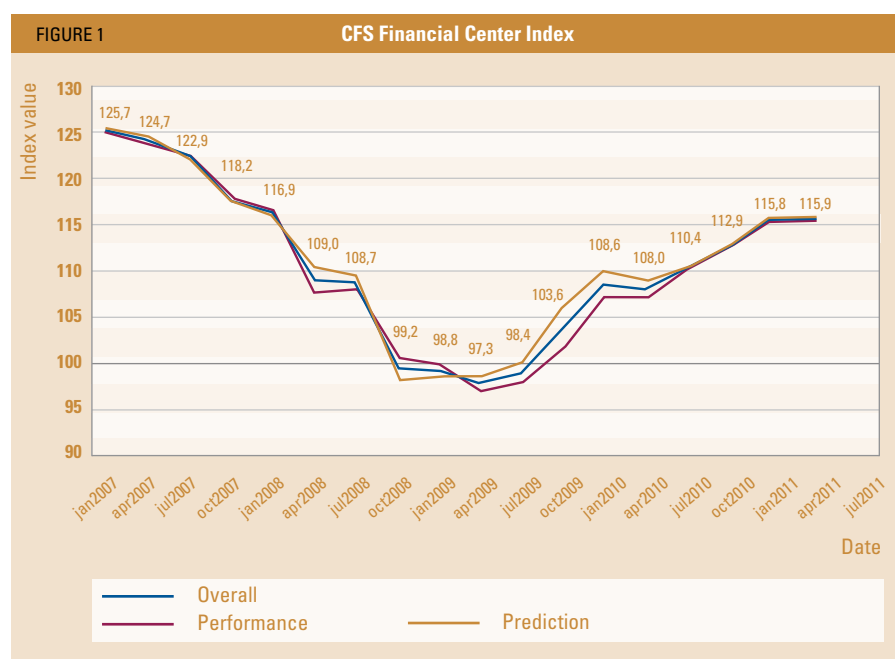
The financial institutions are slightly less optimistic. Following a substantial rise in the last quarter, the figures have declined somewhat, with revenue falling, yet investments showing a minor increase. With 111.6 points the expectations for the second quarter are just below the performance of the first quarter.

The two other groups – the supervisory and academic institutions and the other connected enterprises – have surpassed their expectations, particularly as investments have risen appreciably.

The general sentiment about the importance of Germany as an international financial center has, however, weakened significantly. “To a great deal this could be related to both the discussion about the upcoming stock exchange merger and the uncertainty concerning the structure of the German banking sector,” explains CFS Director Jan Pieter Krahenen.

EU Resolutions Not Sufficient

According to a special survey, a majority of the participants (80%) continues to believe that the euro crisis will last beyond 2011 and has yet to be resolved. However, in comparison to a similar survey conducted in the past, there has been a substantial change of view regarding the further course of the crisis: whereas in January an almost equally high percentage of panelists envisaged that the crisis would continue at the current level or deepen further (40% and 39% respectively), a majority (now 54%) believes the crisis will continue at its current level rather than deepening (23%). Nevertheless the financial sector remains cautious, “One of the

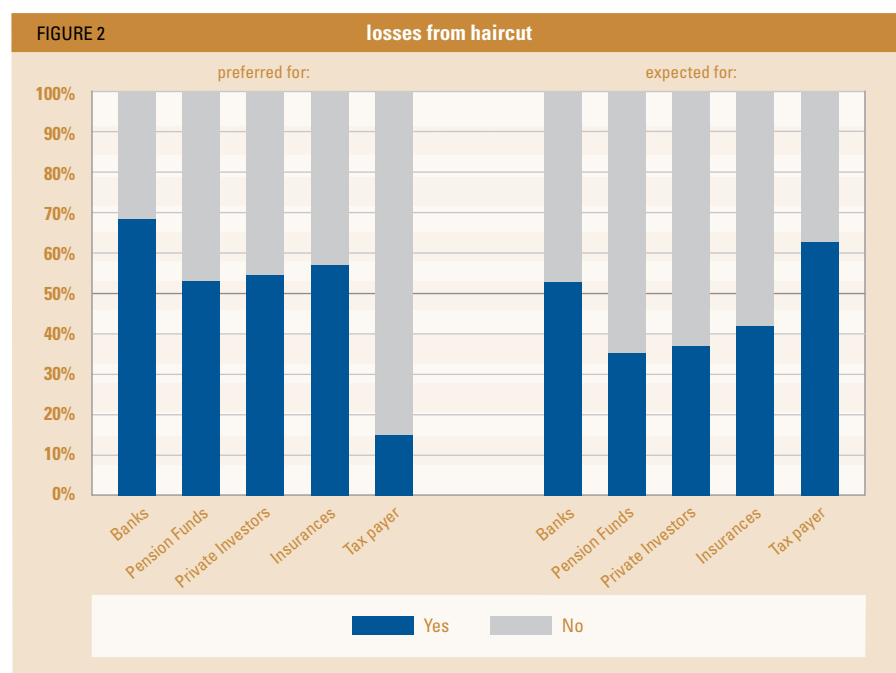


reasons why [...] could be the lack of credible sanction measures”, explains Krahenen. The penalty mechanism is generally not viewed to be sufficiently automatic (70%) nor is it considered to be politically enforceable (65%).

Haircut Could Affect Both Banks and the Taxpayer

When confronted with the question, who would and who should pay in the event that an EU member state forces

bondholders to take a haircut on its bonds, the answers show considerable differences between personal preferences and expectations (see Figure 2). About two thirds of the panel believe that banks should cover the costs. This also applies – albeit to a lesser extent (55%) – to pension funds, private investors and insurance companies. Only one out of five respondents would prefer the taxpayer to step in. However, if a haircut were indeed to be enforced, the majority of the panelists expects the taxpayer would have to cover the costs (60%), while only a narrow majority foresees that banks will be making write-offs. According to the panel, pension funds, insurance companies and private investors are least likely to have to cover the costs (35-40%).



► More information can also be found on www.financialcenterindex.com

Our sincere thanks to the Stiftung Polytechnische Gesellschaft in Frankfurt for their support of this program.



CFS Visitors Program Kick-Off

Executive Compensation and Corporate Governance

16 – 19 May 2011

Ph.D.-level mini-course held by David Yermack

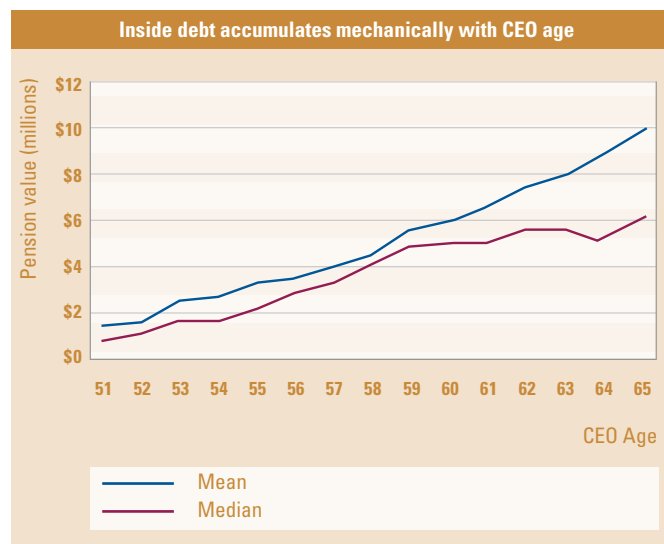
Professor David Yermack of the Stern School of Business, New York University offered the first graduate mini-course as part of the newly launched CFS Visitors Program. Faculty, graduate students and researchers at Goethe University were invited to attend the course at no cost. The 3-session course evolved around topics on executive compensation and corporate governance.



The first session began with a lecture entitled “Executive Compensation Overview – Are CEOs Overpaid?” The findings in literature confirm that, in a competitive “matching” equilibrium, the most talented top managers work for the largest firms, where they have the highest economic impact. If differences in firm size are large at the very top of the distribution, then differences in CEO pay will also be large. This opening led to the next topic, “Risk-Taking Incentives”, where Yermack introduced a remedy to the agency costs of debt, namely “inside debt”. His conclusions are that CEO compensation exhibits a balance between debt and equity incentives with the balance systematically shifting away from equity and towards debt as CEOs grow older; and that CEOs with high debt incentives manage their firms more conservatively. The first session ended with a discussion about compensation and share price manipulation. A recent working paper by K. Ahern and D. Sosyura, for example, analyzes active media management to influence the outcome of important events (such as mergers) by using comprehensive data on media coverage and novel data on merger negotiations.

In the second session on “Corporate Directors” and “Diversity in the Boardroom”, David Yermack elaborated on recent findings in a number of subjects: retention and reputation incentives for outside directors; financial fraud and shareholder wealth; female directors’ impact on board inputs and firm outcomes; the influence of board diversity.

The last session focused on “Corporate Voting” and “Founding Families”. Subjects such as voting rights evaluation, vote



trading, as well as proxy voting evoke quite a lot attention in the corporate governance area. Talking about a first study by Zingales on the value of the voting right, Yermack explained that “traditional finance theory disregards the value of voting rights in pricing the common stock”. Research however has shown that the price of a vote is determined by the expected additional payment vote holders will receive for their votes in case of a control contest. Yermack continued with a discussion of issues concerning founding-family ownership and firm performance. He showed that empirical evidence is diverse: in a paper using the S&P 500, the authors argue that family firms perform better and that the performance of founding family members as CEOs is better than that of non-family CEOs. On the contrary, using proxy data on Fortune-500 firms, a study concluded that family ownership creates value only when the founder serves as CEO or as Chairman, while descendants who serve as CEOs rather destroy firm value. *Lulu Wang (CFS)*

CFS Colloquium

On the Relationship between State and Financial Markets – Lessons from the Financial Crisis

Über das Verhältnis von Staat und Finanzmarkt – Lehren aus der Finanzmarktkrise

24 February 2011

Dr. Wolfgang Schäuble (German Minister of Finance)

In his opening remarks, Wolfgang Schäuble reflected on the lessons to be learned from the crisis by identifying its causes. Against the background of excess global liquidity and financial innovation, cheap financing induced by a lenient monetary policy and lax credit standards fuelled an aggressive increase in leverage, leading to an asset price bubble and further leverage growth.



Jan Krahenen, Wolfgang Schäuble

Looking more closely into the roots of the financial crisis, Schäuble suggested that the combination of an expansionary monetary policy and lax credit standards must be seen as a social policy adopted by the U.S. government to promote the access of lower qualified and less privileged individuals to the housing market, thus enhancing their feeling of prosperity. In Schäuble's view, this effort had its merits, but it cannot replace a sustainable education and social policy. In this sense, and despite its weaknesses, the German social market economy model and its education system can be considered superior to the American model, since the long term perspectives of young individuals without an academic degree are more realistic.

Turning to the question as to why the crisis was not confined to the U.S., Schäuble noted that arguments pointing only to the globalization and deregulation of financial markets are too narrow. He suggested that the intellectual roots of

this development must be seen in the economic theories promoted over the last two decades by the Chicago School, according to which unregulated financial markets should serve as a worldwide reference. Despite the unquestioned merits of globalization, and implicitly of deregulation and interconnected financial markets, Schäuble pointed to the need to redefine the relationship between the state and financial markets.

In his view a central lesson to be learned from the crisis was that highly volatile growth, driven by financial markets did more harm than good. Politics should lay the grounds for sustainable economic growth. Moreover, the right balance between regulation and individual freedom is essential for a well functioning social market economy. Schäuble suggested that this balance can best be obtained by a policy that might not solve all problems, but that nevertheless sets the framework such that solutions can be derived. The negative externalities of financial

markets can be avoided by reinforcing the links between risk, accountability, compensation, and responsibility. Proponents of the rational market theory might want to maintain a status quo, relying on self-regulating market forces. According to Schäuble, however, this theory is an oversimplification when taken literally. Schäuble pointed to the negative experiences of the last crisis, when herd behavior by financial market participants amplified market volatility. In this sense, politics should be responsible for reducing the tendency of markets to overshoot during crises, thus rendering the financial system more robust and resilient. Furthermore, this responsibility ought to be extended to central banks, whose policy targets should include financial market stability in addition to price stability.

Schäuble emphasized that the regulation reform should be coordinated at EU level and should aim to address the direct causes of the crisis, particularly the opacity of financial market transactions, the distorted incentives generated by inadequate compensation systems, as well as the weak connection between risk and accountability.

He continued by outlining the reform efforts made so far. First, the G20 has agreed to design an incentive system for manager compensation in line with the long term performance of a company. Second, at an institutional level, the European System of Financial Supervision, operational since January 2011, has been mandated to intervene in cross-border crisis situations. Within Germany, the financial supervision agency (BaFin) has since August 2009 been given greater control

and more intervention rights. Finally, the Basel III reform has made considerable progress with the new capital and liquidity requirements for financial institutions.

Other open issues within the regulatory reform are the shadow banking system and the so-called SIFIs, systemically important financial institutions. With regard to the former, regulatory arbitrage has to be contained, since banks engaging in aggressive maturity mismatch via their sponsored off-balance sheet vehicles have accumulated high leverage and encountered massive liquidity problems when short-term financing dried out. In the case of systemically important institutions, Schäuble stressed the need to mitigate the moral hazard problems of “too big to fail” and “too interconnected to fail” by introducing additional capital and liquidity requirements for the SIFIs. Moreover, the supervisory authority should be entitled to ask for a clear emergency plan on the part of these institutions, possibly involving orderly restructuring. To this extent Germany made a big leap forward by passing the new restructuring law for banks at the beginning of this year, he said. According to the new law, the costs of a future crisis will be borne by the financial sector via the restructuring fund, and financed by bank charges. With respect to the costs of the past crisis, Schäuble made it clear that he will call for the introduction of a financial transaction tax, at both the national and international level.

Schäuble ended by pointing to the necessity of setting limits to economic behavior whenever our social values are endangered.

Oana Georgescu (CFS)

CFS Lectures

Financial Stability against the Backdrop of the Sovereign Debt Crisis

Finanzstabilität im Zeichen der Staatsschuldenkrise

19 January 2011

Andreas Dombret (Board Member, Deutsche Bundesbank)

The presentation began with a brief introduction by Dombret on the importance of financial stability for economic well-being. He defined financial stability to be a highly effective state of the financial system, where all economic key functions – in particular the distribution of capital and risk – can be met in the long term. He considered that financial stability has two different dimensions: first, on the short term side, there is crisis management, which deals retroactively with acute problems and second, in the long term, stability is to be maintained by promoting a regulatory framework that can proactively deal with problems such as the build-up of imbalances and endogenous systemic risks.



Andreas Dombret

In the case of the stability of the German financial system, specific challenges are involved that have been outlined in the November 2010 issue of the Financial Stability Review of the Bundesbank. The refinancing structure and the liquidity risk both represent important aspects for the German banking system. On the refinancing side, the tendency has been towards an increasing share of non-bank deposits, which is fundamentally positive. Nevertheless, the share of domestic bank debt securities with a short maturity remains persistently high. Another key factor for large banks is the development of market risk in their trading portfolios; this has been reduced since 2009. Dombret also spoke about risk diversification within the system and the systemic risk potential following the outbreak of the sovereign debt crisis in several EU countries. He mentioned that the Review also contains a stress test on the performance of interest rate and commission based business of German banks. The scenario that was used, however, was very pessimistic (including a decline of 4% in GDP) and projected a substantially lower interest income and surging write-offs.

Dombret went on to elaborate on the current European sovereign debt crisis and the risk it poses for financial stability. The best way to create sustainable financial stability is to install sound public finances in all countries. The debt problems that several European countries currently face were essentially triggered by a series of homegrown mistakes. According to Dombret the fundamental causes for such failures can be found in the inadequate consolidation of state budgets in good times, a divergence in price competitiveness in the euro area, an overheating of real estate markets as well as high debt levels in the private sector. The systemic dimension of the sovereign debt crisis became instantly obvious when confidence in Greek public finances dwindled in spring 2010. Both the short-term and long-term aspects of financial stability should be considered here in order to achieve lasting and sustainable protection against debt crises, said Dombret. In the short-term, the

objective must be to interrupt the dynamics of the crisis in order to gain time for implementing measures aimed at consolidating public finances and implementing structural reforms. However, it is the long-term measures that are of particular importance, with the main focus on prevention. In this respect it is crucial to ensure that incentives are such that they instill a sense of own financial responsibility on the part of both industry and the state.

Preventive measures, not only the adherence to strict fiscal rules and the alignment of economic policies but also the establishment of a permanent crisis-management mechanism, should always observe strict rules: temporary assistance to individual EU member states should only be possible in those exceptional cases in which the stability of the monetary union is at risk. However, measures that hollow out the responsibility of states by taking a joint-liability approach ignore the lessons to be learnt from the crisis. In this light, the introduction of Eurobonds, for example, has to be viewed critically.

Dombret also spoke about the direction regulation and policy should take in order to reach a sustainable financial system. From an institutional point of view, the founding of the European Systemic Risk Board represents an important step for macro prudential monitoring. Moreover the tools required for handling systemic risks are currently in the making. The new bank regulation (Basel III) includes the use of Contingent Capital or Bail-in instruments in the capital structure, as well as a capital surcharge for systemically important institutions, and the development of counter-cyclical capital buffers. Problems may arise here, however, owing to regulatory arbitrage which particularly endangers the effectiveness of macro prudential measures.

Finally, Dombret mentioned several future tasks in the field of financial stability, which will demand accountability and a need for more communication with markets and the public. In addition, he said that academic research must engage more comprehensively in the pressing issues of financial stability. Generally, Dombret expressed the need for a more pronounced and transparent exchange of information. In particular, public trust in the social market economy must be strengthened through proactive reporting on the risks and profits from financial activities.

Panel Discussion

Strengthening the Recovery: The IMF's Outlook for Europe

12 May 2011

On May, 12th Otmar Issing (President of the Center for Financial Studies) was joined by Antonio Borges (Director, European Department, IMF) and Lucas Papademos (Harvard University, CFS Senior Fellow) in the House of Finance for a panel discussion about the regional economic outlook for Europe.



Antonio Borges, Otmar Issing, Lucas Papademos

After the opening words by Issing, Borges started the discussion by presenting the IMF's newly issued economic outlook for Europe that explains the IMF's analysis of the current situation in Europe and its ongoing policy issues. According to Borges, the IMF is quite optimistic about the fact that, apart from the euro area's debt crisis, there is fairly solid and well-spread economic growth, especially in Eastern Europe. He pointed out that Europe has potentially much to gain from further economic integration, which is therefore very desirable and represents a win-win situation for all. As regards monetary policy Borges stated that, "[The IMF is] supportive of the ECB's monetary policy stance of returning to normalization step by step". For the time being, Borges did not envisage a significant rise in inflationary expectations.

During most of his discussion Borges focused on the euro area's debt crisis. According to him, the European Monetary Union is not complete but rather a work in progress. "What we benefited from during the last ten years was a dramatically increasing capital flow across Europe. [...] Unfortunately in a few countries this capital essentially took the form of credit that was poorly used." He emphasized that the euro crisis not only concerns public finances but also the private domain where the non-tradable sector almost exclusively benefited from the spending boom made possible through easily available credit. Resources were allocated in ways that were beneficial

to a few (protected) sectors but detrimental to the rest of the economy. "Governments then had an incentive to keep on borrowing to maintain the growth in the non-tradable sector. [...] This is in no way sustainable and had to come to an end as is happening right now", he said. Borges also mentioned that Europe's imbalanced and incomplete monetary union still features strong restrictions on equity flows and resists turning to foreign investors for resolving the weaknesses. He explained that, in a complete monetary union, changes in asset prices can be arbitrated rather quickly, which could mitigate problems, in particular those concerning debt issues. "The key message for us", Borges concluded, "is that we have to look at the competitive issues in a broader sense, in terms of resource allocation [...] and we have to have a far going economic and financial integration to make sure this does not happen again".

Next, Papademos gave his assessment of the IMF report emphasizing three aspects: (i) economic outlook and associated risks, (ii) the sovereign debt crisis, and (iii) fiscal restructuring policy.

He stressed that at the global level the recovery is gaining momentum: the stock markets and many commodity markets are booming. At the same time, there are risks which are masked by such reassuring developments. The first problem is unemployment, which remains stubbornly high in some countries. According to Papademos, a closer look at the factors

that are driving the problem could offer good guidance to countries that are facing serious labor market problems. The second risk he identified is the existence of various contagious channels and feedback mechanisms between public finances, the banking industry and the real economy. A third potential risk comes from inflation developments.

Papademos continued with future policy issues, where he sees a need to address the interconnectivity between fiscal, monetary and regulatory policies. He also emphasized the importance of eliminating the risk of moral hazard and stressed the importance of implementing the Basel III framework on capital liquidity requirements in an effective and timely manner.

He then addressed a possible debt restructuring for Greece and other euro area countries, saying that it is both undesirable and unnecessary because it entails real costs and potential risks that outweigh any potential benefits. He explained that the resulting losses from a debt restructuring would ultimately be borne to a very large extent by governments and tax payers.

Debt restructuring would furthermore have a particularly profound impact on the banking sector and a systemic spillover effect on the real economy. “Most importantly”, he said, “it may undermine the strong focus and effort required to address the root causes of the fiscal imbalances and competitive weaknesses”. He concluded with a positive note on resolving the sovereign debt crisis. Although it is likely to be difficult, said Papademos, it is of common interest to all euro area countries to preserve the stability and credibility of the euro.

The discussion was summarized by Issing who thanked both panelists and congratulated the IMF on this impressive report. The importance of financial integration was reiterated by all speakers. Subsequent questions from the audience mainly addressed the incompleteness of financial integration, monetary policy, and growth. The panel was closed by Issing with the statement that “It will be interesting to see the results of the reforms that are underway. [...It] still needs optimism, but [a success] is not impossible”.

Lulu Wang (CFS)

Get Real: Interpreting Nominal Exchange Rate Fluctuations

15 June 2011

Richard Clarida (C. Lowell Harriss Professor of Economics, Columbia University and Global Strategic Advisor, PIMCO)

CFS hosted a lecture by Professor Richard Clarida from Columbia University. He spoke about the discrepancies in fluctuations of the observed nominal and fair-value exchange rates with reference to institutional innovation of inflation-indexed bonds. Clarida has extensive academic and practical experience as well as a number of seminal publications. Since 2006 he also serves as a Global Strategic Advisor for PIMCO.

Clarida presented the results of one of his latest works. Within his model, a connection between the nominal exchange rate, national price level and observed yields of long-term inflation-indexed bonds is derived. He revealed the assumptions imposed which are more intuitive rather than restrictive. According to him, a necessary condition to use this approach is the assumption that the real price of the asset today depends on the real value of cash flow it delivers at maturity and not on the price level of the asset in a future period. Clarida emphasized that the model does not require restrictive assumptions, such as complete markets, representative agent or other special structures to be imposed. The essence of the model that he presented was an innovative, observable measure of risk premium that can open up a wedge between the level of the spot exchange rate and its risk neutral value. This key finding was later

on compared to other similar models in existing literature. Clarida also talked about the results of the empirical testing of the model using a high frequency dataset spanning a ten year period. He showed real time decompositions of pound, euro, and yen exchange rates into their risk neutral and risk premium components. He concluded that the outlined approach could be potentially useful for central banks in interpreting the exchange rate fluctuations between monetary reports. In his opinion the model is potentially superior to other approaches, given that it does not require to take into account what fraction of the change in the nominal rate was forecastable. The discussion that followed was moderated by CFS Director Michael Haliassos. Clarida answered questions about the assumptions of the model and its implementation.

Daniela Dimitrova (CFS)

Today's Challenges for Central Banks – Considerations in Light of the Financial and Economic Crisis

Aktuelle Herausforderungen für Zentralbanken – Betrachtungen im Lichte der Finanz- und Wirtschaftskrise

20 June 2011

Jens Weidmann (President Deutsche Bundesbank)

CFS was very honored to welcome the new President of the Bundesbank, Jens Weidmann, for a first public lecture in Frankfurt. He spoke about the lessons that can be drawn from the recent past and the role of central banks in times of crisis. He expressed clear views on the mandate of central banks and also spoke about the role of research for improving the analytical instruments for monetary decision-making and financial supervision.



Uwe Walz, Jens Weidmann

Weidmann said that central banks had made a major contribution in managing the recent financial crisis. However, it has also revealed the limitations of what central banks, and more specifically monetary policy, can and should deliver. Since the financial crisis, governments and central banks have played a more pro-active role in correcting undesirable macroeconomic and asset price developments. This is a major shift of attitude from the one that was prevailing before the crisis. Weidmann asked how monetary policy could contribute to preventing the emergence of financial imbalances. Given that price stability remains a central bank's first priority, using one instrument to meet different objectives will lead to a loss of credibility on the central bank's primary goal.

However, this does not prejudice the fact that monetary policy should put greater emphasis on monetary and credit aggregates in order to avoid a build-up of financial imbalances. Regarding the ECB's monetary policy strategy, Weidmann stressed that the Eurosystem has adopted from the start a two pillar approach with a monetary pillar that takes the analysis of money supply

and credit development into consideration. This pillar, said Weidmann, should certainly be reinforced, for example with early warning indicators for adverse developments in the financial markets with an impact on price stability.

Weidmann made a clear division between monetary and macro-prudential policy tasks. It is imperative that macro-prudential policy has an own, independent set of instruments to fulfill its tasks, so that monetary policy can pursue its primary goal of price stability, he said. Central banks are in many crucial points involved in the reform process for micro- and macro-prudential supervision. However, for any participation in such supervisory tasks, central banks need to warranty their independence.

He stressed that the unconventional measures that have been adopted by central banks in the recent past can create false incentives. They might, for example, prevent the banking sector from taking the necessary decisions for restructuring. Weidmann called for a timely scaling-back of the special crisis measures, in parallel with the recovery of the markets.

In his speech, Weidmann also emphasized the role of research. Central banks need advanced analytical tools to take well-founded decisions. New approaches, such as implementing the so-called risk-taking channel or financial market frictions in macroeconomic models, are still at an early stage and leave much room for additional academic research. He also stressed the importance of strong research departments at central banks.

Finally, he also pointed to the problem of blurred responsibilities between monetary and fiscal policy. Preventing a

member state's bankruptcy or insolvency or supporting insolvent financial institutions are not part of the EU's common monetary policy. Such decisions are to be taken by governments and parliaments.

For the sake of independence and credibility, it is important to turn the attention back to the key mandate of central banks, he concluded.

CFS Presidential Lectures

The Euro Needs more Clarity Der Euro braucht mehr Klarheit

8 February 2011

Hans Tietmeyer (Former President of the Deutsche Bundesbank)

Hans Tietmeyer was the first speaker in the Presidential Lecture series on European Integration in 2011. He spoke about the euro crisis and the fundamental economic and political questions that need to be addressed in determining Europe's future direction. Questions about whether the Eurosystem's common monetary policy, complemented by fiscal policy surveillance at the supranational level, is sufficient to guarantee the stability of the euro or whether we need to move in the direction of a transfer union or even towards a far reaching Political Union were already the order of the day before the Maastricht Treaty and are still under discussion today. Tietmeyer began his presentation with a historical outline on the euro.



Hans Tietmeyer

A Short Retrospect

Tietmeyer explained that, at the very early stages of the European unification process in the 1950s, given that the Bretton Woods System was functioning well, the issue of a European currency was basically factored out. By the end of the 60s, however, currency problems were on the rise in the European Economic Community and it was decided at a summit in The Hague that integration in Europe should move in the direction of an economic and monetary union (EMU). The Werner Group¹ produced a report in 1970 that envisaged a common currency with an independent central bank and an economic decision-making body at a supranational level. The concept laid down in the report, however, found little

approval among the six members and the attempt to narrow and coordinate the fluctuations against the dollar after the collapse of Bretton Woods (by creating the “snake in the tunnel” mechanism) quickly failed owing to differing national policy approaches to global problems (such as, for example, the oil price explosion). Renewed efforts in the late 70s to introduce the European Currency Unit (ECU) also enjoyed only limited success. It was during the course of the 80s that progress began to be made towards reducing exchange rate instability, eventually leading to a new initiative inspired by Jacques Delors². The so-called Delors Report mapped out a route aimed at achieving monetary union. According to Tietmeyer, it comprised three central points: 1) participation on a voluntary basis only under predefined criteria, 2) the creation of an independent supranational system of central banks, and 3) no new supranational institution for economic decision-making and/or supervision. The negotiations of this proposal by the meanwhile 12 EU member states coincided

¹ Chaired by Pierre Werner, Prime Minister of Luxembourg

² Produced by the Committee for the Study of Economic and Monetary Union, chaired by the then President of the Commission, Jacques Delors, and including all EC central bank governors

with another important process in Europe, namely that of accepting the reunification of Germany. The negotiations culminated in 1992 in the signing of the Maastricht Treaty with its fixed convergence criteria (also known as the Maastricht criteria) for the participating countries and a clear mandate for an independent European Central Bank. The Treaty further stipulated the monitoring of economic developments in order to reach a sustained convergence of economic performance across member states, and it also entailed a “no-bail-out clause”, specifying that neither the community nor any member state shall be liable for or assume the commitments of any other member state.

In the years to follow, the EU’s internal convergence process made significant progress and led in 1999 to the final step towards a monetary unification by 11 member states. According to Tietmeyer, the convergence criteria were interpreted quite loosely from the start and continued to be so. The newly introduced euro soon developed a strong reputation, mainly thanks to the ECB’s successful monetary policy. Many peripheral countries in the euro area, however, used the improved currency conditions for an artificial upgrade of their living standards without ensuring any sustainable improvement in their competitiveness. Tietmeyer criticized that the growing divergences within the euro area had been faced neither by politicians nor by financial markets.

Growing Divergence

As addressing such divergences was de facto taboo, Tietmeyer said, financial markets had misjudged the effects of a common currency: the abolishment of the exchange rate risk was placed, to a large extent, on an equal footing with dissolving the country risk and thus led to an almost complete interest rate convergence within the euro area. Tietmeyer, however, emphasized that interest rate convergence within a currency union should only apply to the short-term money market rates, but not to the longer term capital market rates that reflect a specific risk situation.

According to Tietmeyer, it was precisely in this respect that mistakes were made during the first 10 years of the euro because: (i) financial markets saw the euro area as one risk community and the no-bail-out rules from the Maastricht Treaty were not taken seriously, and (ii) there was a lack of control on the part of uncritical authorities with respect to this growing divergence that caused the general public to be misled.

It was only after the Greek budget problems became obvious

in 2009 that the financial markets finally had to face up to the sovereign debt risks in Europe. During the subsequent political discussions about necessary measures, the reaction of the financial markets became problematic. Furthermore, the ECB took a controversial role in buying government bonds, a decision that was at the limit of legal admissibility and a problem for the credibility of the institution’s independence, said Tietmeyer.

The Euro Area’s Future

It also became obvious that there were many different opinions on how to improve the Maastricht rules, with a majority of the German politicians being in favor of more budgetary discipline and stronger rules, while the politicians of other member states tended to be more in favor of a transfer union.

The support measures currently in place and the creation of the temporary European Financial Stability Facility (EFSF) have now set the path for the long term agenda; however, the new procedures for fiscal control and for a better economic coordination are still to be finalized. Many countries remain skeptical towards semi-automatic rules and attach great importance to the political decision process. By contrast, Tietmeyer stressed that such political majority decisions often prohibit clear rules and hinder a sustainable solution and should, therefore, be kept to a minimum when concerning issues that are pivotal to the (stability of the) currency.

According to Tietmeyer, it is doubtful that, in the foreseeable future, a political union in a Europe of 27 members can be achieved. This standstill, however, should by no means be the start of an erosion process, the common currency must be viewed as a one way road for the participating countries, said Tietmeyer. To this end an improvement of the current set of rules is urgently required.

Tietmeyer said that the critical course of events will not be halted by the current incantations about cooperation and solidarity. He sees three areas where change is needed: (i) the monitoring of the fiscal and debt policy of member states needs to be tightened and non-compliance with the fiscal rules should have consequences in semi-automatic way; (ii) not only the common ground but also the differences within the euro area should be clear for financial markets to judge; (iii) rules and surveillance should be better coordinated and harmonized.

Tietmeyer concluded his speech by stating that Europe is facing a serious challenge. With new rules and clear boundaries regarding its possibilities and limitations, the euro, however, should overcome its problems.

European Banks – A Glance into the Future

Europas Banken – Ein Blick in die Zukunft

1 June 2011

Josef Ackermann (Vorsitzender des Vorstands und des Group Executive Committee, Deutsche Bank AG)

In his speech for the Presidential Lectures series, Josef Ackermann spoke about the enormous challenges that lie ahead for the European banking sector and the need for action, not only by banks but also by policy makers and political authorities.



Otmar Issing, Josef Ackermann

Ackermann identified three areas of major concern for European banks. First, the weight of the global economy is shifting away from Europe and other developed countries towards emerging economies. Some banks within Europe have reacted to this by increasing their market share and/or expanding to other regions in the world. Still, competition is becoming increasingly intense and banks from emerging markets are on the rise. Second, the developed countries have a much higher level of sovereign debt than the emerging countries. This has an impact on the banks through their direct exposures, higher refinancing costs and higher taxes. In addition, private household debt in the EU countries is too high and therefore limits the growth potential of credit business. Third, regulation has been undergoing a paradigm shift since the financial crisis. Although banks have supported a reworking of the regulatory framework, there is a general misconception concerning the impact of such a comprehensive overhaul. The new regulatory requirements for capital and liquidity under Basel III together with a lack of strong growth prospects in Europe help to explain why many European banks have recently shown a rather weak performance in business growth. Owing to their poor revenue and earning power in comparison to many banks in other regions, they seem more likely to suffer a negative impact from the new rules. Furthermore, other regulatory projects (such as a review of the

Deposit Guarantee Schemes Directive) will also have negative repercussions on the refinancing costs of European banks.

Ackermann went on to discuss the various courses of action available for dealing with these issues. In the first instance, banks have to do their homework on strategic planning. A solid capital base with a well-managed internal capital allocation, a strong presence in new growth markets, and a policy of strict cost discipline are among the key factors.



Preventing undesirable developments in the regulatory framework is a second line of action. Ackermann stressed how harmful it can be if one country takes regulatory initiatives unilaterally. He used the bank levy and financial transaction tax as examples where a go-it-alone course of action by one country can be very detrimental for its banking sector. For this reason, according to Ackermann, Europe should take a strong stance on harmonizing regulation and its implementation in order to avoid competitive disadvantages for European banks. Useful European initiatives – such as the Single Euro Payments Area

or SEPA – should, however, be promoted rather than impeded. In this context, Ackermann also spoke about the value of the integrated European financial market and the achievements of the European Union. He warned against the growing tendency in many European member states to focus foremost on national interests. Even difficult decisions, such as the ongoing discussions aimed at solving the euro crisis, should not be reduced to singular facts but should rather be considered within the context of the European integration process. Without the EU, Ackermann said, European countries will play only a marginal role in the global politics of the future.

A third field of action lies in triggering a new dynamic for growth in Europe. Ackermann sees unused potential in several financial market segments (for example, in asset management and in retail markets). He also sees substantial growth potential in financing the transformation process in society towards a clean and energy efficient (and thus less dependent) economy. Innovativeness and new financing solutions (possibly as public-private partnerships) will be required.

Ackermann concluded that, despite the enormous challenges involved in these issues, Europe's banking sector should keep hold of the reins itself and reflect on its strengths.



THE DEUTSCHE BANK PRIZE IN FINANCIAL ECONOMICS 2011

Kenneth Rogoff is the Award Winner of the Deutsche Bank Prize in Financial Economics 2011



The DB Prize 2011 is awarded to the U.S. economist Kenneth Rogoff for his groundbreaking contributions to the field of international finance and macroeconomics. "Kenneth Rogoff's work examines sovereign default and debt restructuring, exchange rate developments, global imbalances and the development of financial crises and is highly relevant for understanding and addressing today's global

challenges. Kenneth Rogoff has not only contributed pioneering work of the greatest academic importance, he has also made his findings accessible to a broad public," said Jury Chairman and CFS Director Uwe Walz.

Rogoff is Professor of Economics and Thomas D. Cabot Professor of Public Policy at Harvard University. He has published numerous academic papers in the field of international finance and macroeconomics. The book he recently published jointly with Carmen Reinhart, entitled "This Time is Different: Eight Centuries of Financial Folly" (2009), investigates the history of financial crises over the last eight centuries and was awarded the Paul A. Samuelson Award from the TIAA-CREF Institute.

Prior to his time at Harvard, Rogoff taught at the University of California,

Berkeley and at Princeton University. He has been a visiting professor at institutes including the London School of Economics and New York University, and has worked as a guest researcher for the Board of Governors of the Federal Reserve System. From 2001 to 2003 he was the Chief Economist and Director of Research at the International Monetary Fund. Kenneth Rogoff has been a member of the Group of Thirty (G30), an international committee made up of 30 leading current and former policy-makers, financiers, and academics.

A leading figure in international macroeconomics

Rogoff's work includes among others research on exchange rates, the credibility of monetary policy and central bank independence, sovereign debt and the history of financial crises. As such, Rogoff is today's leading figure

in international macroeconomics, a field which his work covers in its entire thematic spectrum. His findings have permanently influenced academic theories and empirical research. This applies not only to his latest work on the financial crisis, but also to his earlier studies. Rogoff's work has made a significant difference to the education of young economists over the past 30 years. The Meese-Rogoff Puzzle (published in 1983) which relates to the unpredictability of exchange rates using economic models has had a profound effect on research and teaching as well as economic practice.

It is still considered to be the central empirical fact about major currency exchange rates. His 1985 paper on central bank independence and inflation targeting not only sparked a large academic literature on

institutional solutions to the problem of monetary policy credibility, but was also influential in a sweeping international trend towards establishing strong independent central banks which had previously been relatively rare. Together with Maurice Obstfeld, Kenneth Rogoff is one of the founders of the "New Open Economy Macroeconomics", which offers a theoretical basis for analyzing open economies and forming policies. It has proven especially useful for central banks.

Award Ceremony and CFS Symposium

The award will be presented to Rogoff by Josef Ackermann, CEO of Deutsche Bank. The award ceremony will take place as part of a scientific symposium in honor of Professor Rogoff under the topic "Global perspective on the financial crisis" at Campus Westend. We are honored to announce that Governor **Stanley Fischer** (Bank of Israel) has confirmed his participation as keynote speaker and we are delighted to announce as plenary speakers: **Jeremy Bulow** (Professor of Economics at the Graduate School of Business, Stanford), **Marc Flandreau** (Professor of International Economics and International History at the Graduate Institute of International and Development Studies, Geneva) and **Carmen Reinhart**.

Sabine Kimmel (CFS)

STATEMENT



Josef Ackermann (*Chairman of the Management Board and the Group Executive Committee of Deutsche Bank AG*) *"Professor Rogoff has made many seminal contributions to economics, ranging from the analysis of exchange rates and monetary policy to sovereign default and debt restructuring. He has admirably combined theoretical, empirical, and historical analysis in his research. His recent work on the history of banking crises (together with Carmen Reinhart) has become essential reading for every academic and practitioner in the financial sector. I am therefore very pleased that he has been awarded this year's Deutsche Bank Prize for Financial Economics."*

► Award Ceremony and academic Symposium "Global perspective on the financial crisis"

Thursday 22 September 2011, 12:00 – 17:30

Venue: Campus Westend, Goethe University, New Lecture Hall (Hörsaal 2)

The program and registration for this event are available on

www.db-prize-financialeconomics.org

- The number of participants is limited -



A Jury of international financial experts decides on the recipient of the prize. Members of the Jury for 2011 are: Luigi Guiso (European University Institute), Michael Haliassos (CFS Director), Charles Yuji Horioka (Osaka University), Otmar Issing (CFS President), Jan Pieter Krahnert (CFS Director), Raimond Maurer (Goethe University), Thomas Mayer (Deutsche Bank AG), Carmen M. Reinhart (Peterson Institute for International Economics) and the winner of the Deutsche Bank Prize in Financial Economics 2009, Robert J. Shiller (Yale University). Chairman of the Jury is CFS Director Uwe Walz.

More than 3,800 university teachers and researchers from 60 countries had the opportunity to submit a suggestion for the nomination. At this occasion, the Jury would like to thank the nominators for their immense support during the nomination procedure.

Charles Yuji Horioka: *“Professor Kenneth Rogoff is deeply deserving of the 2011 Deutsche Bank Prize for at least three reasons: First, he has done truly seminal work on an impressive array of topics in international finance and international macroeconomics, ranging from exchange rate forecasting, political budget cycles, monetary policy and central bank design, global imbalances, sovereign debt, New Open Economy Macro-economics, and the history of financial crises. Second, he has skillfully combined theoretical, empirical, and historical approaches in his work. Third, his work has important practical and policy implications, he has been an active participant in policy debates, and he has helped shaped policy, especially during his tenure as chief economist of the International Monetary Fund.”*

Carmen M. Reinhart: *“I am delighted that Ken Rogoff has been awarded this year’s DB Prize for Financial Economics. He is a leader in the field of international finance and his many works span both theory and empirics. His insights have influenced in the past two decades academic and policy circles alike. His contributions encompass a broad range of timeless topics: exchange rate determination and policy, sovereign debt restructuring, debt buybacks, and default, political economy cycles, monetary policy making and inflation objectives, the role on international institutions, microeconomic foundations of modern open-economy models, and more recently, financial crises.”*

STATEMENTS BY JURY MEMBERS

Otmar Issing: *“In light of the breadth and depth of his work and its influence on the academic and political debate, Prof. Rogoff is a worthy winner of the Deutsche Bank Prize. He captivates his readers with the rigorous theoretical analysis and empirical foundation of his publications. His latest work, “This Time is Different” demonstrates how economists can make an intelligible contribution to our understanding of the world.”*

Thomas Mayer: *“Professor Rogoff has not only made key contributions to economics, but his work has also guided practitioners in central banks and the financial sector. His book on the history of financial crises, written jointly with Carmen Reinhart, has become essential reading for every financial market and bank economist.”*

Robert J. Shiller: *“Kenneth Rogoff has revolutionized modern international finance. His penetrating research has changed the way we think about all the interlinkages of the world’s economies and the problems faced by policy makers in a global economy. Writing with a perspicacious and graceful manner that makes complex ideas seem simple, his path-breaking research has an enormous audience. Rogoff is a guiding force for our age.”*

The ECB and Its Watchers XII

10 June 2012

Frankfurt am Main



This conference series brings together “The ECB and its Watchers” since 1999. This year, ECB watchers certainly met at a crucial time for the European Monetary Union. Throughout 2010 and 2011 EU leaders had been working on creating new institutions of fiscal governance and financial surveillance for the euro area. Ireland and Portugal had turned to the EU and IMF for fiscal support, and doubts regarding the ability of the Greek government to achieve its program targets have reached new heights. Furthermore, government officials had sent conflicting messages regarding the desirability or danger of sovereign debt restructuring in the weeks preceding the conference.

This year’s meeting marked a record number of more than 300 registered participants, among them 70 media and press representatives. As in the past, it was partly covered live by CNBC, Bloomberg and Reuters TV. Speeches at the conference were widely reported and commented on by the national and international press and by all major international news services.

In his introduction, the conference organizer **Volker Wieland** (Goethe University and CFS) pointed to the increasing divergence of policymakers’ and citizens’ assessment of the state of the euro. “There is no crisis of the euro. Instead, what we are currently observing in parts of the euro area is first and foremost a fiscal crisis.” This message had been repeated for months by the ECB President, ECB Board and Council

members and other EU policymakers. By contrast, when asked by the ZDF Politbarometer on April 15, whether the financial difficulties of some euro area countries were currently endangering the stability of the euro, 79 percent of the respondents answered with Yes. When asked whether in addition to Greece, Portugal and Ireland, they expect that more EU countries will need financial support, 87 percent of the respondents answered with Yes.

In his 2011 address to the ECB watchers, ECB President **Jean-Claude Trichet** presented evidence that the euro area and the United States of America have similar features in terms of diversity of the economies, as measured on the level of member countries in the euro area and member states of the American Union. Such similarities are apparent



Gaspar, Remsperger, Wieland

regarding asymmetric inflation, asymmetric growth developments and even the persistence of asymmetric gains and losses of competitiveness. Thus, President Trichet rejected the seemingly common belief that the euro area as a whole is significantly more heterogeneous economically than the US. He acknowledged, however, that governing such diverse economies with a single currency is more of a challenge in a union of sovereign states than in

a political federation. For this reason, he advocated strongly reinforcing euro area economic governance and aligning the economic policy of each member with EMU requirements. He closed quoting Alexander Hamilton, “we should ourselves learn to think (more) continentally”.



Marsh, Issing, Garganas

In the first debating session, ECB Vice-President **Vítor Constâncio** exchanged views with **Martin Hellwig** (MPI Bonn) on the state of the European banking system and the effectiveness of the new macro-prudential architecture. In Vice-President Constâncio’s view, significant progress is being made in Europe to produce a more comprehensive and encompassing concept of economic governance. He called for further reinforcing the euro area dimension of economic governance, in particular by fully integrating financial supervision within the concept of economic governance; and by establishing a pan-euro area resolution fund. Hellwig criticized the German banking system, and called in particular for reducing the over-capacity created by the existence and political protection of the Landesbanken. In general, he called for much larger capital requirements of 20 percent or more.

It was followed by a debate between **Klaus Regling** (CEO, EFSF), **Jordi Galí** (CREI-UPF) and **Clemens Fuest** (Oxford University) on the institutional framework for ensuring



Jean-Claude Trichet

fiscal stability in the euro area. While Klaus Regling expressed confidence that the combination of the new rescue arrangements and improved economic oversight currently being put in place will prove adequate for resolving the current as well as potential future sovereign crises, Galí and Fuest were more skeptical. Jordi Galí recommended returning to a system without collective bailouts and monetization of debt. Only the IMF should play the role of lender of last resort to governments. Clemens Fuest emphasized the need to make sure that the financial sector can absorb a sovereign bankruptcy without a financial meltdown. To this end, much tighter capital requirements, transitional rescue arrangements and continued access of banks to ECB refinancing are needed.



Min Zhu

The afternoon program started off with a more informal conversation with **Donald Kohn** (Brookings Institution, former Vice-Chair of the Federal Reserve Board) and **Min Zhu** (International Monetary Fund, former Deputy Governor PBoC) moderated by Volker Wieland. As to the role of

asset prices in monetary policy, Kohn maintained his view that leaning-against-the wind is not the way to go. Then, the discussion focused on the role of exchange rates and reserve currencies in the international monetary system. Min Zhu explained the reasons for the Chinese approach with tightly managed exchange rates. He also expressed the need for a more multi-polar international monetary system. With regard to capital flows, Kohn acknowledged that the United States did not sufficiently take into account its own advice to emerging economies with regard to the question of hot capital inflows prior to this crisis.

Finally, ECB Board Member **Jürgen Stark** discussed how monetary policy would need to be adjusted to maintain price stability and normalize liquidity supply. He warned of upside risks to price stability. The pace of monetary expansion is recovering while the level of monetary liquidity remains ample. He compared the current situation with sustained upward trends in commodity prices to the 1970s, pointing to the example of the Bundesbank tightening policy at that time, and achieving lower inflation than in other OECD economies. His debating partner, **Julian Callow** (Barclays Capital) thoroughly reviewed the different sources of price pressures in the current environment, and analyzed alternative measures for the appropriate policy stance in the U.S. and euro area. With regard to broad money and credit growth he differed from Jürgen Stark’s assessment, noting rather weak growth, with credit institutions expanding balance sheets slowly. Thus, he de-emphasized inflation risks from monetary developments.

Volker Wieland

Senior Fellow



Former CFS Director **Axel A. Weber** has accepted to become a Senior Fellow at CFS. He is currently Visiting Professor of Economics at Chicago Booth School of Business and is to be nominated for election to the Board of Directors of UBS in 2012 and to be appointed Chairman in 2013.

From 2004 till 2011 he was the President of the Deutsche Bundesbank and a member of the Governing Council of the European Central Bank. In recent years he has also acted as a member of the Steering Committee of the European Systemic Risk Board and of the Financial Stability Board. In addition, he has served as the German Governor of the International Monetary Fund, as a member of the Board of Directors of the Bank for International Settlements, and as member of the G7 and the G20 Ministers and Governors.

Before moving to politics, he was a Professor for International Economics at the University of Cologne. Weber has a long standing affiliation with our research institute. From 1998 to 2002, he was Director at CFS and a Professor for Monetary Economics at Goethe University. After that he remained an active member of our board of trustees.

New Finance Minister of Portugal



Vitor Gaspar has been appointed as the new finance minister of Portugal. Gaspar has been a special adviser to the Bank of Portugal and was head of the Bureau of European Policy Advisers at the European Commission from 2007 to 2010, and Director General Research at the European Central Bank from 1998 till 2004. Since his time at the ECB he has been a member of CFS' Research Advisory Board.

Celebrating 10 Years of the Joint Lunchtime Seminar

The Joint Lunchtime Seminar is celebrating its 10th anniversary this year. Initiated by Axel Weber (CFS), Frank Smets (ECB) and Heinz Herrmann (Deutsche Bundesbank) in 2001, it is a joint initiative of the three institutions to this day. Since its start, the series aims to promote the presentation of high quality papers by researchers engaged in research of interest to central banks. Over the years, the organizers have not only given young professionals an opportunity to present their newest research findings, but also invited prominent speakers from the academia, central banks, think tanks and research institutions alike. In 2011 the Joint Lunchtime Seminar organizers are again hosting exceptional professionals from around the globe to share their research with a small selected circle at the ECB. The list of speakers in the 1st half year of 2011 included:

Alexander Kriwoluzky (University of Bonn)

Filip Matejka (Center for Economic Research & Graduate Education, Economics Institute)

Christian Matthes (Universitat Pompeu Fabra)

Kristoffer Nimark (Centre de Recerca en Economia Internacional)

Dimitri Vayanos (London School of Economics)

Leonardo Melosi (London Business School)

Claudia Buch (Universität Tübingen)

Alexander Ljungqvist (New York University, Stern School)

Jean-Paul L'Huillier (Einaudi Institute for Economics and Finance)

Viral Acharya (New York University, Stern School)

Alan Auerbach (University of California, Berkeley)

Joel Shapiro (Oxford University)

Juan Ignacio Peña (Universidad Carlos III Madrid)

Victoria Ivashina (Harvard Business School)

Albrecht Ritschl (London School of Economics)

Salvatore Nistico (Università di Roma "La Sapienza" and LUISS Guido Carli)

Peter Karadi (National Bank of Hungary)

Peter Kondor (Central European University)

Michael Devereux (University of British Columbia)

Valerie Ramey (University of California, San Diego)

Javier Ferri (Universidad de Valencia)

Ricardo Nunes (Federal Reserve Board)

Simon Wren-Lewis (Oxford University)

Andrew Rose (University of California, Berkeley)

John Boyd (University of Minnesota)

José Fillat (Federal Reserve Bank of Boston)

► The seminars normally take place every Wednesday from 12:30 to 13:30 and are accompanied by a small lunch for the participants. The seminars are "by invitation only" and enjoy a special recognition in the Frankfurt community. For inquiries, please contact JLS Coordinator Celia Wieland at JLS@ifk-cfs.de.

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