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FINANCIAL TRANSACTION TAX – YES, BUT HOW?

Politics, business and academic finance are currently discussing the introduction of a financial transaction tax, in which jurisdictions the tax would be implemented – worldwide, within the European Union, in the eurozone excluding London, or at the national level only – as well as its possible design. The political message is clear: beyond party lines, there is a willingness to introduce this tax. This is also displayed by the jointly approved statement of the Bundesrat's Finance Committee on the related draft directive of the EU Commission.

At this point, I would like to note that, in principle, I support the request for introducing a tax on financial transaction. However, this must be introduced such that in the future financial business can and will take place in German and European financial centers. Hence, the State Government of Hessen only considers a financial transaction tax to be appropriate and meaningful if it is introduced at least throughout the whole European Union – thus, including the financial center of London. Any other decision would damage Germany's single most significant financial center – Frankfurt and the Rhine-Main region – in an indefensible way.

Furthermore, the question of how such a tax should be constructed has slipped a little into the background. In my experience, tax systems and laws only prove of value if they are designed with reference to the practical experience of taxation – otherwise the floodgates are opened for tax shifting and avoidance and ultimately the tax hits the wrong parties. Therefore, tax shifting and avoidance by way of other financial centers or through product innovation should effectively be rendered impossible. Otherwise, the long-term disadvantages for financial centers, market participants and investors, and finally for the state, will be greater than the benefits from the tax revenues raised. I think all involved parties agree on this point.

Financial transaction today can be moved without difficulty from one place to another. Accordingly, a financial transaction tax must work effectively against the transfer of business to third countries and against tax avoidance. For this purpose, the EU Commission has opted for the taxation of transactions by EU-based entities in third countries. However, in my opinion, this approach fails in that there is no effective means of collecting this tax in a third country. Hence, this approach is also no effective weapon against the transfer of business. Yet, from the perspective of a financial center this is of central importance.

Finally, the current diversity of financial instruments – especially with respect to derivatives – makes it more difficult for the tax law legislator to determine the correct taxable base. However, the taxable base and tax rate together define the tax and are the starting point for tax shifting. The differentiation between market value and nominal value as well as between two tax rates proposed by the EU Commission does not do justice here. Rather, they invite more tax avoidance.

There are still some enormous obstacles standing in the way of a functioning system of taxation for a financial transaction tax. We have put forward a whole series of points and proposed amendments to the draft directive of the Commission. However, it seems to me that an agreement on suggested viable solutions is not in sight. Indeed, poorly conceived solutions are of more harm than use to Germany.

Luise Hölscher

State Secretary,
Ministry of Finance of the
State Government of Hessen

THE DIVERSITY OF FORECASTS FROM MACROECONOMIC MODELS OF THE U.S. ECONOMY

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Goethe University

Maik Wolters
Goethe University

The failure of economists to predict the 2008/2009 recession has generated much criticism regarding the state of macroeconomic forecasting and modeling. Against this background, we investigate the accuracy and heterogeneity of output growth and inflation forecasts during the five most recent U.S. recessions. We generate forecasts from six different models of the U.S. economy and compare them to predictions from professional forecasters. Both – models and professionals – failed to predict the financial crisis and earlier recessions, but recoveries are predicted well once the turning point is reached.

In recent years, researchers (e.g. Edge et al. 2010) have reported encouraging findings regarding the forecasting performance of dynamic stochastic general equilibrium (DSGE) models. However, the existing papers are based on samples with long periods and cannot address specifically how well DSGE model-based forecasts perform during recessions and recoveries. Therefore, we analyze the performance and also the heterogeneity of model and expert forecasts around the five most recent U.S. recessions. Turning points pose the greatest challenge for economic forecasters, are of most importance for policy makers, and can help us to understand the current limitations of economic forecasting. Furthermore, expectations, and particularly the heterogeneity of expectations which can itself be a source of macroeconomic fluctuations, can have an influence on the length and depths of recessions (e.g. Kurz 2011).

STRUCTURAL FORECASTS

Among the six models considered in this paper are three small-scale New Keynesian models, a non-structural Bayesian vector autoregression model, and two medium-scale DSGE models of the type currently used by leading central banks. The advantage of structural models over purely statistical forecasting approaches is the information about structural sources of the projections that are crucial to interpret the forecasts. For each forecast, we re-estimate all models using exactly the data as it was available for professional forecasters. Using these historical data vintages is crucial to ensure comparability to historical forecasts by professionals. To our knowledge, there exists no comparable assessment of the forecasting accuracy of multiple structural macroeconomic models with historical data vintages. Furthermore, this paper is the first attempt to quantify the heterogeneity of model forecasts and compare them to survey forecasts in order to learn more about the extent, dynamics and sources of forecast heterogeneity.

FORECASTING ACCURACY

Figure 1 shows forecasts for annualized quarterly real output growth for the recent crisis. The black line shows real-time data until the forecast starting point and revised data afterwards. The grey lines show forecasts collected in the Survey of Professional Forecasters (SPF), and the red line shows their mean. Model forecasts are shown in blue. To put the models on an equal footage in terms of information with the forecasts of experts, we condition their forecasts on the mean estimate of the current state of the economy from the SPF. The forecasts shown in the left graph start in the third quarter of 2008 and have been computed before the collapse of Lehman brothers. All professional forecasters failed to foresee the downturn. The model-based forecasts would not have performed any better. Also, they are similar to the more optimistic half of professional forecasters. In the fourth quarter of 2008, following the Lehman debacle, professional forecasters drastically revised their assessments of the current state of the economy downwards. Still, growth turned out to be even much lower than estimated. Professional forecasters as well as model forecasts wrongly predicted that the trough had already been reached. However, from the first quarter of 2009 onwards model-based and SPF forecasts perform quite well in predicting the recovery of the U.S. economy.

The paper includes a detailed analysis of forecasts during four additional recessions. Looking at individual forecasts from the SPF, we observe that the precision of the different model forecasts is well in line with the precision range of forecasts from professionals. The mean forecast of all six models exhibits somewhat greater errors than mean SPF forecasts. However, this difference is surprisingly small considering that the models only take into account few macroeconomic variables, while professional forecasters can also review vast amounts of financial and survey data. The difference between the accuracy of model and expert forecasts decreases with the forecast horizon. Structural models are therefore suitable for medium-term forecasts, while expert forecasts incorporate additional information that helps improve near-term forecasts. However, for practical policy usage, medium-term horizon forecasts might be of more interest due to the lag in policy transmission.

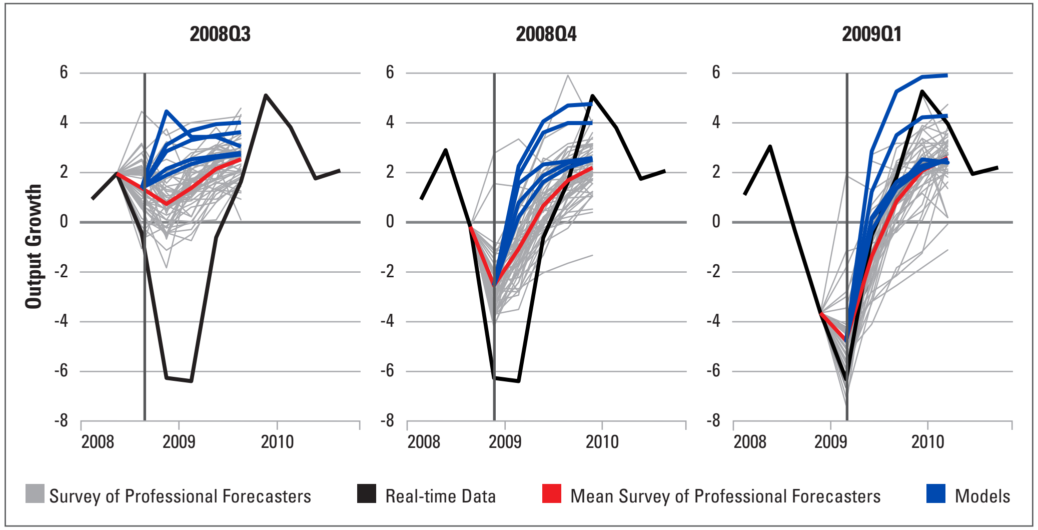

Figure 1: Forecasts for the 2008/2009 recession

Among the structural models, there is none that consistently outperforms the others. Overall, the two medium-scale DSGE models deliver fairly good forecasts in almost all analyzed recessions, while the smaller models show a mixed performance. The medium-scale DSGE models have a rich economic structure and consider more observable data series than the other models. At the same time, their parameterization is parsimonious enough to yield accurate forecasts.

FORECAST HETEROGENEITY

Empirical studies have documented substantial variations in the accuracy and heterogeneity of expert forecasts. Theoretical research has emphasized that expectational heterogeneity itself can be an important propagation mechanism for economic fluctuations. Forecast heterogeneity arises for several reasons. The particular modeling assumptions embedded in the forecasting model represent an important source of expectation heterogeneity. In addition, the information sets used by forecasters may differ in terms of the number of economic variables or the timeliness of data. The underlying modeling assumptions, information sets and parameter estimates of SPF forecasts are not publicly available. Instead, we use the six forecasting models to investigate the impact of these three factors on forecast precision and heterogeneity. The extent of forecast heterogeneity is similar for model and professional forecasts, but varies substantially over time. These time variations are somewhat similar for model-based and professional forecasts. The diversity in model forecasts can be traced to different modeling assumptions, information sets and parameter estimates. The similarities of the heterogeneity of model-based and professional forecasts can be taken as a first indication that much of the observed time variation in forecast heterogeneity may be explained by disagreement about appropriate modeling assumptions, different information sets and differences in parameter estimates, rather than irrationality on the part of professional forecasters.

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BAILING OUT MEMBER STATES OF THE EU IS LEGALLY QUESTIONABLE

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In addition to the increasingly apparent failures of financial institutions and markets, the crisis has demonstrated an almost complete failure of the supervisory system – both regarding rules and their enforcement. Moreover, a lack of obedience to strict legal norms and contracts has to be observed. This is, in the medium term, the most frightening aspect and should be kept in mind before eagerly designing new rules.

When a government entity does not fulfill its financial obligations (a "sovereign default"), it is in breach of the civil law governing the respective contracts. In the European Union such conduct also has to be judged according to Article 126 (1) Treaty on the Functioning of the European Union (TFEU): Member States "shall avoid excessive government deficits". Although the wording leaves some room for interpretation, a deficit which leads to a default is certainly "excessive". Hence a "default" by a Member State is a breach of the primary law of the Union.

When creating the monetary union there was a clear decision against establishing a general equalization system or a specific support mechanism for Member States with financial problems. After extensive debate, a provision was included in the Treaty which allowed the European Council to grant financial assistance to a Member State facing difficulties caused by "natural disasters" or "exceptional occurrences beyond its control" (Article 122 (2) TFEU). "Mutual assistance" may also be granted to Member States via derogation under certain circumstances (Article 143 (2) TFEU). These clauses are exclusive: support cannot be provided in any other way, otherwise setting up intricate requirements for granting aid would be useless.

The TFEU explicitly excludes any liability on the part of the Union or any Member State for the commitments of any other Member State government or public sector entity. The assumption of such commitments is also legally excluded (Article 125 (1) TFEU). There is some room for interpretation, as new payments or credit guarantees must not necessarily be judged as "assuming" a commitment (Herrmann 2010). Although Article 125 TFEU does not explicitly prohibit voluntary financial aid by the Union or Member States, it is often contended that this would change the nature of the EU and jeopardize the basis of the monetary union. A deviation from the principles outlined would overstretch the mandate given by the German legislature for the transfer of sovereign powers to the EU (Faßbender 2010).

FISCAL SUPPORT MEASURES

On May 7, 2010, the International Monetary Fund and the member states of the euro zone agreed to grant credits and credit guarantees on a bilateral basis to Greece. Whether this aid complies with the principal provisions of the TFEU is questionable. Article 122 (2) could not serve as justification for this assistance as it was not granted by the EU, and Article 143 is not applicable. To justify it, the wording "assume the commitments" in Article 125 (1) would have to be interpreted in a way that new voluntary guarantees by Member States are not covered by the interdiction of this article.

A few days later, temporary support mechanisms, the European Financial Stabilisation

Mechanism (EFSM) and the European Financial Stability Facility (EFSF), were set up outside the framework of the Treaty – again with considerable legal risk. The EFSM is an EU instrument and was explicitly based on Article 122 (2) TFEU. This can be justified only under a very broad interpretation of "exceptional occurrences beyond (the) control" of Greece. The EFSF, technically a corporation under Luxembourg law, is a separate entity set up by euro zone states and not part of the EU. It is designed as a special purpose vehicle to borrow money on the capital markets by issuing debt instruments guaranteed by euro zone states not in need. The proceeds are then passed on to the euro country in distress. Although there is no direct financial support given by member states or the Union, the provisions of EU primary law have to be obeyed equally. Otherwise, an easy circumvention would be possible. This leads one to question whether Member States are free to install a support mechanism outside the Treaty (see Thym 2011 for the argument in favor).

Because of these legal concerns, a new clause was inserted into the primary law: Article 136 (3) TFEU in April 2011, following the simplified revision procedures of Article 48 (6) and (7) Treaty of the European Union (TEU). It allows the Member States – not the EU – to grant financial aid under certain

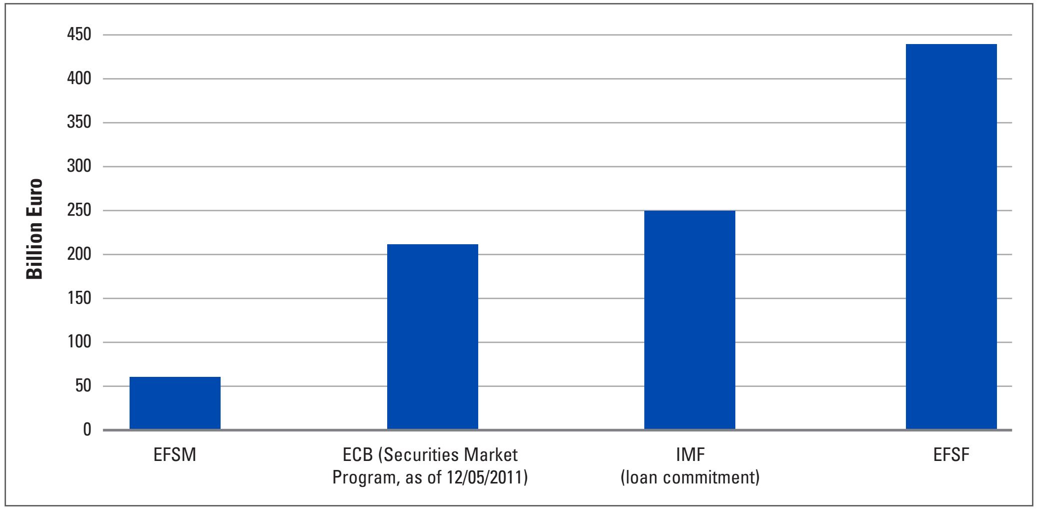

Figure 1: Support Measures for indebted EU Member States

restrictive conditions, thus legalizing the planned permanent European Stability Mechanism. On September 7, 2011, Germany's Federal Constitutional Court affirmed the constitutionality of the present support programs but left the issue of compliance with EU law open.

SUPPORT FROM CENTRAL BANKS

The European System of Central Banks (ESCB) began to purchase debt instruments issued by member states in summer 2010 and stopped this about half a year later. It resumed the program in summer 2011 by buying Italian and Spanish debt instruments. Today, a major share of the sovereign debt of the supported member states or their respective banks is held by the ESCB. A "restructuring" of sovereign debt would hit the ESCB to a great extent.

From a legal point of view, any type of credit financing of the Union or Member States by the ECB or by a central bank of a Member State is strictly prohibited. To secure this interdiction, the ECB and national central banks may not purchase any debt instruments issued by the public sector. However, only a "direct" purchase is forbidden in order to allow open market interventions for monetary reasons. In no way was it intended to open a back door for the (indirect) financing of governments or for easing their debt burden. After more than a year, market malfunctioning can hardly be used as a justification any more. Specifically, in the case of Italy, the bond buying program has to be judged as legally not justifiable, since it provides fiscal aid by lowering interest rates for government bonds. It even prevents financial markets from functioning properly and charging a riskadjusted price for the refinancing of Italian sovereign debt. This is a clear breach of the legal basis of the monetary union.

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MICROFINANCE AND ETHICS

Reinhard H. Schmidt
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For a long time, microfinance enjoyed the reputation of being an ethically valuable part of the international financial system. This reputation was reflected and also reinforced by the 2006 Noble Peace Prize that was awarded to the microfinance pioneer Muhammad Yunus and the Grameen Bank – the microfinance institution (henceforth MFI) in Bangladesh, which Yunus had founded and represented for many years. Since creating access to finance for thousands of poor people is an important contribution to peace in this world, the prize was well deserved. At first glance, it would seem there is no reason for assessing microfinance from an ethical perspective. This first impression is deceptive, however.

The first development projects of the 1970s that aspired to create MFIs were driven by good intentions. Their design was, however, deficient in many ways, such that they did not have the desired developmental and social impact. Since none of the early MFIs could cover their operating costs, they were all permanently dependent on foreign subsidies and thus could not grow and offer their services to more than just a handful of people.

THE RISE OF "COMMERCIAL MICROFINANCE"

In the 1990s, it became evident that the old approach to microfinance was not effective. This insight led to the emergence of the so-called "commercial approach" to microfinance: MFIs began to limit their operating costs, to make sure that loans were repaid, and to set interest rates high enough such that, after a short start-up phase, revenues could cover costs. Soon, more and more MFIs were set up that followed the commercial approach. The interest rates they charged rose, but were still much lower than those charged by informal money lenders.

The few MFIs that rejected the commercial approach did not stay in operations for a long time after the public subsidies ran out. The most remarkable exception was the Grameen Bank. Its charismatic leader Yunus managed to raise sufficient international support, so that his bank could operate in spite of costs far in excess of revenues from operations. Yunus attacked the commercial approach to microfinance on ethical grounds. Making a profit at the expense of the poor, he claimed, was ethically not acceptable.

This controversy – the dominant ethical conflict in the area of development finance in the 1990s – reflects the old debate between the "ethics of conviction" (Gesinnungsethik), developed by the philosopher Immanuel Kant two hundred years ago, and the "ethics of responsibility" (Verantwortungsethik), which was advocated about one hundred years ago by the economist and sociologist Max Weber. According to the Kantian view, human action can only be classified as being ethically valuable if it is based on sound ethical principles and guided by ethically valuable aspirations. According to Weber, human action is only ethically valuable if careful planning indicates that the actions under consideration are the best available means to achieve a situation that is itself desirable and also ethically valuable. The position of Yunus corresponds to that of Kant, while the new mainstream of microfinance can be considered as being in line with Weber's view.

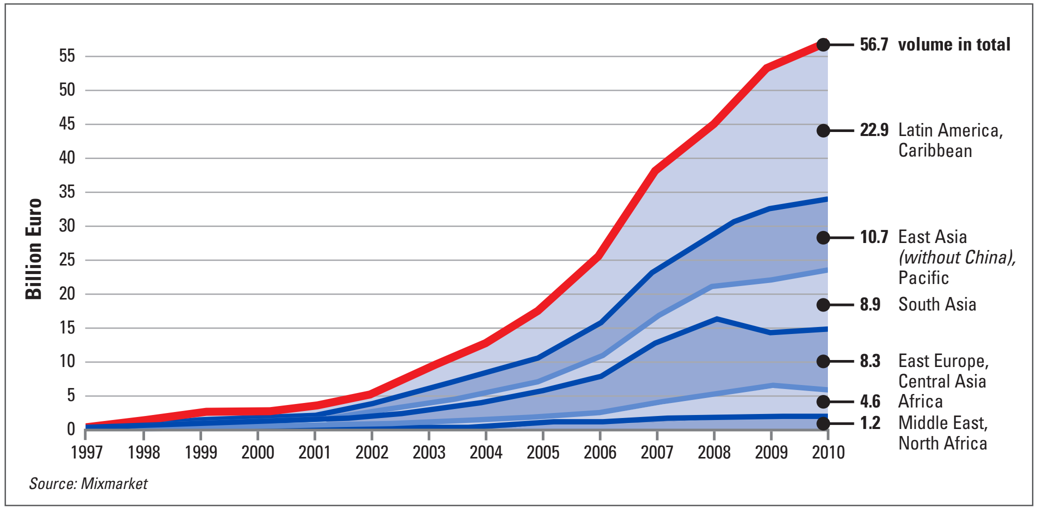

Figure 1: Credit volumes in the microfinance business in different regions

A NEW TYPE OF INVESTOR ENTERED THE STAGE

After the turn of the millennium, the recognition that MFIs can be profitable attracted the attention of new players that were only interested in profit and felt no commitment to the traditional developmental aspirations of microfinance. The best known example of this new approach is the Mexican MFI Compartamos. In the year 2000, Compartamos was converted from a non-profit organization into a profit oriented corporation. In the spring of 2007, only a few weeks before the financial crisis broke out, about 30 percent of Compartamos shares were issued to the general public. The IPO was astonishingly successful. The price was much higher than seemed justified in view of the limited opportunities and aspirations that MFIs used to have with respect to their profitability. Compartamos though had been extremely profitable for many years, having shown a return on book equity of 50 percent.

Launching a successful IPO is, of course, not ethically objectionable. However, Compartamos' profits had been due to interest rates to borrowers in the range of almost 100 percent, although full cost coverage would have been possible with interest rates of around 30 percent. The terms and conditions of the IPO can be interpreted as an implicit promise of the managers to stick with the high interest rate policy – now supported by US-American hedge funds and other profit oriented investors who bought 40 percent of the issued shares.

The IPO of the Indian micro-lender SKS in the summer of 2010 was similarly successful. In this case, however, the success was not due to excessive interest rates, but to the excessive growth of the SKS' loan portfolio. Over five years, SKS regularly doubled the size of its loan portfolio. At the same time, there were at least four other MFIs in the South Indian state of Andhra Pradesh that imitated the SKS strategy of rapid expansion at any cost. In a fierce competitive battle they were trying to steal clients from each other, flooded them with oversized loans, and finally led many of them to take on much more debt than they could ever service. As newspapers all over the world reported, more than 80 clients of SKS and its competitors committed suicide because they could no longer bear their debt burden.

A DIFFERENT WAY OF USING CAPITAL MARKETS

As a lesson from these examples, it seems to me ethically unacceptable to transfer power in MFIs to owners who cannot be expected to have any concern for the social and developmental impact of the microfinance business. The former owners of Compartamos and SKS could have foreseen the consequences of transferring power to profit oriented investors, but as it seems they had given up pursuing an ethically acceptable business policy long before the IPOs in order to make their companies' shares attractive to the financial market.

What makes matters worse from an ethical standpoint is the fact that there are financial instruments that allow MFIs to use the capital market as a source for raising new equity without passing over power to the brute forces of the capital market. However, in order to find and use these instruments, one needs the encouragement to act in a socially responsible manner. Such an encouragement can be taken from the kind of speeches that Yunus held for many years. The disturbing recent developments in microfinance suggest that, in spite of what Yunus' critics argued, these "moralizing" speeches, which emphasize ethical principles and good intentions and leave out any reference to hard "facts and figures", are important. This being said, it is clear that they cannot substitute for the need to organize and manage MFIs in a way that they can cover their full economic costs.

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LONG-TERM GUARANTEES AND THE COUNTERCYCLICAL PREMIUM UNDER SOLVENCY II

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Hato Schmeiser
IVW, University of St. Gallen

Life insurances and pension scheme products with a guaranteed interest rate are important components of retirement provisions – especially in Germany. Quantitative impact studies conducted in preparation for Solvency II reveal firstly that these guarantees have a substantial value, and secondly that their value is subject to a large degree of interest rate risk due to their long duration. Consider, for example, a long low-interest period during which the long-term guarantees need to be maintained by investments in short-term bonds. This situation creates a risk for the life insurer when the interest rate earned on the bonds does not cover the guaranteed interest rate on the insurance contracts

The interest rate risk can be managed either by adequate structuring of the investments (duration matching) or by equity capital backing. In practice, the duration of bonds that can be used to "hedge" interest rate risk is usually significantly shorter than the duration of the issued guarantees. In the Solvency II standard model, the resulting duration mismatch requires additional capital backing in the event of decreasing interest rates. This is because lower interest rates lead to higher present values of the insurer's future benefit payments, which are the main component of a life insurer's liabilities. The increase in technical provisions can be balanced only if the interest rate risk is perfectly managed. Generally, such a perfect match – which would also imply giving up the upside potential of interest rate changes – is not possible in the insurance industry.

INCENTIVES FOR INTEREST RATE MANAGEMENT

Thus, Solvency II sets strong incentives for cautiously managing interest rate risk so as to avoid an increase in technical provisions and in required equity backing. A possible response would be to issue guarantees that are not binding in every single year, but only over the entire contract period, which could alleviate the capital requirements. Another alternative would be to issue guarantees that are limited in time and can be rolled over according to a fixed scheme. This would reduce the duration of the guarantees and thus mitigate the problem of a duration mismatch. A third option could involve an increased demand by insurers for fixed-rate securities with a contract period of more than 30 years. This could induce an increased supply of long-term sovereign and corporate bonds.

These important developments, brought about by Solvency II, are, however, constrained by the existence of the so-called "countercyclical premium", formerly known as an "illiquidity premium". This premium signifies that, in times of crisis, the European insurance supervision applies higher (and less volatile) discount rates for investment guarantees. This leads to a lower present value of the guarantees and can diminish the need to raise capital. The idea behind the countercyclical premium is to reduce pro-cyclicality by not revealing the (temporary) financial distress of a life insurer. While this is, indeed, an advantage, there are also several severe disadvantages. By employing a countercyclical premium, the regulator deviates from market-consistent valuation, which is an important building block of Solvency II. When crises do not become readily apparent, providers of investment guarantees have less incentive to actively manage their interest rate risk. In some situations, a company that perfectly manages its interest rate risk might even have to report an inferior solvency situation compared to an otherwise identical company lacking perfect interest rate management. Consequently, the product innovations mentioned above might be less appealing, with one result being a lower demand for long-term bonds.

Furthermore, the specific problems for the European Insurance and Occupational Pensions Authority (EIOPA) that arise from determining a countercyclical premium must be addressed. Policymakers as well as industry representatives may pressure EIOPA to introduce, increase, or not decrease the countercyclical premium. Even EIOPA itself might find it difficult to decrease a premium granted before, knowing that decreasing it could adversely affect insurers' solvency situation.

ADAPTATION OF CAPITAL REQUIREMENTS TO MARKET SITUATION

Nevertheless, as a basic principle, we fully support the idea of introducing countercyclical elements into Solvency II. We believe it would be better, however, to define good and bad market scenarios (based on interest rates and the stock market) and then adapt the capital requirements to the prevailing situation. Capital requirements should be stricter in boom times and less strict in times of crisis. For example, if insurers experience a boom year with high profits, the maximum default probability should be set to lower than 0.5% so that the company is forced to retain some of the profits for times when the financial situation is deteriorating. Conversely, during times when insurers suffer losses due to adverse capital market developments, the regulatory requirements could be loosened (e.g., by allowing a default probability of up to 1%). Insurers will then avoid having to sell shares in a falling market. Without such a countercyclical element insurance companies will have to sell stocks in a falling market because capital buffers fall contemporaneously with stock prices.

Insurers will likely invest in fewer shares and more safely, to reduce capital requirements. An obvious consequence of insurance companies investing less in stocks is that overall demand for stocks declines, leading to an even greater decrease in stock prices. Another consequence of selling shares during bad times is that the insurer will have to pay more to buy the stock back at a later time, which will be detrimental to the insurer's stakeholders. Thus, countercyclical requirements could reduce the acceleration of a crisis without having to deviate from an established set of rules. Fortunately, there is still time left to address some of the fundamental problems of Solvency II, the advantages and disadvantages of a countercyclical premium being one of them.

The full article is available at:
www.hof.uni-frankfurt.de/images/policy_platform/Long_Term_Guarantees

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"ECONOMISTS MUST TAKE MORE ACCOUNT OF ETHICAL ASPECTS"

Michael Meister

Michael Meister is the Deputy Chair of the CDU/CSU parliamentary group in the Deutscher Bundestag. His key areas of focus are financial economics, tax policy and the federal budget. A former student of TU Darmstadt, he received his doctoral degree in mathematics in 1988. On October 4, he talked to a select group of HoF scholars about current financial topics, as a guest of the House of Finance Policy Platform.

Is the current discussion on a deepening of the European Economic Union aimed in the first instance at calming financial markets? Or do you believe that EU Member States have a firm will to further European integration?

The European monetary union was instituted without a sufficiently integrated fiscal and economic policy. This is a shortcoming we have to rectify. Considering the possibly far-reaching consequences, a further deepening of the European Economic Union can certainly not be discussed only against the background of the current crisis. The process of further integration must answer to the fundamental question of what is in the best interest of the European people. There are many aspects that have to be taken into consideration here. However, the current crisis is an opportunity to pursue these questions more rigorously. In my opinion, we need a further deepening of the eurozone that is based on contractual agreements. This is necessary not only for Europe to hold its ground in world trade, but also to extend the options for joint action before and within times of crises. EU Member States cannot leave these policy areas that genuinely belong within the national sphere of competencies to the European Commission. This would contradict their participation rights. Therefore, we need to consider setting up a democratically legitimized European economic government.

Which national competencies could be handed over to the European Union?

I believe that we should not be discussing handing over competencies from the national to the European level in isolation. Before European integration is deepened by an increase in the competencies of Brussels, we have to answer several questions, for instance: For which competencies can we expect European institutions to fare better than EU member states individually? Which European body is best suited for fulfilling which common responsibility? And can this body claim democratic legitimacy? In Germany, we must also observe the decisions of the Bundesverfassungsgericht (Federal Constitutional Court). All these questions cannot be answered without taking into consideration the overall context.

Should banks be required to extend their Tier 1 capital to account for holdings of public debt?

Yes, we have to come to a change in this respect. The crisis has shown that government bonds are not as safe as we previously thought. However, we have to choose the right timing for implementing such a measure.

What do you consider the most pressing questions for academia with regard to the current financial crisis?

Thinking about how to optimally regulate financial markets is necessary and appropriate. We have to restrict financial markets to their original purpose of serving the real economy. In addition to this, I believe that the values of the social market economy have to be given more attention again – also in economic research. We will not avoid further crises by simply extending regulation. Economists must take more account of the ethical and moral aspects of economic activities. I firmly believe that economic questions cannot be considered in depth without deliberating on social issues.

SELECTED HOUSE OF FINANCE PUBLICATIONS

Baums, T., Drinhausen, F., Keinath, A. (2011)
"Anfechtungsklagen und Freigabeverfahren. Eine empirische Studie",
forthcoming in ZIP - Zeitschrift für Wirtschaftsrecht

Beck, R., Schott, K., Gregory, R. (2011)
"Mindful Management Practices in Global Multi-Vendor ISD Outsourcing Projects",
forthcoming in Scandinavian Journal of Information Systems (SJIS)

Bhattacharya, U., Hackethal, A., Kaesler, S., Loos, B., Meyer, S. (2011)
"Do Retail Investors Benefit from Unbiased Advice? Results from a large Field Experiment",
forthcoming in Review of Financial Studies

Blonski, M., Ockenfels, P., Spagnolo, G. (2011)
"Equilibrium Selection in the Repeated Prisoner's Dilemma: Axiomatic Approach and Experimental",
American Economic Journal: Microeconomics, Vol. 3, pp. 164-192

Campolmi, A., Faia, E., Winkler, R. (2011)
"Fiscal Calculus and the Labour Market",
forthcoming in B.E. Journal in Macroeconomics (Contributions)

Fuchs-Schündeln, N., Izem, R. (2011)
"Explaining the Low Labor Productivity in East Germany – A Spatial Analysis",
forthcoming in Journal of Comparative Economics

Gomber, P., Lutat, M., Haferkorn, M., Zimmermann, K. (2011)
"Circuit Breakers – Evidence on Trading Migration in Fragmented Markets",
forthcoming in BIT – Banking and Information Technology

Haar, B. (2011)
"Der Widerruf des Beitritts zu einem Immobilienfonds – zum Spannungsverhältnis zwischen Verbraucherschutz und institutionellem Anlegerschutz",
Bechtold, S. et al. (eds.), Recht, Ordnung und Wettbewerb, pp. 1159-1173

Hackethal, A., Haliassos, M., Jappelli, T. (2011)
"Financial Advisors: A Case of Babysitters?",
forthcoming in Journal of Banking and Finance

Hirsch, J., Walz, U. (2011)
"Why Do Contracts Differ between Venture Capital Types?",
forthcoming in Small Business Economics

Hoffmann, F., Inderst, R. (2011)
"Pre-sale Information",
forthcoming in Journal of Economic Theory

Kraft, H., Seifried, F., Steffensen, M. (2011)
"Consumption-Portfolio Optimization with Recursive Utility in Incomplete Markets",
forthcoming in Finance and Stochastics

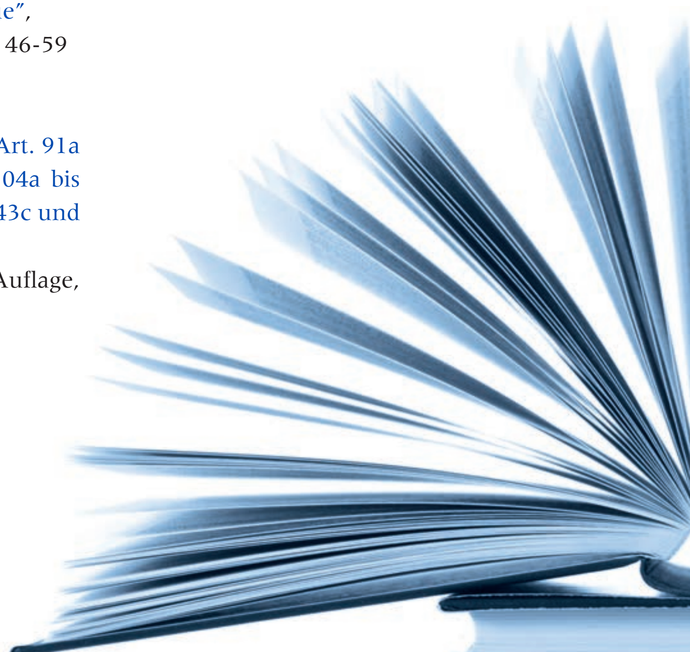
Langenbucher, K. (2011)
"Aktien und Kapitalmarktrecht",
2nd, revised edition, Verlag C.H. Beck

Schmitt, P., Skiera, B., Van den Bulte, C. (2011)
"Referral Programs and Customer Value",
Journal of Marketing, Vol. 75, Issue 1, 46-59

Siekmann, H. (2011)
Kommentierung von Abschnitt VIIIa (Art. 91a bis Art. 91e) und Abschnitt X (Art. 104a bis 115) sowie Art. 88, 120, 120a, 125c, 143c und 143d des Grundgesetzes,
Michael Sachs (ed.), Grundgesetz, 6. Auflage, München

Wandt, M. (2011)
Kommentierungen der VVG §§ 108 (Haftpflichtversicherung), 163, 164 (Lebensversicherung),
Langheid, T., Wandt, M. (eds.), Münchener Kommentar zum Versicherungsvertragsgesetz, 2. Vol., pp. 236-279, 1472-1529

Wieland, V. (2011)
"Model Comparison and Robustness: A Proposal for Policy Analysis after the Financial Crisis",
forthcoming in Solow, R., Touffut J.-P. (eds.), "What's Right with Macroeconomics?", Edward Elgar Publishing



FIRST MAJOR DONATION FOR THE HOUSE OF FINANCE FOUNDATION

The House of Finance Foundation received its first major donation on November 8 when Josef Ackermann, Chairman of the Management Board of Deutsche Bank, presented a check for 3 million euros to Werner Müller-Esterl, the President of Goethe University. This check was given on behalf of the Deutsche Bank Stiftung, which plans to provide 10 million euros in total to the newly established foundation over the coming years. Müller-Esterl expressed his thanks to the donor: "The House of Finance Foundation enables us to appoint further top scholars who will help the House of Finance to strengthen its competitive position in international science". The Foundation is dedicated to promoting research, teaching and knowledge transfer at the House of Finance. Up until now, Goethe University has been able to raise 21 million euros towards its capital stock. Donors include B. Metzler, DekaBank, Deutsche Vermögensberatung AG, DZ BANK, Gesamtverband der Deutschen Versicherungswirtschaft, Helaba Landesbank Hessen-Thüringen and UBS. The University's Sponsorship Code ensures the independence of all research and teaching activities.

SPECIAL BIRTHDAY CELEBRATIONS FOR WOLFGANG KÖNIG

On October 5, the House of Finance celebrated the 60th birthday of its Executive Director, Wolfgang König (also head of the Chair of Business Administration, especially Information Systems). To mark the occasion, his (current and former) doctoral students organized a colloquium entitled "The role of IT in the financial crisis: standards as a general purpose weapon or a fire accelerant?" Lectures had a scientific or industrial background and were presented, among others, by University of Michigan faculty plus representatives from Deutsche Bank, IBM and INTARGIA. In the evening, Goethe University and Frankfurt Main Finance hosted a special reception in the foyer of the House of Finance. More than 200 guests celebrated König's birthday following speeches by Thomas Schäfer, the Finance Minister of the State of Hessen, Petra Roth, the Mayor of the City of Frankfurt and Otmar Issing, President of the Board of Trustees for the House of Finance.

LUCAS PAPADEMOS APPOINTED PRIME MINISTER OF GREECE

Lucas Papademos, a Senior Fellow of the Center for Financial Studies (CFS), was appointed Prime Minister of Greece on November 10. The CFS congratulated him, noting that "the considerable expertise of Professor Papademos, both in the academic and in the policy sphere, together with the constructive attitude that we have all witnessed since he joined us as a Senior Fellow, will be very important for the conduct of his duties in these turbulent times for Europe". Papademos was Vice-President of the European Central Bank from 2002 to 2010.

ANDREAS HACKETHAL NOW A MEMBER OF THE EXCHANGE EXPERTS COMMISSION

Andreas Hackethal, Professor of Finance at the House of Finance and the new Dean of Goethe University's Faculty of Economics and Business Administration, has been appointed a member of the Exchange Experts Commission located at the Deutsche Börse Group. The Commission, which consists of representatives of investor protection associations, banks, insurance and investment companies, stock exchanges, industry, Deutsche Bundesbank and academia, advises the German Federal Ministry of Finance on policy issues related to the capital markets.

NEWS IN BRIEF

- **Michael Binder**, Professor of International Macroeconomics and Macroeconometrics, is the new representative of the Department of Money and Macroeconomics in the House of Finance Executive Committee. He replaces Stefan Gerlach who joined the Central Bank of Ireland as Deputy Governor in September.
- **Ester Faia**, Professor of Monetary and Fiscal Policy, has been appointed a consultant to the European Central Bank. She will work on the project "Modeling the interaction between banks and the real economy and the connection between the banking system and the sovereign debt crisis".
- Deutsche Forschungsgemeinschaft (DFG) has assigned priority program grants to **Ester Faia**, **Jan Pieter Krahnen** and **Michalis Haliassos** as principal investigators. The research teams of Faia and Krahnen will work jointly on the project "Debt Market Imperfections and Macroeconomic Implications", whilst Haliassos' team will work on "Implications of Financial Market Imperfections for Wealth and Debt Accumulation in the Household Sector".
- **Holger Kraft**, Professor of Asset Pricing, has been appointed Associate Editor of the Journal of Economic Dynamics and Control.
- **Robert Gregory**, formerly a scholar at the E-Finance Lab, has been awarded the dissertation prize of the Alcatel-Lucent Stiftung for his thesis on the management of IT offshoring projects (supervised by Roman Beck and Wolfgang König).
- **Nikolaus Bunting**, a Research Assistant at the chair of Theodor Baums, has received a prize from the Stiftung Hessischer Wirtschaftsprüfer for his paper "Das Früherkennungssystem des § 91 Abs. 2 AktG in der Prüfungspraxis – Eine kritische Betrachtung des IDW PS 340".

QUARTERLY EVENT CALENDAR

JANUARY

Monday, 9th
5 pm
EFL Jour Fixe
"Leveraging Social Capital in The Virtual Work Environment – Knowledge Exchange Through Social Media Platforms"
Speaker: Immanuel Pahlke

Wednesday, 11th
12 pm – 1 pm
Finance Brown Bag Seminar
"The Quality of Datastream and CRSP for German Corporations: Biased or only erroneous?"
Speaker: Stephan Späthe

Tuesday, 17th
5.15 pm
Finance Seminar
Speaker: Sven Rady, LMU Munich

Wednesday, 18th
12 pm – 1 pm
Finance Brown Bag Seminar
"Private Equity Shareholder Activism"
Speaker: Christian Rauch

Friday, 20th –
Saturday, 21st –
IMFS/LEMF Conference
"Retail Financial Services after the Crisis: Legal and Economic Perspectives on Investor and Consumer Protection"
Co-oorganized by Brigitte Haar (LEMF) and Roman Inderst (IMFS)

Tuesday, 24th
5.15 pm
Finance Seminar
Speaker: Álvaro Cartea,
Carlos III University of Madrid

Thursday, 26th
12 pm – 1 pm
HoF Brown Bag Seminar
"Taxation and labor supply of married females: a cross-country analysis"
Speaker: Nicola Fuchs-Schündeln

Thursday, 26th
12.15 pm – 1.15 pm
Frankfurt Seminar in Macroeconomics
Speaker: Samad Sarferaz, ETH Zurich

Tuesday, 31st
5.15 pm
Finance Seminar
Speaker: Markus Leippold,
Swiss Banking Institute

FEBRUARY

Wednesday, 1st
12 pm – 1 pm
Finance Brown Bag Seminar
"Information Asymmetry around Operational Loss Announcements in U.S. Financial Firms"
Speaker: Ahmed Barakat

Thursday, 2nd
12.15 pm – 1.15 pm
Frankfurt Seminar in Macroeconomics
Speaker: Martin Ellison,
University of Oxford

Monday, 6th
5 pm
EFL Jour Fixe
"Der Effekt des Wetters auf das Handelsverhalten privater Anleger"
Speaker: Steffen Meyer

Tuesday, 7th
5.15 pm
Finance Seminar
Speaker: Claudio Tebaldi,
University Bocconi, Milano

Tuesday, 7th
2 pm – 6 pm
EFL Spring Conference 2012
"Cloud Computing in the Financial Industry – A Security and Compliance Nightmare?"

Wednesday, 8th
12 pm – 1 pm
Finance Brown Bag Seminar
"Asset Returns, Different Portfolio Strategies and the Dynamic Characteristics of the Weighted Asset Returns"
Speaker: Yulya Plyakha

Thursday, 16th
12.15 pm – 1.15 pm
Frankfurt Seminar in Macroeconomics
Speaker: Marco Del Negro, New York Fed

Friday, 24th
Conference
"Life Insurance Products under Solvency II"
Organizers: International Center for Insurance Regulation, Munich Risk and Insurance Center, German Association of Insurance Sciences

Wednesday, 29th
5.30 pm
CFS Colloquium
"Über Erfahrungen mit und Visionen für den öffentlich-rechtlichen Bankensektor"
Speaker: Gerd Häusler

MARCH

Friday, 16th –
Saturday, 17th –
9 am – 6 pm
CFS Conference Event
International Research Forum on Monetary Policy – seventh conference

Please refer to www.hof.uni-frankfurt.de/eventlist.html for continuous updates of the event calendar.
Please note that for some events registration is compulsory.

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