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

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

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PARALLEL BANKING – FRANKFURT CAN BRING SOME LIGHT INTO THE DARKNESS

The financial crisis has taught us that banking activities do not only take place in credit institutions today. In recent years, there has been a growing number of financial players around the globe offering financial arrangements with similar economic effects, without being regulated like banks. According to estimates by the Financial Stability Board (FSB), the total size of this sector was around EUR 46 trillion in 2010, representing between 25% and 30% of the entire financial system. Financial products are offered alongside traditional banking business – hence, in my opinion, the neutral term “parallel banking” is most appropriate.

The number and also networking of these “parallel banking” financial players have spurred into action politicians, central bankers and regulators around the world. Their common concern focuses on the risks to financial stability. In accordance with the resolutions of the G20 heads of state and government, the FSB has been called on to further develop its previous proposals for the regulation and supervision of these financial players by the end of 2012.

Given the possible systemic risks and the related contagion risks for the banking sector as well as the financial markets as a whole, we Europeans cannot simply stand on the sidelines and watch. At the same time, we should not place “parallel banking” under general suspicion. Financial products – for example, securitization transactions – may represent quite sensible forms of financing. Therefore, I expressly welcome the European Commission Green Paper of March 2012, which proposes to integrate the supervision of parallel banking into the European Union (EU) macro-prudential framework. Here, the focus should primarily be on systemic risks.

Academics, supervisors and central bankers have already considered on parallel banking in numerous publications. There has been increasing criticism of the deficient quality of statistical data on the economy and financial markets. Even for the Eurozone is the data available insufficient – according to an April 2012 study by researchers from the European Central Bank (ECB). It is only with adequate data that potential systemic risks can be identified and counteracted. The data available must be improved significantly.

However, optimal data is only half the story. It is equally important that a supervisory framework is created that is able to pool data from across the EU, evaluate it, analyze the overall economic impact of financial products and activities, and, where necessary, to initiate countermeasures. It is thus essential that in the EU, with 27 national supervisors and internationally connected players, these activities are ultimately conducted at a point of convergence.

Here lie chances for the financial center Frankfurt: the European Systemic Risk Board (ESRB) located here was established in 2010 specifically to identify and assess systemic risks in the EU. This draws together all the expertise of supervisors and central bankers in the EU. The ESRB, thus, is the appropriate institution within the EU for undertaking these tasks – in cooperation with central banks and supervisors. I therefore welcome the fact that the Bundesrat has already positioned itself in this direction.

In view of the forthcoming deliberations within the FSB and at the EU level, it will be important to continue supporting the ESRB. An extension of its tasks would also benefit Frankfurt’s standing as a location for finance, supervision and scholarship. I am aware that the House of Finance is also concerned with this issue, and am sure that it will make an important contribution to stimulating the discussion.

Thomas Schäfer
Finance Minister of the
State Government of Hessen

INFLATION AND GROWTH: NEW EVIDENCE FROM A DYNAMIC PANEL THRESHOLD ANALYSIS

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Most economists would agree that inflation has distortional effects on long-term economic growth if it gets "too high". Yet how high is too high? In the aftermath of the recent financial crisis, the long-time consensus on inflation targets for industrialized countries centering around 2% has been put up for discussion. For example, following Blanchard et al. (2010), the effects of inflation on growth are difficult to discern, so long as inflation remains in single digits. As a consequence, they suggest that an inflation target of 4% may be more appropriate because this would leave more room for expansionary monetary policy in case of adverse shocks.

For developing countries, the appropriate level for the inflation target is also unclear. Prior empirical evidence from a cross-sectional setting has shown that inflation only has a detrimental impact on long-term economic growth if it exceeds a critical level of 40% — a rather large value which may only be of limited relevance to the monetary policy of many countries. For example, the Southern African Development Community (SADC) convergence criteria require a low single-digit inflation rate.

AT WHICH LEVEL DOES THE IMPACT OF INFLATION ON GROWTH CHANGE?

The theoretical literature offers various channels through which inflation may distort or even foster economic growth. While most theories of the impact of inflation on economic growth predict a negative relationship, a few point to growth-enhancing effects. If these different channels overlap or offset each other, or prompt a meaningful economic impact for only certain ranges of inflation, the relationship between inflation and economic growth may be characterized by inflation thresholds. A natural starting point for the empirical analysis of inflation thresholds is the panel threshold model introduced by Hansen (1999). This estimates threshold values — i. e. the critical inflation levels where the impact of inflation on economic growth changes — instead of imposing them.

Recent empirical contributions employing Hansen's panel threshold model provide evidence in favor of inflation thresholds in the inflation-growth nexus. Yet, the application of this model to the empirical analysis of the inflation-growth nexus is not without problems. The most important limitation of Hansen's model is that all regressors are required to be exogenous (i.e. not to be correlated with the error term in the estimation equation). In growth regressions with panel data, the exogeneity assumption is quite severe because, as a crucial variable, initial income is endogenous by construction. Previous empirical work has already demonstrated for linear panel models of economic growth that the endogeneity bias can be substantial. So far, dynamic versions of Hansen's panel threshold model have not been available. Therefore, given the central role of initial income under the convergence debate in the economic growth literature, most empirical studies on growth-related thresholds applying the Hansen methodology either ignore the potential endogeneity bias or exclude initial income from their growth regressions to avoid the endogeneity problem. Both ways to deal with the endogeneity of initial income can lead to biased estimates of inflation thresholds and misleading conclusions about the impact of inflation on growth in the corresponding inflation regimes.

This paper introduces a dynamic version of Hansen's panel threshold model to shed more light on the inflation-growth nexus. By applying the forward orthogonal deviations transformation (instead of standard within transformation or first-differencing), we combine the instrumental variable estimation of the cross-sectional threshold model introduced by Caner and Hansen (2004) with the panel threshold model of Hansen (1999). In the dynamic model, the endogeneity of important control variables is thus no longer an issue. This permits us to estimate the critical level of inflation for economic growth for industrialized and non-industrialized countries despite the endogeneity of initial income.

RESULTS SUPPORT INFLATION TARGETS OF MANY CENTRAL BANKS

Our empirical results strongly confirm earlier evidence in favor of inflation thresholds in the inflation-growth nexus. In accordance with Khan and Senhadji (2001), we find notable differences between the results obtained for industrialized and non-industrialized countries, and we show via Monte Carlo simulations the need to control for the endogeneity of initial income. For industrialized countries, the estimated inflation threshold is about 2.5%, which provides strong support for the inflation targets of many central banks. In particular, inflation rates below 2.5% are associated with higher long-term economic growth in industrialized countries and vice versa.

For developing countries, the estimated inflation threshold is 17.2%. This higher critical value in non-industrialized countries may be related to a convergence process and the Balassa-Samuelson effect, and/or the widespread use of indexation systems (adopted by many non-industrialized countries due to a long history of inflation). Inflation rates exceeding the 17.2% threshold, i. e. when inflation becomes “too high”, transpire with significantly lower economic growth of a magnitude similar to that of industrialized countries. In contrast, there is no significant association between inflation and long-term economic growth in developing countries when inflation is below 17.2%. Thus, our results do not support growth-enhancing effects in respect of moderate inflation rates below the threshold value.

Given the lack of a standard theory on the relationship between inflation and long-term economic growth, our empirical results on the inflation-growth nexus have to be interpreted with caution. Strictly speaking, our estimates may only reflect correlations and do not necessarily imply causality between inflation and growth. Yet, reduced form estimates may still serve as a benchmark and a first pointer for the discussion on the optimal level of inflation targets.

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WHO BENEFITS FROM BUILDING INSURANCE GROUPS? A WELFARE ANALYSIS OF OPTIMAL GROUP CAPITAL MANAGEMENT

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In today's insurance markets, insurers commonly constitute one entity of a larger financial group. This paper investigates the optimal capital and pricing strategy of insurance groups in comparison with stand-alone insurers. We also analyze the consequences of group building for the welfare levels of shareholders and policyholders.

In contrast to stand-alone insurance companies, insurance groups can employ one important additional instrument for their risk management: typically, the risks of group entities are diversified, for example, because they operate in different local areas or in different lines of business. This kind of diversification can be utilized by group members through capital and risk transfer instruments, such as intra-group reinsurance contracts or profit and loss transfer agreements. Prior literature has analyzed how groups should implement such capital and risk transfer instruments under the objective of minimizing group-wide solvency capital requirement (e. g. Filipovic and Kupper, 2008). These articles optimize the intra-group transfers isolated from other risk management instruments and assume that group capital endowment and insurance prices are exogenous variables. Our paper endogenizes the group capital allocation and pricing strategy under the objective of shareholder value maximization. In addition, we compare the optimal group strategy with the stand-alone insurer strategy and measure the implications for policyholders' welfare.

MODEL SET-UP

In the stand-alone case, the model insurer decides on its initial equity capital endowment and the insurance premium for a homogenous insurance product. The insurer faces an insurance demand function that reacts to the insurer's default risk level and the insurance premium. To make a realistic assumption, we employ an experimentally obtained demand function (see Zimmer et al., 2012). Capital-related frictional costs, such as corporate taxes or agency problems, are modeled by a carrying charge on the initial equity capital position. In the group case, a holding company is endowed with equity capital and decides how to allocate this capital among its subsidiaries. The insurance group can commit to bailing out subsidiaries when they get into financial distress. To this end, the group arranges intra-group capital and risk transfer instruments.

THE STAND-ALONE CASE VERSUS THE GROUP CASE

In a first step, we assume that stand-alone insurers and groups suffer the same level of capital-related frictional costs, i. e. the carrying charge for holding equity capital is identical in both the stand-alone and the group case. We find that:

- The group decides on holding less equity capital than that which would be held by the stand-alone insurers in total.
- Nevertheless, by arranging intra-group capital and risk transfers, the group can ensure higher safety levels for its subsidiaries than those optimal for the stand-alone insurers.
- The group's lower equity capital is accompanied by lower frictional costs and therefore the group chooses lower insurance premiums.
- The group hoards most of its equity capital at those subsidiaries where consumers are more default-sensitive.

In the second step, the group faces more severe agency problems that result from its higher complexity and opaqueness (see, for example, Jensen, 1986). We therefore differentiate between the carrying charge of holding equity in the group and stand-alone cases. Now, the group holds significantly less capital than the stand-alone insurers, and it may occur that the insurers have a higher default risk in the group case than in the stand-alone case.

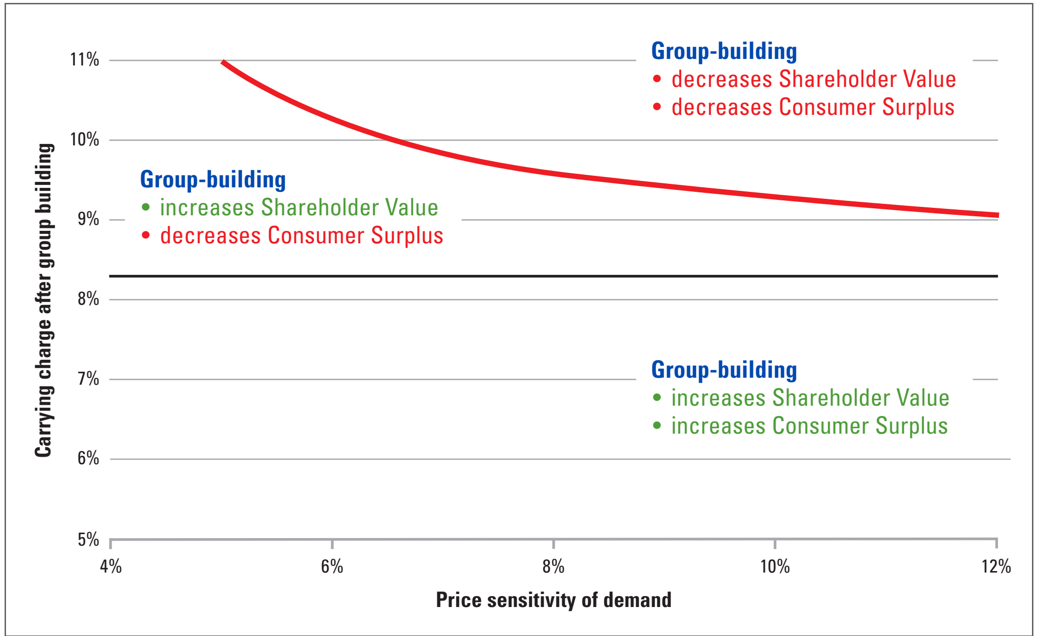

Figure 1: Areas in which group building is beneficial/detrimental for shareholders (measured by the shareholder value) or policyholders (measured by the consumer surplus)

WELFARE ANALYSIS

Based on the optimal strategies in the stand-alone and the group case, we investigate whether group building enhances shareholders' benefits (shareholder value) and/or policyholders' benefits (consumer surplus). As long as the degree of frictional costs is not affected by group building (first step), we find that policyholders benefit from group building due to the higher safety level and lower insurance premiums. Shareholders also benefit due to the higher sales volume and lower frictional costs. However, when the group faces a higher carrying charge than the stand-alone insurers, we identify situations in which the consumer surplus is reduced, while the shareholder value is increased by group building. Hence, in order to protect policyholders' interests, regulators should be concerned about group building in such situations. Figure 1 illustrates that it is more likely that group building enhances the position of shareholders (and not policyholders) if demand is weakly price sensitive: the insurance group is then able to replace costly equity capital by higher insurance premiums. In contrast, if demand is strongly price sensitive, group building becomes beneficial either for both shareholders and policyholders, or for none of these stakeholder groups. An exploitation of policyholders by shareholders is found only rarely.

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MINDFULLY RESISTING THE BANDWAGON – IT INNOVATION ASSIMILATION IN THE FINANCIAL CRISIS

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Economic scenarios of high dynamism and volatility demand a firm's continuous technological adaptation to retain a competitive position and comply with regulatory influences. In particular, such scenarios of high uncertainty facilitate the emergence of mimicry and bandwagon phenomena among competing organizations. Mindless imitation, in turn, may eventually negatively affect the realization of business value (Fiol and O'Connor, 2003).

The recent financial crisis reflects such an extraordinary period of time with regard to the extent of market volatility. Rapid changes in the market and technological demand, subsumed by the concept of environmental turbulence, led to an increase in uncertainty. This market situation demanded financial services providers to assimilate IT innovations that are suitable for dealing with such rapid changes and related risk exposures. Concurrently, 172 US banks failed, resulting in systemic bandwagon phenomena that exacerbated the extent of uncertainty and environmental turbulence (FDIC, 2012).

Accordingly, it can be assumed that uncertainty about future market developments and current market conditions may have serious negative effects on the generation and realization of business value from IT innovation assimilation. Consequently, our first guiding research objective was to explore *how environmental turbulence affects the influence of mimetic pressure and the realization of business value from IT innovation assimilation*.

However, even in highly turbulent environments, some firms overcome related challenges more effectively than their competitors, or are potentially able to exploit them. This significant difference in IT business value generation can be attributed to advanced capabilities for aligning the IT innovation assimilation process to environmental contingencies. In this regard, organizational mindfulness (OM) is assumed to be an effective means to identify and accommodate changes facilitated by the market. We refer to OM as a firm's "rich awareness of discriminatory detail and a capacity for action" (Weick et al., 1999). Consequently, OM can be regarded as a promising means for organizations to successfully deal with uncertain situations which could otherwise lead to disastrous negative consequences. In the context of IT innovation assimilation, OM is assumed to help in identifying and resisting pure mimetic IT assimilation behavior and in coping with incomplete information and environmental turbulence; both of which may decrease IT-based business value generation.

In this regard, rather mindful firms can identify impending changes in the market earlier, and are able to derive highly contextualized IT innovation strategies. In addition, they can forecast and evaluate the consequences of the ensuing bandwagon phenomena. Consequently, the second guiding research objective for our study was to *assess differences between rather mindful and less mindful firms in channeling mimetic pressure to IT innovation assimilation processes against a background of environmental turbulence*.

EMPIRICAL RESULTS AND DISCUSSION

A survey instrument was developed to collect the quantitative data required for model and hypothesis testing. On our behalf, 2,866 potential participants of a business panel were invited by a large international market research company to respond to the survey from August until September 2009.

In order to distinguish between firms with respect to their OM, we operationalized an OM score based on a multidimensional measurement model. We therefore started off with a formulation of Weick and Sutcliffe (2001), which we subsequently refined to create a valid operationalization for the five distinct dimensions of OM (i. e. reluctance to simplify, commitment to resilience, deference to expertise, operational sensitivity and preoccupation with failure).

Based on 302 complete responses from the Anglo-Saxon financial services industry gathered during the financial crisis, we empirically analyzed the relationships contained in our conceptual model in order to find evidence for the aforementioned research questions.

The empirical results (see Figure 1) emphasize that, in particular, it is mimetic pressure that drives top management to support IT innovation assimilation initiatives. The behavior of successful competitors is likely to initiate a new bandwagon that induces other firms in the same market to join it without considering their firm-specific circumstances. In addition, the empirical results indicate that the influence of mimetic pressure is indeed strengthened by a highly turbulent environment. Thereby, in essence, our results facilitate learning from the past crisis; revealing mechanisms of mimicry and herding behavior that are likely to be present in highly turbulent industries in general.

With regard to the five distinct levels of OM, we find that, in rather mindful firms, the top management is less likely to be affected by mimetic pressure caused by environmental turbulence. Moreover, the direct influence of mimetic pressure on top management support even vanishes in rather mindful firms. This can be attributed to the capability of reflection-in-action, which is assumed to be especially developed in mindful organizations. Reflection-in-action is defined as the ability to actively learn and realign from prior and current experiences, and in particular from the critical, 'transformative' change initiated by bandwagons. Finally, we find evidence that rather mindful firms realize more business value from IT innovation assimilation at the business process level than less mindful firms. However, the results also reveal that the realization of IT-based business value is highly contingent and thus cannot be solely reduced to the IT innovation assimilation process itself. This would also explain the positive direct effect of environmental turbulence on business value generation.

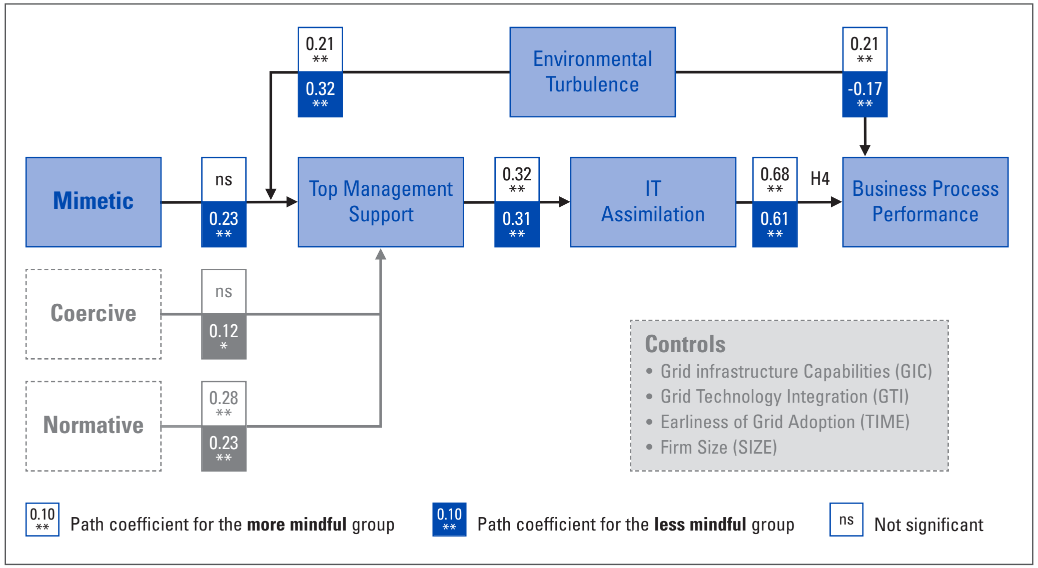

Figure 1: Results of the group comparison (low vs. high organizational mindfulness)

CONCLUSION

The results of this study indicate that decision makers need to take into account that an increased extent of environmental turbulence eventually leads to a higher exposure to mimetic pressure. Awareness of this relationship can be a starting point for improving organizational scanning capabilities (e. g. by means of better decision support systems) and initiating a mindful decision-making process to identify contextually appropriate IT innovation decisions. Additionally, OM can be assumed a critical focus of HR development to build and sustain the organizational capability required to effectively identify and successfully master changes facilitated by the market. Furthermore, OM enables a firm to actively resist arising bandwagon phenomena that may otherwise negatively affect the generation of (IT-induced) business value.

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"THE PART-TIME MASTER IN FINANCE IS GOETHE BUSINESS SCHOOL'S ANSWER TO THE BOLOGNA PROCESS"

Uwe Walz
Goethe University

Uwe Walz, Professor of Industrial Organization, helped design the new Part-Time Master in Finance (PTMF) program planned by Goethe Business School (GBS), Goethe University's center for high-quality management education. This English language program will start in April 2013. Coursework should be finished within 18 months, with the last four of these months being devoted to the master thesis. Successful course students can expect to receive a Master of Arts in Finance degree.

The Goethe Business School has just launched its new Part-Time Master in Finance (PTMF) program. Why "finance"?

Finance is the core competence of Goethe University's Faculty of Economics and Business Administration. Our finance department is not only the biggest single unit for finance-related teaching and research in Germany, but is also clearly recognized in the European landscape. This focus on finance, which corresponds to a similar specialization in the University's Faculty of Law, has led to the establishment of the interdisciplinary House of Finance, where, among other institutes, the GBS is located. So, it was an obvious decision to offer a master's degree in finance and, thus, to integrate the GBS even closer into the Faculty and the House of Finance.

What type of student is this program designed for?

The PTMF is Goethe Business School's answer to the Bologna Process. In Germany, it is only a recent development that university graduates are entering the job market with just a bachelor's degree. These are young people who are keen to prove themselves in a professional environment. Very soon, however, they notice that, without a master's degree, the next step on their career ladder is blocked. At this point in time, the PTMF becomes interesting.

So, you are looking for the young banker with a bachelor's degree in business administration?

Not necessarily. We are also thinking of graduates with, for example, a first degree in the natural or social sciences. For them, it will also be very attractive to broaden their academic profile by acquiring a master's degree in finance. Of course, all applicants will require quantitative skills. We will appraise these in personal interviews.

What does the curriculum look like?

The program provides participants with a strong foundation in the principles and practice of finance: accounting, corporate finance, asset pricing, international finance and so forth. It also gives insights into real-world situations and offers strategies, analysis tools and problem-solving skills that help increase the capacity for effective decision making. So, besides deepening their knowledge of finance, students will immediately be able to put into practice everything that they have learned. Beyond that, the curriculum involves a mandatory Ethics in Finance course. In today's financial world, we consider it increasingly important to think outside of the box and to develop a feeling for what is right and what is wrong.

What makes this finance program different?

In contrast to many other business schools, the Goethe Business School is part of an outstanding faculty that boasts a prestigious international reputation for excellent teaching and highly relevant research. The fact that Goethe University's Faculty of Economics and Business Administration holds an AACSB-accreditation, indeed, makes a difference when it comes to applying for attractive jobs. In addition, one can point to the unique course design, the convenient work-study balance (with courses only taking place on a biweekly basis on Friday afternoons and Saturdays), and, of course, the incomparable finance-focused location of Frankfurt, which makes it possible to win prominent industry practitioners as temporary lecturers for this program.

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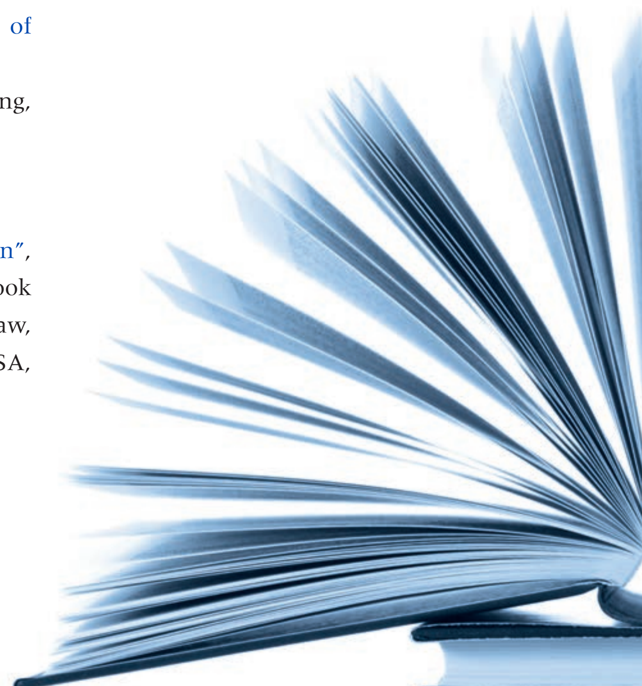

HOUSE OF FINANCE WINS NEW LOEWE CENTER "SUSTAINABLE ARCHITECTURE FOR FINANCE IN EUROPE"

Michael Haliassos
Center for Financial Studies

Jan Pieter Krahnen
Center for Financial Studies

Uwe Walz
Center for Financial Studies

Goethe University with the House of Finance has been successful in its joint application with the Center for Financial Studies (CFS) to secure a new research center under the State of Hessen's "LOEWE" (Landes-Offensive zur Entwicklung wissenschaftlich-ökonomischer Exzellenz) excellence initiative. Thanks to the Hessen state government, the two will be able to establish the Sustainable Architecture for Finance in Europe (SAFE) center in collaboration with Goethe University's Faculties of Economics and Business Administration and Law. The new LOEWE Center will be dedicated to top-level scientific research and research-based policy advice, and will receive EUR 13 million in funding over the first three years of a six-year period starting in January 2013.

SAFE will investigate the requirements for an optimal regulatory framework for financial markets and their players. Fully functional financial markets are indispensable for a flourishing economy, growth and prosperity. However, as recent years have shown, financial market turbulence can involve tremendous risks for the economy, society and governments.

"Therefore, we need a framework that is flexible enough to allow for innovation and competition, but, at the same time, is as rigid as necessary to ensure stability", said Jan Pieter Krahnen, Co-Director of the CFS and Scientific Coordinator of the new Center.

Today's financial markets are characterized by a dynamic interaction between the realms of politics, business and central banks. In order to meet the political and economic challenges hindering a sustainable financial environment in Europe and the rest of the world, the Center will follow an interdisciplinary approach. More than 35 professors working in the areas of finance, micro- and macroeconomics, financial mathematics, marketing and law will be collaborating with each other.

SAFE will employ a comprehensive approach for five key research areas: financial institutions, corporate governance, household finance, financial markets, and macro finance (see Figure 1). In addition to traditional methods, it

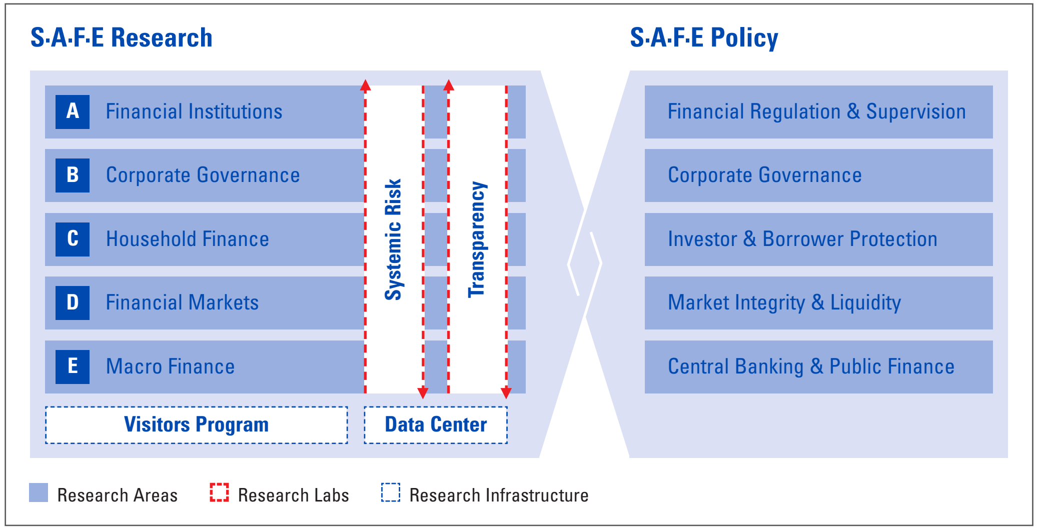

Figure 1: The Structure of SAFE

will enter uncharted territory by setting up so-called "Research Labs". These labs will result in genuine added value by cutting across traditional lines of research. They will be a key motivator for overcoming the boundaries that normally confine finance and economics-related research. In a first phase, research labs on systemic risk and transparency will be implemented. Such an interdisciplinary set up with co-operation among different faculties is ideally suited to overcoming the limitations posed by the fragmentation of individual disciplines.

Topical issues, such as the current fiscal imbalances and the related challenges for the common currency, will be considered in association with subjects of longer interest, for example, technological progress, the global imbalances induced by the process of economic development and the challenges for old-age provision resulting from the demographic transition. The Center has been designed with a view towards benefitting from and contributing to the dynamic interaction between researchers, economic actors, policy makers and regulators. The planned Visitors Program will contribute to these objectives, and also help ensure that the Center is visible at an international level.

The Center will not only conduct research and train young professionals, but will also reach out to the wider community by creating a platform for interaction between academics and policy makers. In a continuing dialogue with Berlin, Brussels and Wiesbaden, SAFE will provide independent, research-based policy advice that will be highly beneficial to policy makers and supervisors alike. It will have a strong European orientation, while contributing to an alignment with similar initiatives across the Atlantic. SAFE aims to introduce new concepts for the sharing of knowledge; giving students, policy makers and financial practitioners the opportunity to acquire first-hand information on specific subjects, often those of a technical nature.

In order to achieve cutting-edge research and policy results, the Center will not only acquire relevant data but combine and collect new, unique data sets, for example, ones on the changing behavior of banks, households, firms, and policy institutions that focus on the differences between optimal and actual behavior, as well as the related potential costs and solutions.

Located in Goethe University's House of Finance, the Center will be able to build upon existing relations, events or networks. In addition to Jan Pieter Krahnen, the Scientific Coordinator, there is the Administrative Coordinator, Uwe Walz, and the Coordinator for Research Networks, Michael Haliassos.
SAFE will open its doors in January 2013.

SELECTED POLICY PLATFORM PUBLICATIONS

Faia, E. (2012)
"On the Potential Threats from a Greek Eurozone Exit",
Policy Letter, Policy Platform at the House of Finance, Goethe University Frankfurt

Issing, O. (2012)
"Central Banks – Paradise Lost?",
White Paper, Policy Platform at the House of Finance, Goethe University Frankfurt

Moretti, L. (2012)
"Central Bank Independence: Does the Governor's Passport Matter?",
Policy Letter, Policy Platform at the House of Finance, Goethe University Frankfurt

Papademos, L. (2012)
"The Greek Crisis Two Years On: Policy Options and Resolution Prospects",
White Paper, Policy Platform at the House of Finance, Goethe University Frankfurt

Remsperger, H. (2012)
"Systemic Risks and Central Banks",
White Paper, Policy Platform at the House of Finance, Goethe University Frankfurt

Schmidt, R. H. (2012)
"Aktuelle Finanzmarktpolitik: Wo bleibt die Nachhaltigkeit?",
White Paper, Policy Platform at the House of Finance, Goethe University Frankfurt

For further information on the Policy Platform at the House of Finance and to download our publications please refer to our website:

http://www.hof.uni-frankfurt.de/policy_platform

NEW CHAIR OF SUSTAINABLE BANKING AND FINANCE

Goethe University now has a new endowed chair at its Department of Finance. **The House of Finance Endowed Chair of Sustainable Banking and Finance** – supported by the DekaBank – is held by Reint Gropp, formerly Professor of Financial Economics and Taxation at the EBS University Wiesbaden. Gropp began his academic career at the universities of Freiburg and Wisconsin-Madison. After gaining a Ph.D. from Wisconsin, he worked at the International Monetary Fund and later at the European Central Bank (ECB), most recently as Deputy Head of the Financial Research Division. In spring 2012, he returned to the ECB as a Duisenberg Fellow. His research focuses on the effects of financial instability on the real economy, the impact of bank incentive systems on bank risk and lending, and the role of public guaranties for banks during the current financial crisis.

YOUNG ACADEMICS SECURE "BEST PAPER" PRIZE

Dilek Bülbül, Research Assistant to Reinhard H. Schmidt (and Hendrik Hakenes from the University of Bonn) and Claudia Lambert, a doctoral student under Horst Entorf, have won the first prize of the ESCP Europe Business School's Best Paper Awards for their paper "Driving Forces behind Risk Management in Banking". The award, which comes with EUR 1,000 in prize money, recognizes outstanding current research on financial markets and banking. It was presented at the annual conference of the Financial Engineering and Banking Society (FEBS) held in London on 8 June.

EU COMMISSIONER SPEAKS AT HOUSE OF FINANCE

On 21 June 2012, Joaquín Almunia, Vice-President of the European Commission and EU Commissioner for Competition, held a speech at the "State Aid in the Banking Market – Legal and Economic Perspectives" conference, which was jointly organized by the House of Finance Policy Platform and the Institute for Monetary and Financial Stability. Commissioner Almunia pointed out that ailing banks can only hope for public aid when there is a chance for their recovery: "Whenever it was clear that a bank was beyond rescue, it has been our responsibility to oversee its orderly resolution – complete or partial", Almunia declared.

The conference was opened by Florian Rentsch, Hessian Minister of Economics, Transport, Urban and Regional Development. During the academic session, the Head of the German Monopolies Commission, Daniel Zimmer (University of Bonn), and Athanasios Orphanides, the former Governor of the Central Bank of Cyprus, highlighted various legal and economic aspects of state aid in the banking sector. In the concluding session, Zimmer and Orphanides were joined by Martin Hellwig (Max Planck Institute for Research on Collective Goods) and Joel Monéger (University Paris-Dauphine) for an intensive panel discussion moderated by Thomas Huertas (Ernst & Young London), as well as an open exchange with a highly interested audience.

LEMF SUMMER SCHOOL „LAW AND ECONOMICS OF FINANCIAL REGULATION"

Participants from all over Germany and Europe were introduced to regulation as a field of public policy by Martin Lodge (London School of Economics) and Kai Wegrich (Hertie School of Governance). The focus was on different techniques of regulation in a globalized environment where hierarchical concepts of laws backed by sanctions might not be feasible. In the second part, Charles Whitehead (Cornell University) treated the role of financial regulation in evolving capital markets, highlighting the implications of money market funds, private equity firms as well as derivatives for financial regulation and corporate governance.

BERND SKIERA WINS PRESTIGIOUS MARKETING AWARD

Bernd Skiera, Professor of Electronic Commerce and Member of the Board of the E-Finance Lab, is a recipient of the 2011 H. Paul Root Award of the Marketing Science Institute. This award honors a paper that has made a significant contribution to the advancement of the practice of marketing. Skiera won it jointly with his former assistant Philipp Schmitt and Christophe Van den Bulte from the Wharton School of Business. In their winning article "Referral Programs and Customer Value" (Journal of Marketing, Vol. 75/1, 2011), the authors show that referred customers are more valuable in both the short and the long run. It is the first time in its 20-year history that the H. Paul Root award has been presented to researchers at a German University.

PETER GOMBER TO ADVISE THE EUROPEAN SECURITIES AND MARKETS AUTHORITY

Peter Gomber, Professor of e-Finance at Goethe University and Co-Chair of the E-Finance Lab, has been appointed a member of the new Consultative Working Group (CWG) of the Secondary Markets Standing Committee of the European Securities and Markets Authority (ESMA). The CWG has been formed to assist the ESMA Secondary Markets Standing Committee in its work relating to the structure, transparency and efficiency of secondary markets for financial instruments, including trading platforms and over-the-counter (OTC) markets. Furthermore, it will assess the impact of changes in market structure on the transparency and efficiency of trading, and develop ESMA's policy on the issues identified.

COOPERATION WITH DVFA

The Society of Investment Professionals in Germany (DVFA) offers a special program for students at the House of Finance (third-year bachelor's and above) who want to qualify as a "Certified International Investment Analyst" (CIIA). They can complete the first level of the related program via distance learning, taking advantage of special conditions and fees. The full program lasts seven months and covers three levels, with exams being scheduled for October 2013. The CIIA is a postgraduate qualification offered by an international umbrella organization comprised of 36 associations within the investment industry. The CIIA designation is recognized by the Financial Services Authority in London.

QUARTERLY EVENT CALENDAR

OCTOBER

Monday, 8th
5 pm
EFL Jour Fixe
"Knowledge Transfer through Social Media Enabled Electronic Networks of Practice: A Multi-Level Perspective"
Speaker: Immanuel Pahlke, Goethe University

Tuesday, 9th
8.30 am
ILF Breakfast Series
"Themen des Kanzleimittelstands"

Wednesday, 10th
6.30 pm
ILF Panel Discussion
"Infrastruktur, Recht und Finanzen: Telekommunikation"

Thursday, 11th
5.15 – 6.30 pm
Finance Seminar
Speaker: Simon Gervais, Duke University

Friday, 12th
10 am
ILF/Wolters Kluwer:
"8. Strafverteidiger Symposion Sicherungsverwahrung"
Speakers: Klaus Lüderssen and Cornelius Prittwitz, Goethe University

Thursday, 18th
12.15 – 1.45 pm
Frankfurt Seminar in Macroeconomics
Speaker: Kamil Yilmaz, Koc University

Thursday, 18th
12.30 – 2 pm
CFS Lecture
"Liquidity Measures"
Speaker: Prof. Dr. Erik Theissen, University of Mannheim

Thursday, 25th
12.15 – 1.45 pm
Frankfurt Seminar in Macroeconomics
Speaker: Kamila Sommer, FED Board

NOVEMBER

Thursday, 1st
12 – 1 pm
House of Finance Brown Bag Seminar
Speaker: Nicola Fuchs-Schündeln, Goethe University

Monday, 5th
5 pm
EFL Jour Fixe
"No Skill, Mere Luck! – A Bootstrapping Simulation to Measure Skill in Individual Investors' Investment Performance"
Speaker: Steffen Meyer, Goethe University

Tuesday, 6th
8.30 am
ILF Breakfast Series
"Themen des Kanzleimittelstands"

Tuesday, 6th
6 pm
ILF Lecture
Speaker: Ulrich Schroeder, KfW

Thursday, 8th
12.15 – 1.45 pm
Frankfurt Seminar in Macroeconomics
Speaker: Nezih Guner, University of Barcelona

Thursday, 15th
12.15 – 1.45 pm
Frankfurt Seminar in Macroeconomics
Speaker: John Knowles, University of Southampton

Thursday, 15th
5.30 – 7 pm
CFS Colloquium
"Cross-border finance and national regulation – lessons from the financial crisis"
Speaker: Martin Wolf, Chief economics commentator, Financial Times

Friday, 16th – Saturday, 17th
9 am
5. ECLE Symposion/ ILF
"Gemeinwohl im Wirtschaftsstrafrecht"
Speakers: Andreas Cahn and Klaus Lüderssen, Goethe University

Thursday, 22nd
12.15 – 1.45 pm
Frankfurt Seminar in Macroeconomics
Speaker: Francesco Furlanetto, Norges Bank

Tuesday, 27th
5.15 – 6.30 pm
Finance Seminar
Speaker: Markus Leippold, University of Zurich

Thursday, 29th
12 – 1 pm
House of Finance Brown Bag Seminar
Speaker: Volker Wieland, Goethe University

DECEMBER

Tuesday, 4th
8.30 am
ILF Breakfast Series
"Themen des Kanzleimittelstands"

Thursday, 6th
12.15 – 1.45 pm
Frankfurt Seminar in Macroeconomics
Speaker: Allesandra Pelloni, University of Rome

Tuesday, 11th
5.15 – 6.30 pm
Finance Seminar
Speaker: Michael Halling, University of Utah

Wednesday, 12th
6.30 pm
ILF Panel Discussion
"Infrastruktur, Recht und Finanzen: Energie und -wende"
Speaker: Jens Weidmann, Deutsche Bundesbank

Tuesday, 18th
5.15 – 6.30 pm
Finance Seminar
Speaker: Lars-Alexander Kühn, Carnegie Mellon Tepper

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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