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# The Research Centre of the Deutsche Bundesbank in 2007

2007

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Internet http://www.bundesbank.de



ISSN 1866–900X (Printversion)
ISSN 1866–9018 (Internetversion)

## The Deutsche Bundesbank Research Centre in 2007

This report provides an overview of the Research Centre's activities in 2007, including the areas of research and the research outcome during the year. Furthermore it describes the most important events organised by the Research Centre, the development of the visitors programme and other activities.

### An overview of the various research areas and publications.

*Research on monetary policy …*

Ultimately, the work of the Research Centre is aimed at helping the Bundesbank achieve optimal decision-making. This includes research on fundamental questions that are not directly related to current debates. Within the Bundesbank, research interest naturally focuses on areas in which the bank has particular responsibility, namely monetary policy issues and questions concerning the stability of the financial system. This includes questions related to the aims, functioning and strategy of monetary policy as well as issues indirectly connected to monetary policy questions such as the interaction of monetary and fiscal policy or the analysis of real economic developments that may be of significance to monetary policy. Lastly, the Research Centre works on developing forecast models as monetary policy is, in many respects, forward-looking.

*… and financial stability*

For some time, the importance of financial stability questions has been increasing. On the one hand, monetary policy needs a sound financial system. On the other, the Bundesbank is an active partner in regulating financial institutions. Accordingly, research work centres both on the analysis of innovations within the German financial system, systemic and systematic risks within the financial system and appropriate risk modelling for individual banks, factors which have become increasingly relevant as a result of the Basel II regulatory framework.

*Publications*

The centre published 53 discussion papers (2006: 60) of which 35 (48) appeared in series 1 (economic studies) and 18 (12) in series 2 (banking and financial studies)[1] Bundesbank staff wrote 44 (45) of these discussion papers, often together with external researchers, 5 (10) were written by visitors and 4 (5) resulted from a conference organised by the Bundesbank.

Staff members published 40 articles in journals (59) and 9 (14) in volumes.[2] The Research centre has also published a special issue of the North American Journal of Economics and Finance on “Monetary policy and financial markets”.

### *Research groups*

*First experiences with research groups*

At the end of 2006, various research groups were formed to better structure the work of the Research Centre. These groups focus on the above-mentioned issues. In some cases, a group deals with a comparatively clear-cut issue, in others, the subject is broader in scope. The character and size of these groups vary accordingly. Several research groups are mainly tasked with facilitating an exchange of ideas among staff working on related areas. A fairly

1 A complete list can be found in Annex 1.
2 A complete list can be found in Annex 2.

loose structure of this kind makes sense within the Bundesbank as a significant percentage of the employees working on research projects are not permanent Research Centre staff but are seconded to the Research Centre for a limited period of time to work on a specific project ("rotation principle"). On the other hand, these employees cooperate with "permanent" members and pursue their research interests when they are not formally working for the Research Centre, though they have less time to devote to them. In other cases, the research groups work on more tightly defined aims, such as cooperating within ESCB research networks and the research task forces of the Basel committee on banking supervision or developing new econometric models. This frequently implies closer cooperation within a group. After the first year of experience one can state, that the establishment of the groups has stimulated the interaction among the members. Reading groups, joint meetings with consultants and interesting external researchers or to present the output to other economists and to the management of the bank have been established.

In 2007 there were ten such groups.[3] In the following, their work and results in 2007, research output and its relevance for the Bundesbank's practical work are outlined briefly. Furthermore other academic activities like participations at conferences and referee activities of members for journals are reported.

[3] At the end of 2007, another group was set up to deal with issues related to the implementation of monetary policy and payment systems. This report does not yet include information on the work of this group.

*Money and monetary policy*

The Eurosystem's monetary policy strategy stresses the key role of money and credit aggregates for longer-term inflation. Therefore a sufficiently precise understanding of the determinants of monetary developments, of the role of money and credit in the monetary transmission process and of the implications of monetary developments for inflation is of utmost importance for monetary policy. In 2007 this group's research made progress in analysing the information content of money for future inflation (Scharnagl and Schumacher (2007), Setzer (2007)) and improving our understanding of the determinants of monetary and credit aggregates in the euro area (Greiber and Setzer (2007), Hempell (2007)). In this context the interaction of house prices and monetary growth were of particular interest. Furthermore several papers examined whether monetary policy rules including monetary aggregates are a good fit for describing past monetary policy in Germany and whether a policy rule of this type is superior to other policy rules (for example a traditional Taylor rule). Both questions were answered affirmatively (Gerberding et al (2007), Scharnagl et al (2007)).

This group's research output was used in internal briefings, to prepare an ECB council seminar on the Eurosystem's monetary analysis and for a Bundesbank monthly report on house prices and monetary policy.

Members of the group published the following articles and discussion papers in 2007 related to the subject of the research agenda:

- Gerberding, C, F Seitz and A Worms (2007): Money-based interest rules: lessons from German data, Deutsche Bundesbank, Discussion Paper, Series 1, 06/2007
- Greiber, C and R Setzer (2007): Money and housing - evidence for the euro area and the US, Deutsche Bundesbank, Discussion Paper, Series 1, 12/2007
- Hempell, H (2007): Credit constraints in the euro area? - Bankers' perceptions, Kredit und Kapital, Vol 40, 2007
- Scharnagl, M, C Gerberding, F Seitz (2007): Simple interest rate rules with a role for money, Deutsche Bundesbank, Discussion Paper, Series 1, 31/2007
- Scharnagl, M and C Schumacher (2007): Reconsidering the role of monetary indicators for euro area inflation from a Bayesian perspective using group inclusion probabilities, Deutsche Bundesbank, Discussion Paper, Series 1, 09/2007
- Seitz, F and K H Tödter (2007): Strategies for Controlling Inflation in a Monetary Framework, in: Barbara Credan (ed): Trends in Inflation Research, New York
- Setzer, R (2007): Monetär basierte Inflationsprognosen für den Euro-Raum: Das P-Stern-Modell, in: A Michler and H J Thieme (ed): Systeme monetärer Steuerung - Analyse und Vergleiche geldpolitischer Strategien, Schriften zu Ordnungsfragen der Wirtschaft, Vol 86, 2007

Members of the group presented their papers at several conferences and workshops, including the annual meeting of the Society for

Computational Economics, the annual meeting of the German Economic Association (Verein für Socialpolitik), the ifo conference on survey data, the joint Bundesbank/Fed Cleveland conference on monetary strategies and several summer schools. In addition, members acted as referees for the European Economic Review, the Journal of International Money and Finance, and the Journal of Money, Credit and Banking.

*Monetary policy and asset prices*

Asset prices are key to monetary policy for various reasons. The research group concentrates on four issues: developing methods for extracting information from asset price data that could be useful for monetary policy (topic 1), analysing the appropriate reaction of monetary policy to asset price developments (topic 2), quantifying the link between key macroeconomic variables, asset prices and monetary policy instruments (topic 3) and analysing the role of institutional factors which are relevant for asset price developments (topic 4). In this context asset price bubbles are of particular interest. In the past, members have contributed to all of these issues. In 2007 the main focus was on analysing the yield curve (Archontakis and Lemke (2007 a, b), Lemke (2007)). A second strand of research dealt with the effects of asset price developments on consumption, wealth and income, comparing results for Germany with those in the United States (Hamburg et al (2007)). Other papers contributed to a better understanding of exchange rate developments, relying on microstructure models of the foreign exchange market (Reitz et al

(2007), Bauer et al (2007)). Finally the group's research concentrated on extracting from asset prices information on risk averseness in financial markets.

The group's research output was used to improve the briefing of Bundesbank management on the attitude towards risk and to better interpret statistics delivered by the ECB. Results were also used for two articles in the Bundesbank Monthly Bulletin, one on the microstructure approach to exchange rate developments and one on consumption and wealth in Germany.

Members of the group published the following articles and discussion papers related to the subject of the group's research agenda in 2007 (and 2008):

- Archontakis, T and W Lemke (2007 a): Bond pricing when short-term interest rate follows a threshold process, Quantitative Finance (formerly published as a discussion paper)
- Archontakis, T and W Lemke (2007 b): Threshold dynamics of short-term interest rates. Empirical evidence and implications for the term structure, Deutsche Bundesbank, Discussion Paper, Series 1, 02/2007
- Bauer, C et al (2007): Exchange rate dynamics in target zone - a heterogeneous expectations framework, Deutsche Bundesbank, Discussion Paper, Series 1, 11/2007
- Hamburg, B et al (2007): Consumption, wealth and business cycles in Germany, Empirical Economics, Vol … (formerly published as a discussion paper)

Members of the group published the following articles and discussion papers related to the subject of the group's research agenda in 2007 (and 2008)(cont'd):

- Lemke, W (2007): An affine macro-finance term structure model for the euro area, North American Journal of Economics and Finance, Vol 18
- Reitz, S et al (2007): End user order flow and exchange rate dynamics, Deutsche Bundesbank, Discussion Paper, Series 1, 05/2007
- Reitz, S and M P Taylor: Nonlinear impact of central bank intervention - empirical evidence from Yen/US dollar exchange rates, International Journal of Finance and Economics, Vol …

Members presented their papers at the annual meeting of the German Economic Association, the annual meeting of the Society of Computational Economics and several workshops.

Members acted as referees for the European Journal of Finance, Jahrbücher für Nationalökonomie und Statistik and ECB working papers.

*Corporate finance, household finance and monetary transmission*

In the past, this group's work has focused on corporate finance and investment, partly as a result of the Bundesbank's participation in a former ESCB research network on the monetary transmission process. The central question this network dealt with was the role of financial constraints in the investment process, and several papers were published in former years. In 2007 two projects were started with the aim of overcoming some of the limitations in the traditional literature as represented by Fazzari-Hubbard-Petersen. Another aspect has been gaining a better understanding of the innovation process in German firms and the interaction of investment, innovation and financing behaviour (Faria and Schmidt (2007), Ramb (2007)). Furthermore, the group prepared two large new micro datasets from internal and external sources in order to study further the link between innovation, investment and financing conditions.

Bundesbank work on household finance is the second area covered by the group. In 2007 most resources were dedicated to this part of the research agenda. Bartzsch (2008) describes German households' saving behaviour, in particular the role of precautionary savings and income uncertainty. In 2007 the ESCB was preparing a new research network on "Household finance and consumption", which will be based on a new survey. Preparations for the survey are going on, including discussing and drafting a questionnaire and organising a pre-test in Germany. This is being carried out in cooperation with the ECB on the one hand and SOEP and MEA, two research organisations experienced in household surveys in Germany, on the other. Furthermore the group is involved in preparing another survey on German households' cash holdings.

The research output of the group was used in internal briefings and in a Bundesbank Monthly Bulletin article on private consumption in Germany.

Members of the group published the following articles and discussion papers related to the subject of the group's research agenda in 2007 (and 2008):

- Abramovsky, L, E Kremp, A López, T Schmidt and H Simpson (2008): Understanding co-operative R&D activity: evidence from four European countries, Economics of Innovation and New Technology, forthcoming.
- Aerts, K and T Schmidt (2008): Two for the Price of One? - On Additionality Effects of R&D Subsidies: A Comparison between Flanders and Germany, Research Policy, forthcoming.
- Bartzsch, N (2008): Precautionary saving and income uncertainty in Germany - New evidence from micro data, Jahrbücher für Nationalökonomie und Statistik, 2008 (also appeared as SOEP paper 21/2007 and as Bundesbank discussion paper)
- Faria, P and T Schmidt (2007): International cooperation on innovation: empirical evidence for German and Portuguese firms, Deutsche Bundesbank, Discussion Paper, Series 1, 30/2007
- Furstenberg, G M von and U von Kalckreuth (2007): Dependence on external finance by manufacturing sector. Examining the measure and its properties, Economie Internationale, Vol 111
- von Kalckreuth, U and G Ziebarth (2007): Globalisation, Accumulation and Inequality - the Case of Germany. Zeitschrift für Wirtschaftspolitik, Vol. 56(2), 231-251.

Members of the group published the following articles and discussion papers related to the subject of the group's research agenda in 2007 (and 2008)(cont'd):

- von Kalckreuth, U (2008), Panel estimation of state dependent adjustment when the target is unobserved, Deutsche Bundesbank, Discussion Paper, Series 1, 9/2008.
- Ramb, F (2007): Corporate marginal tax rate, tax loss carry forwards and investment functions - empirical analysis using a large German panel data set, Deutsche Bundesbank, Discussion Paper, Series 1, 21/2007
- Schmidt, T (2007): Motives for cooperation in innovation: Evidence from the 2005 Canadian survey of innovation, Statistics Canada Innovation Analysis Bulletin, Vol 9

Members presented their papers at the Bundesbank spring conference, at the Annual Meeting of the North American Economics and Finance Association, at the International Conference on "Opening and Innovation on Financial Emerging Markets" in Beijing, at the Annual meeting of the Verein für Socialpolitik, at the CES-Ifo Conference on "Survey Data in Economics - Methodology and Applications", and at several workshops.

Members were acting as referees for the European Economics Review and the R&D Management Journal, and they were reviewers for the National Science Foundation (NSF). They participated in a University of Frankfurt search commission concerning the position of a professor for empirical research and in an advisory board for a large scale microdata project on income and wealth distribution by GSOEP.

*Fiscal policy interactions with monetary policy, capital markets and the real sector*

Bundesbank research in this field focuses on three areas: the effects of fiscal policy behaviour on risk premia in sovereign bond markets (topic 1), the effects of fiscal policy on the real sector and the impact of developments in the real economy on the budget outcome (topic 2) and the interaction between fiscal policy and monetary policy (topic 3). Looking at topic 1, research concentrated on the development of German Länder bond rates, analysing the role of risk premia and of moral hazard (Heppke-Falk and Wolff (2007 a, b), Schulz and Wolff (2008)). In terms of topic 2, research in 2007 made progress on analysing the effects of fiscal policy (shocks) on the real economy. In particular it contributed to clarifying two problems which notoriously plague this field: Identifying the role of expectations and separating fiscal shocks from automatic responses (Tenhofen and Wolff (2007), von Kalckreuth and Wolff (2007)). Other papers looked for the motives for privatisation (Belke et al (2007)) and at the role of taxes for investment in Germany (Ramb (2007), see also the group "corporate finance"). With respect to topic 3, one paper analyses the consequences of a fiscal rule with an automatic tax increase linked to deficits (Stähler (2007)).

The results of this research were used for internal briefings for discussions in the ECB and at the IMF and for a Deutsche Bundesbank Monthly Report article on fiscal policy and financial markets and a planned article on the German sub-national bond market.

Members of the group published the following articles and discussion papers related to the subject of the group's research agenda in 2007 (and 2008):

- Belke, Baumgärtner, Schneider and Setzer (2007): The different extent of privatization proceeds in OECD countries, Finanzarchiv, Vol 62
- Bernoth, K and G Wolff (2008): Fool the markets? Creative accounting, fiscal transparency and sovereign risk premia, Scottish Journal of Political Economy, forthcoming (also published as a Discussion Paper)
- Hallerberg, M and G Wolff (2008): Fiscal institutions, fiscal policy and sovereign risk premia in EMU, Public Choice, forthcoming (also published as a Discussion Paper)
- Heppke-Falk, K and G Wolff (2008): Moral hazard and bail-out in fiscal federations. Evidence for the German Länder, Kyklos, Vol 61 (also published as a Discussion Paper)
- Kalckreuth, U von and G Wolff (2007): Testing for contemporary fiscal policy discretion with real time data, Deutsche Bundesbank, Discussion Paper, Series 1, 24/2007
- Stähler, N (2007): Taxing deficits to restrain government spending and foster capital accumulation, Deutsche Bundesbank, Discussion Paper, Series 1, 26/2007
- Schulz, A and G Wolff (2008): The German sub-national bond market: evolution, yields and liquidity, Deutsche Bundesbank, Discussion Paper, Series 1, 06/2008

Members of the group published the following articles and discussion papers related to the subject of the group's research agenda in 2007 (and 2008)(cont'd):

- Tenhofen, J and G Wolff (2007): Does anticipation of government spending matter? Evidence from an expectation augmented VAR, Deutsche Bundesbank, Discussion Paper, Series 1, 14/2007
- Wolff, G (2007): Foreign direct investment in the enlarged EU: Do taxes matter and to what extent? Open Economies Review, Vol 18
- Wolff, G (2008): Fiscal crises in US cities: Structural and non-structural causes, ICFAI journal of Public Finance, Vol 6
- Wolff, G and V Reinthaler (2008): The effectiveness of subsidies revisited: accounting for wage and employment effects in business R&D, Research Policy, forthcoming

Papers were presented at the annual meeting of the German Economic Association, the annual meeting of the European Economic Association, the International Institute of Public Finance, the SGR conference of the University of Warwick, the ASSA meetings in New Orleans and several workshops.

Members acted as referees for Public Choice, Contemporary Economic Policy, International Tax and Public Finance, the European Economic Review, Fiscal Studies, Regional Science and Urban Economics, the Journal of the European Economic Association, Labour Economics, Public Finance and Management.

*The role of frictions in goods, labour and financial markets for business cycles and monetary policy*

Analysing rigidities and their consequences for the transmission of macroeconomic and policy shocks is at the centre of modern business cycle analysis and studies on the monetary policy transmission process. In the past the ESCB Inflation Persistence Network (IPN) concentrated on rigidities in goods markets, and the ESCB Wage Dynamic Network (WDN) is currently considering aspects of rigidities in the labour markets at the micro and macro level. Analysis at the macro level relies on DSGE models. More generally DSGE models are of increasing analytical relevance in the Bundesbank. Accordingly the group has two main aims.

→ Contributing to the WDN by analysing the wage formation process in Germany at the firm level and contributing to a better understanding of labour market rigidities in a DSGEM framework. (Some output in 2007 also resulted from the IPN network, which was established earlier.)

→ More generally, developing DSGE models of the New Keynesian type, which are helpful for analysing various questions relevant to the Bundesbank.

In terms of the first issue, a survey was carried out on German firms' wage setting behaviour and a unique employer-employee dataset created by matching different sources. The very first results have been presented to the WDN in spring 2008. Several papers were written on the interaction between wage setting, inflation and business cycles, and the role of on-the-job search for the propagation of shocks (Krause and Lubik (2007 a, b, c)). Furthermore a survey is being prepared for the network to summarise our understanding of search and matching models in the labour market, unemployment and the wage formation process.

Members of the group have started to construct, calibrate and estimate a core DSGE model for Germany. This model is now being extended in various directions which look promising for analysing concrete questions the Bundesbank is confronted with. Beside enhancements aimed at a better understanding of labour market frictions and their consequences, a second approach is to model the fact that Germany is part of a monetary union and a third comprises an analysis of the role of the entry and exit of firms for the business cycle (Lewis (2008)). We hope that this strand of research will be helpful in the future in making progress not only on better understanding business cycle developments but also the role of the financial sector, a field of utmost interest to central banks.

Increasingly, members of the group specialising in DSGEM are having to contribute to briefings related to ECB memoranda which are based on this type of model. One member acts as a consultant for the German Ministry of Economics. A follow-up workshop was organised for IPN researchers.

Members of the group published the following articles and discussion papers related to the subject of the group's research agenda in 2007 (and 2008).

- Dias et al (2007): Price setting in the euro area: some stylized facts from individual producer price data, Deutsche Bundesbank, Discussion Paper, Series 1, 03/2007
- Hoffmann, J (2008): Consumer price adjustments under the microscope: Germany in a period of low inflation, Managerial and Decision Economics, forthcoming
- Krause, M and T Lubik (2007 a): The (ir)relevance of real wage rigidity in the New Keynesian models with search frictions, Journal of Monetary Economics, Vol 54(3)
- Krause, M and T Lubik (2007 b): On-the-job search and the cyclical dynamics of the labour market, Deutsche Bundesbank, Discussion Paper, Series 1, 15/2007
- Krause, M and T Lubik (2007 c): Does intra-firm bargaining matter for business cycle dynamics, Deutsche Bundesbank, Discussion Paper, Series 1, 17/2007
- Lewis, V (2008): Evidence on the monetary transmission mechanism through the extensive investment margin, Deutsche Bundesbank, Discussion Paper, Series 1, 08/2008
- Stähler, N (2007): Unemployment and employment protection in a unionized economy with search frictions, Deutsche Bundesbank, Discussion Paper, Series 14/2007
- Stähler, N (2008): Firing costs, severance payments, judicial mistakes and unemployment, Labour Economics
- Stahl, H (2007): Price setting in German manufacturing. New evidence from survey data, in: S Fabiana et al (eds): Pricing decisions in the euro area, Oxford University Press

Members presented their papers at several conferences and workshops, including the annual meeting of the European Economic Association, the Carnegie-Rochester Conference, the conference of the Society for Computational Economics and the joint Bundesbank/Fed Cleveland conference on monetary strategy.

Members acted as referees for Macroeconomic Dynamics, Journal of Money, Credit and Banking, the Journal of Economic Dynamics and Control, the Journal of the European Economic Association, Neuro Psycho Economics, the Portuguese Economic Journal, the Scandinavian Journal of Economics, Oxford Economic Papers, Economica and the Southern Economic Journal.

*Short-term forecasting*

The group aims at extending the suite of models available to the Bundesbank for forecasting purposes. The projects of the research group have concentrated so far on large factor models with which information can be extracted from a large number of time series. The group analysed how well these models are suited for forecasting (see Eickmeier and Ziegler (2008), Schumacher (2007)). Recent model developments take account of realistic problems with real-time data such as data revisions, mixed-frequency data and ragged-edge data (see, Schumacher and Breitung (2008), Marcellino and Schumacher (2007)). Until 2007, research activities focused on forecasts for German GDP, but first attempts at analysing inflation have also been made (Scharnagl and Schumacher (2007)).

In 2007 the Bundesbank published its first macroeconomic forecast, including the degree of uncertainty and also considering specific risk scenarios. Against this background researchers were asked to evaluate and apply different methods. In this framework research papers were also written (Knüppel and Tödter (2007), Knüppel and Schultefrankenfeld (2008)).

Economists in this group are members of the ESCB Working Group on Econometric Modelling, which reports to the Monetary Policy Committee. They contributed to an article in the Bundesbank Monthly Bulletin on forecasting. One member also acted as a consultant to the German Council of Economic Advisors (Sachverständigenrat).

Members of the group published the following articles and discussion papers related to the subject of the group's research agenda in 2007 (and 2008):

- Eickmeier, S and C Ziegler (2008): How successful are dynamic factor models at forecasting output and inflation?, Journal of Forecasting, forthcoming (previously published as discussion paper)
- Knüppel, M and K H Tödter (2007): Quantifying risk and uncertainty in macroeconomic forecasts, Deutsche Bundesbank, Discussion Paper, Series 1, 25/2007
- Knüppel, M and G Schultefrankenfeld (2008): How informative are macroeconomic risk forecasts? An examination of the Bank of England's inflation forecasts, Deutsche Bundesbank, Discussion Paper, Series 1, forthcoming

Members of the group published the following articles and discussion papers related to the subject of the group's research agenda in 2007 (and 2008)(cont'd):

- Marcellino, M and C Schumacher (2007): Factor - MIDAS for now - and forecasting with ragged-edge data. A model comparison for German GDP, Deutsche Bundesbank, Discussion Paper, 34/2007
- Scharnagl, M and C Schumacher (2007): Reconsidering the role of monetary indicators for euro area inflation from a Bayesian perspective, Deutsche Bundesbank, Discussion Paper, Series 1, 09/2007
- Schumacher, C (2007): Forecasting German GDP using alternative factor models based on large datasets. Journal of Forecasting, Vol 26
- Schumacher, C and J Breitung (2008): Real time forecasting of GDP based on a large factor model with monthly and quarterly data, International Journal of Forecasting, forthcoming (also published as a discussion paper).
- Wang, M-C (2008): Comparing the DSGE model with the factor model: an out-of-sample forecasting experiment, Deutsche Bundesbank, Discussion Paper, Series 1, 04/2008

Members acted as referees for Allgemeines Statistisches Archiv, Empirical Economics, Jahrbücher für Nationalökonomie und Statistik and the Journal of Forecasting.

Members of the group presented their papers at several conferences and workshops including the joint Bundesbank/Fed Cleveland conference and hosted sessions at two workshops at the Bank of England and the Bank of Canada.

*International integration*

International integration is highly relevant for monetary policy, financial stability and economic analysis for various reasons. The size of this field of research means there are also very different analytical approaches. In principle the group organises its work based on the following three topics:

1. How can international integration be measured? How far has the international interlinkage of markets proceeded, especially in Europe and between Germany and other economies?

2. What are the determinants of international integration? Which international transmission and integration mechanisms are particularly important, and how can they be identified?

3. What are the consequences of growing international integration for the German economy and Europe?

Most research in this group was carried out on the consequences of international integration (topic 3). Papers were written on the consequences of international integration for the German labour market (Buch and Lipponer (2007)), on the role of international integration for inflation (Gadzinski and Hoffmann (2008)), the price level and reequilibrium exchange rate respectively (Hoffmann and Tillmann (2008)), for monetary policy (Hoffmann (2007)) and for income distribution (von Kalckreuth and Ziebarth (2007)). Furthermore one paper considered the role of financial integration for the consumption smoothing process and current account developments in Eastern Europe and the Asian emerging countries respectively (Herrmann and Winkler (2008)). Related to this topic, some other papers were published on the implications of different exchange rate regimes for the macroeconomic environment and the relationship between monetary policy and real exchange rate movements (Hoffmann and Holtemöller (2008), Hoffmann et al (2007)).

Turning to topic 2, one paper looks at the role of taxes for FDI decisions (Wolff (2007), see also the research group on fiscal policy). This project builds on previous research on determinants of FDI developments at a firm level. On topic 1, a project on price level differences in Europe as a measure of (lacking) integration in goods markets was started in 2007. Limitations in terms of the use of aggregate variables in previous studies mean the paper is employing a new dataset on price levels of single identical goods to analyse the extent and duration of any divergence from the law of one price between euro-area (and also non-euro-area) countries.

Several internal memoranda and speeches by the Bundesbank management were based on this group’s research results as well as articles in the Bundesbank Monthly Report on the effects of globalisation and on the competitiveness of the German economy. The group contributed to briefing for an ECB council seminar. Furthermore this research was used as an input for several seminars given to central banks in developing countries.

The group also organises a FDI research network with internal and external researchers. The basis of this network is a unique firm-level dataset of German inward and outward FDI. External researchers for the network have published several papers related to the group's research agenda, such as for example a paper by S Becker and M Mündler on the effects of FDI on job market separation (Deutsche Bundesbank, Discussion Paper, 01/2007), or on the effects of tax regulation on the behaviour of German multinationals (T Büttner et al: The impact of thin- capitalization rules on multinationals' financing and investment decisions, Deutsche Bundesbank, Discussion Paper, Series 1, 03/2008). In 2007 this dataset was further enhanced by including information about the ultimate owner of international investments. The network organised a joint workshop with the NBER and held its annual workshop on FDI research in September 2007.

Members of the group published the following articles and discussion papers related to the subject of its research agenda in 2007 (and 2008):

- Buch, C and A Lipponer (2007): Volatile multinationals? Evidence from labour demand of German firms, Deutsche Bundesbank, Discussion Paper, 22/2007
- Eickmeier, S (2007): Business cycle transmission from the US to Germany – a structural factor approach, European Economic Review, Vol 51, 521-551
- Fischer, C (2007): An assessment of the trends in international price competitiveness among EMU countries, Deutsche Bundesbank, Discussion Paper, 07/2007

Members of the group published the following articles and discussion papers related to the subject of its research agenda in 2007 (and 2008)(cont'd):

- Gadzinski, G and M Hoffmann (2008): Trade integration and the Phillips curve, Deutsche Bundesbank, Discussion Paper, Series 1, forthcoming
- Herrmann, S and A Winkler (2008): Financial markets and the current account - emerging Europe versus emerging Asia, Deutsche Bundesbank, Discussion Paper, 05/2008
- Hoffmann, M et al (2008): The timing and magnitude of exchange rate overshooting, Deutsche Bundesbank, Discussion Paper, Series 1, 28/2007
- Hoffmann, M (2007): Fixed versus flexible exchange rates. Evidence from developing countries, Economica, 2007, Vol 74
- Hoffmann, M and B Hoffmann (2007): Trade surplus, in: Robert Merton and David Sills: International Encyclopedia of Social Sciences
- Hoffmann, M and Holtemöller (2008): Transmission of nominal exchange rate changes to export prices and trade flows and implications for exchange rate policy, Deutsche Bundesbank, Discussion Paper, Series 1, forthcoming
- Hoffmann, M and P Tillmann (2008): Integration of financial markets and exchange rates, Deutsche Bundesbank, Discussion Paper, Series 1, 07/2008
- Kalckreuth, U von and G. Ziebarth (2007): Globalisation, Accumulation and Inequality – the Case of Germany, Zeitschrift für Wirtschaftspolitik, Vol 56(2), 231-251

Members of the group published the following articles and discussion papers related to the subject of its research agenda in 2007 (and 2008)(cont'd):

- Stahn, K (2007): Has the export pricing behaviour of German enterprises changed? Empirical evidence from German sectoral export prices, Journal of Economics and Statistics, Vol 227, 295-329
- Wolff, G (2007): Foreign direct investment in the enlarged EU. Do taxes matter and to what extent? Open Economic Review, Vol 18

Members of the group presented their papers at several conferences and workshops, including the annual meeting of the Society for Computing in Economics and Finance, a conference of the Centre for Growth and Business Cycle Research, University of Manchester, ECB conferences on the implications of changes in banking and finance for the monetary policy transmission process and on Central, Eastern and South Eastern Europe, the annual meeting of the European Economic Association and the annual meeting of the German Economic Association.

Members acted as referees for Economic Modelling, the International Journal of Central Banking, the Review of Economics and Statistics, Empirical Economics, Economics of Transition, CESifo, the OENB working paper series and Economic Systems.

*Financial stability*

Contributing to a stable and efficient financial system is one of the main mandates of the Bundesbank. Hence, the group is aiming to analyze the systemic risks (e.g. the interdependencies between different financial institutions) and systematic risks (e.g. the exposure to common factors like macro-economic conditions) the financial system is exposed to. In 2007 one part of the group's work focused on banks' diversification and the effects on performance and risk-return-characteristics. As banks face a trade-off between diversifying and focusing their loan portfolio the question was answered whether diversification leads to increased performance and, therefore, to greater safety (Hayden, Porath and von Westernhagen (2007) and Behr et al. (2007)). Another research strand concentrated on bank lending in emerging markets. The aim was to investigate whether the new Basel Accord will induce a change in this kind of lending and to gain more insight into the pattern during financial crises (Liebig et al. (2007) and Heid et al. (2007)). Also the role of financial development for output growth in European economic agglomeration regions was examined by means of stochastic frontier analysis (Hasan, Koetter and Wedow (2007)). In the field of bank rating a more subtle definition of bank distress was derived and used for banking sector stability analyses (Kick and Koetter (2007)). Concerning the issue of credit risk transfer work was done by explicitly modelling the market for credit derivatives and its interaction with banks' loan granting and deposit taking activities (Pausch (2007)). A special focus of the research activities was on stress testing the financial system. Besides the further developments of macro stress tests ("The Three-Stage Approach") and sectoral stress tests ("The Multi-Factor Credit

Risk Model") an integrated micro-macro approach was introduced incorporating the feedback effects onto the real economy (de Graeve, Kick and Koetter (2008)).

Group members contributed to the Research Task Force of the Basell Committee on Banking Supervision, the Task Force on Liquidity Stress Testing and Contingency Funding Plans of the Banking Supervision Committee, and other working groups. The results of several stress testing exercises constitute important information for banking supervisors and for financial stability assessment (like published in the Bundesbank's Financial Stability Review 2007 including the article "Stress tests: methods and areas of applicaton")

Members of the group published the following articles and discussion papers in 2007 related to the subject of the research agenda:

- Behr, A et al. (2007): Diversification and the banks' risk-return-characteristics – evidence from loan portfolios of German banks, Deutsche Bundesbank, Discussion Paper, Series 2, 05/2007
- de Graeve, F, T Kick and M Koetter: Monetary policy and bank distress: an integrated micro-macro approach, Deutsche Bundesbank, Discussion Paper, Forthcoming
- Hasan, I, M Koetter and M Wedow (2007), The Quality of Banking and Regional Growth, Deutsche Bundesbank, Discussion Paper, Series 2, 10/2007

Members of the group published the following articles and discussion papers in 2007 related to the subject of the research agenda(cont'd):

- Hayden, E, D Porath and N von Westernhagen (2007): Does Diversification Improve the Performance of German Banks? Evidence from Individual Bank Loan Portfolios, Journal of Financial Services Research, Vol. 32, No. 3, 123-140
- Heid, F et al. (2007): German Bank Lending during Emerging Market Crises: A Bank Level Analysis, Kredit und Kapital, H. 3, 381-405
- Herrmann, H, T Liebig and A Weber (2007): Finanzmärkte, Banken und Finanzstabilität: Ausbau der Forschungsschwerpunkte der Deutschen Bundesbank (50 Jahre Deutsche Bundesbank), Zeitschrift für das gesamte Kreditwesen 60, 19, 1016-1019
- Kick, T and M Koetter (2007): Slippery Slopes of Stress: Ordered Failure Events in German Banking, Journal of Financial Stability 3(2), 132-148
- Liebig, T, D Porath, B Weder and M Wedow (2007): Basel II and bank lending to emerging markets: Evidence from the German banking sector, Journal of Banking and Finance 31, 401-418
- Pausch, T (2007): Endogenous credit derivatives and bank behavior, Deutsche Bundesbank, Discussion Paper, Series 2, 16/2007

Papers were presented at several workshops and conferences, including the Federal Reserve Bank of New York, European Economic Association, 24th Symposium on Money, Banking and

Finance, Verein für Socialpolitik, European Central Bank and several other central banks.

Members wrote referee reports for the Journal of Financial Stability.

*Risk modelling and financial markets*

Research on risk modelling within the Bundesbank has focused primarily on financial institutions, owing to their high relevance to the stability of the financial system and the Bundesbank's supervisory responsibilities. Applied research work carried out was related to Basel II either from a general perspective (Düllmann (2007b)) or more specifically on its implementation. An important topic in this context is the risk measurement of exposure concentrations in credit portfolios. Work on this topic was carried out under the umbrella of the Research Task Force of the Basel Committee of Banking Supervision. The main focus of this research stream was on empirical studies on the impact of concentration risk and efficient methodologies suitable for its measurement (Düllmann and Masschelein (2007), Gordy and Lütkebohmert (2007)). Düllmann (2007a) provides an overview of selected methodologies and first steps towards a comparison.

Related to the topic of concentration risk in credit portfolios is work on the risk drivers in credit portfolios and how credit risk evolves over time. These issues are addressed in Düllmann, Scheicher, Schmieder (2007), Liebig (2007) and Schmidt and Schmieder (2007).

Besides the modelling of credit risk on a portfolio basis, work on the estimation of default probabilities which are key input parameters to portfolio models has continued. A team of visitors, Härdle, Moro and Schäfer develop a new approach based on support vector machine techniques (Estimating probabilities of default with support vector machines, Deutsche Bundesbank, Discussion Paper, Series 2, 18/2007).

Financial markets can provide information about the stability of individual financial institutions. Düllmann and Sosinska (2007) explore for this purpose the information content of credit default swap (CDS) premia. An important related question concerns the stability of the information contribution of the CDS market in times of market turbulences. Dötz (2007) addresses this question in his study of the price discovery process in the CDS market with some discouraging results for the CDS market relative to the bond market in times of crisis.

An alternative information source to assess the risk of individual banks is their regular reporting to the supervisory authorities. Based on this data, Memmel and Raupach (2007) explore how banks' capital ratios evolve over time and find support for a bank-internal target level.

Members of the group published the following articles and discussion papers in 2007 related to the subject of the research agenda:

- Dötz, N (2007), Time-varying contributions by the corporate bond and CDS markets to credit risk price discovery, Deutsche Bundesbank, Discussion Paper, Series 2, 8/2007

Members of the group published the following articles and discussion papers in 2007 related to the subject of the research agenda(cont'd):

- Düllmann, K and Masschelein, N (2007): A Tractable Model to Measure Sector Concentration Risk in Credit Portfolios, Journal of Financial Services Research 32(1-2), 55-79
- Düllmann, K and Sosinska, A (2007): Credit Default Swap Prices as Risk Indicators of Listed German Banks, Financial Markets and Portfolio Management Journal 21(3), 269-292
- Düllmann, K (2007a): Measuring Concentration Risk in Credit Portfolios, in: G. Christodoulakis and S. Satchell (ed.), The Analytics of Risk Model Validation, Academic Press, 59-78
- Düllmann, K (2007b): Achievements and Challenges, in: K.-H. Waldmann and U. M. Stocker, Operations Research Proceedings 2006, Springer.
- Düllmann, K, Scheicher, M and Schmieder, C (2007): Asset correlations and credit portfolio risk – an empirical analysis, Deutsche Bundesbank, Discussion Paper, Series 2, 13/2007
- Hamerle, A, Jobst, R, Liebig, T and Rösch, D. (2007): Multiyear risk of credit losses in SME portfolios, Journal of Financial Forecasting, Vol. 1, No. 2, 1-29
- Memmel, C and Raupach, P (2007): Do banks adjust their capital ratios? Evidence from Germany, Deutsche Bundesbank, Discussion Paper, Series 2, 06/2007
- Schmidt, R and Schmieder, C (2007): Modelling dynamic portfolio risk using risk drivers of elliptical processes, Deutsche Bundesbank, Discussion Paper, Series 2, 07/2007

Papers were presented at several workshops and conferences, including the Workshop „Banking, Risk and Regulation“ of the Research Task Force of the Basel Committee on Banking Supervision, the Annual conference of the German Finance Association, the EIASM workshop on “Default Risk and Financial Distress” and at several other universities and central banks.

Members wrote referee reports for the Journal of Risk Model Validation and the Journal of Economic Dynamics and Control.

*The financial system. Structural issues and its changes*

The aim of this research group is to shed new light on recent trends in financial markets in particular in the European and German context and the possible consequences. A better understanding of structural trends is key for assessing the longer-term prospects for financial stability.

A relatively young research area are the implications of financial innovations. Fecht and Wagner (2007) show that financial innovations designed to make banks’ assets more liquid can have the undesirable effect of reducing the incentives to properly monitor the bank’s borrowers are reduced. Pausch (2007) stresses, however, that under certain conditions CDS contracts can be expected to be welfare enhancing for participating banks and the financial system as a whole.

Several projects were dealing with developments in profitability and its determinants. Beckmann (2007) compares Western European banking systems with regard to structural and cyclical determinants of bank profitability. He finds that financial structure matters and that higher income diversification has a positive effect. A contrasting stance is taken by Hayden et al. (2007) who find that there are no large performance benefits from diversification of a bank's loan portfolio.

Several papers have looked into the reasons and consequences of bank mergers in Germany. Marsch et al. (2007) show, contrary to public fears, that the consolidation in Germany does not have a negative impact on small and medium sized firms' financing conditions.

A relatively new area of research in the Bundesbank is the microeconomic borrower lender relationship in Germany. Most of the empirical work going on draws on the data from the credit register that provides information of banks' exposure to individual borrowers which can be mapped to banks' as well as borrowers' balance sheet in-formation. Memmel et. al. (2007) show that contrary to a widely hold view relationship bank has not lost grounds in recent years, at least for the case of Germany. The importance of relationship banking is con-firmed by a paper of Ongena et. al. (2007), not only for the small firms but also for the larger ones. It also finds that risky, illiquid, large and leveraged firms spread their borrowing more evenly between multiple lenders.

Research of the groups was used for briefings the Board on various issues and as an input to internal and external reports.

Members of the group published the following articles and discussion papers in 2007 related to the subject of the research agenda:

- Beckmann, R (2007): Profitability of Western European banking systems: panel evidence on structural and cyclical determinants, Deutsche Bundesbank, Discussion Paper, Series 2, 17/2007
- Fecht, F, Wagner, W (2007): The marketability of bank assets and managerial rents: implications for financial stability, Deutsche Bundesbank, Discussion Paper, Series 2, 12/2007
- Hasan, I, Koetter, M, Wedow, M (2007): The Quality of Banking and Regional Growth, Deutsche Bundesbank, Discussion Paper, Series 2, 10/2007
- Hayden, E, Porath, D, Westernhagen, N von (2007): Does Diversification Improve the Performance of German Banks? Evidence from Individual Bank Loan Portfolios, Journal of Financial Services Research, Vol. 32, No. 3, 123-140
- Heid, F, Nestmann, T, Weder, B, Westernhagen, N von (2007): German Bank Lending during Emerging Market Crises: A Bank Level Analysis, Kredit und Kapital, H. 3, 381-405
- Kamp, A, Pfingsten, A, Liebig, T (2007): Diversifikation oder Spezialisierung – Eine Branchenanalyse der Kreditportfolios der Banken in Deutschland, zfbf, Schmalenbachs Zeitschrift für betriebswirtschaftliche Forschung, Sonderheft 57/07, 1-38
- Marsch, K, Schmieder, C, Forster-van Aerssen, K (2007) Banking consolidation and small businessfinance - empirical evidence for Germany, Deutsche Bundesbank, Discussion Paper, Series 2, 09/2007

Members of the group published the following articles and discussion papers in 2007 related to the subject of the research agenda (cont'd):

- Memmel, C, Schmieder, C, Stein, I (2007): Relationship Lending – Empirical Evidence for Germany, Deutsche Bundesbank, Discussion Paper, Series 2, 14/2007
- Ongena, S, Tümer-Alkan, G, Westernhagen, N von (2007): Creditor Concentration: An Empirical Investigation, Deutsche Bundesbank, Discussion Paper, Series 2, 15/2007
- Pausch, T (2007): Endogenous credit derivatives and bank behavior, Deutsche Bundesbank, Discussion Paper, Series 2, 16/2007

Members of the group presented their papers at several conferences and workshops, including the FMA European Conference, the congress of the Verein für Socialpolitik, the C.N.R.S symposium on money, banking and finance, the DGF annual meeting, and the Tor Vergata conference on banking and finance.

Referee reports were written for the Journal of Risk, the Annals of Finance and for Schmalenbach's Business Review.

***Events organised by the Research Centre***

*Several conferences and workshops in cooperation with other institutions*

The Research Centre organised four conferences and four workshops. Most of these events were co-hosted by other institutions. The ninth spring conference was a joint conference with the Banque de France and dedicated to "Micro data analysis and macroeconomic consequences".[5] In macroeconomics the corporate and household sectors are traditionally assumed to consist of identical units. In reality however the economy consists of many heterogeneous agents. This is borne out, amongst others, by the growing analysis of micro data. A key question is how significant this heterogeneity is for understanding the economy. The conference discussed this question with regard to labour markets, financial markets and price adjustment in the labour markets. The autumn conference dealt with the interaction of market and credit risk and was hosted in cooperation with the Research Task Force of the Basel Committee and the Journal of Banking and Finance. The interaction of these two types of risk can have serious consequences for the riskiness of a bank, and at the conference an attempt was made to determine how important these consequences are and to develop models which are able to take both types of risk into account. In two conferences – one organised in conjunction with the Federal Reserve Bank of Cleveland and the other with the Bank of Finland – questions related to the monetary policy strategy and the optimal organisation of central banks were discussed.

Two workshops were dedicated to foreign direct investment, one organised in cooperation with the NBER. Both workshops presented micro data-based research in this field. The third Kleistvilla workshop analysed the determinants and consequences of the financial structure of financial and non-financial firms, and a joint workshop with the Halle Institute on monetary and financial economics discussed several related questions, including monetary transmission

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5 See Annex 3 for a more detailed overview of conferences and workshops.

mechanisms and the structure, functioning and stability of the financial sector.

*Seminars of other conferences and training courses*

Furthermore the Research Centre – together with the Austrian Nationalbank and the Swiss Nationalbank – organised a joint central banker session at the annual meeting of the Verein für Socialpolitik. In addition several regular seminar series (one conducted jointly with the ECB and the CfS of the University of Frankfurt) are held on the Bundesbank's premises. Several training courses were organised by the Research Centre (on DSGE modelling, co-integration analysis, financial stability theory, financial markets and the macroeconomy).

### *Visitors*

*More visitors*

The centre welcomed 69 visiting researchers compared with 58 in 2006 (for a complete list see Annex 4). This includes research professors. About one third of the visitors were full professors or associate professors, others were postdoctoral students, doctoral students and economists from other central banks, research institutes or international institutions. About one third of the visitors came from abroad. In addition the centre played host to 25 interns, most of them from German universities. Stefan Gerlach from the Goethe University Frankfurt joined the Bundesbank as a new research professor. He is an expert on monetary policy.

**Annex 1**

**Discussion papers 2007**

**Series 1: Economic Studies**

| | | |
|---|---|---|
| 1 | The effect of FDI on job separation | Sascha O. Becker<br>Marc-Andreas Mündler |
| 2 | Threshold dynamics of short-term interest rates: empirical evidence and implications for the term structure | Theofanis Archontakis<br>Wolfgang Lemke |
| 3 | Price setting in the euro area: some stylised facts from individual producer price data | Daniel Dias<br>Maarten Dossche<br>Erwan Gautier<br>Ignacio Hernando<br>Roberto Sabbatini<br>Harald Stahl<br>Philip Vermeulen |
| 4 | Unemployment and employment protection in a unionized economy with search frictions | Nikolai Stähler |
| 5 | End-user order flow and exchange rate dynamics | Stefan Reitz<br>Markus A. Schmidt<br>Mark P. Taylor |
| 6 | Money-based interest rate rules: lessons from German data | Christina Gerberding<br>Franz Seitz<br>Andreas Worms |
| 7 | Moral hazard and bail-out in fiscal federations: evidence for the German Länder | Kirsten H. Heppke-Falk<br>Guntram B. Wolff |
| 8 | An assessment of the trends in international price competitiveness among EMU countries | Christoph Fischer |
| 9 | Reconsidering the role of monetary indicators for euro area inflation from a Bayesian perspective using group inclusion probabilities | Michael Scharnagl<br>Christian Schumacher |
| 10 | A note on the coefficient of determination in regression models with infinite-variance variables | Jeong-Ryeol Kurz-Kim<br>Mico Loretan |

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|---|---|---|
| 11 | Exchange rate dynamics in a target zone – a heterogeneous expectations approach | Christian Bauer<br>Paul De Grauwe<br>Stefan Reitz |
| 12 | Money and housing – evidence for the euro area and the US | Claus Greiber<br>Ralph Setzer |
| 13 | An affine macro-finance term structure model for the euro area | Wolfgang Lemke |
| 14 | Does anticipation of government spending matter? Evidence from an expectation augmented VAR | Jörn Tenhofen<br>Guntram B. Wolff |
| 15 | On-the-job search and the cyclical dynamics of the labor market | Michael Krause<br>Thomas Lubik |
| 16 | Heterogeneous expectations, learning and European inflation dynamics | Anke Weber |
| 17 | Does intra-firm bargaining matter for business cycle danamics? | Michael Krause<br>Thomas Lubik |
| 18 | Uncertainty about perceived inflation target and monetary policy | Kosuke Aoki<br>Takeshi Kimura |
| 19 | The rationality and reliability of expectations reported by British households: micro evidence from the British household panel survey | James Mitchell<br>Martin Weale |
| 20 | Money in monetary policy design under uncertainty: the Two-Pillar Phillips Curve versus ECB-style cross-checking | Günter W. Beck<br>Volker Wieland |
| 21 | Corporate marginal tex rate, tax loss carryforwards and investment functions – empirical analysis using a large German panel data set | Fred Ramb |
| 22 | Volatile multinationals? Evidence from the labor demand of German firms | Claudia M. Buch<br>Alexander Lipponer |
| 23 | International investment positions and exchange rate dynamics: a dynamic panel analysis | Michael Binder<br>Christian J. Offermanns |

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| 24 | Testing for contemporary fiscal policy discretion with real time data | Ulf von Kalckreuth<br>Guntram B. Wolff |
| 25 | Quantifying risk and uncertainty in macroeconomic forecasts | Malte Knüppel<br>Karl-Heinz Tödter |
| 26 | Taxing deficits to restrain government spending and foster capital accumulation | Nikolai Stähler |
| 27 | Spill-over effects of monetary policy – a progress report on interest rate convergence in Europe | Michael Flad |
| 28 | The timing and magnitude of exchange rate overshooting | Mathias Hoffmann<br>Jens Sondergaard<br>Niklas J. Westelius |
| 29 | The timeless perspective vs. discretion: theory and monetary policy implications for an open economy | Alfred V. Guender |
| 30 | International cooperation on innovation: empirical evidence for German and Portuguese firms | Pedro Faria<br>Tobias Schmidt |
| 31 | Simple interest rate rules with a role for money | Christina Gerberding<br>Michael Scharnagl<br>Franz Seitz |
| 32 | Does Benford's law hold in economic research and forecasting? | Stefan Günnel<br>Karl-Heinz Tödter |
| 33 | The welfare effects of inflation: a cost-benefit perspective | Bernhard Manzke<br>Karl-Heinz Tödter |
| 34 | Factor-MIDAS for now- and forecasting with ragged-edge data: a model comparison for German GDP | Massimiliano Marcellino<br>Christian Schumacher |
| 35 | Monetary policy and core inflation | Michele Lenza |

**Series 2: Banking and Financial Studies**

| | | |
|---|---|---|
| 1 | Granularity adjustment for Basel II | Michael B. Gordy<br>Eva Lütkebohmert |
| 2 | Efficient, profitable and safe banking: an oxymoron? Evidence from a panel VAR approach | Michael Koetter<br>Daniel Porath |
| 3 | Slippery slopes of stress: ordered failure events in German banking | Thomas Kick<br>Michael Koetter |
| 4 | Open-end real estate funds in Germany – genesis and crisis | Christina E. Bannier<br>Falko Fecht<br>Marcel Tyrell |
| 5 | Diversification and the banks' risk-return-characteristics – evidence from loan portfolios of German banks | Andreas Behr<br>Andreas Kamp<br>Christoph Memmel<br>Andreas Pfingsten |
| 6 | How do banks adjust their capital ratios? Evidence from Germany | Christoph Memmel<br>Peter Raupach |
| 7 | Modelling dynamic portfolio risk using risk drivers of elliptical processes | Rafael Schmidt<br>Christian Schmieder |
| 8 | Time-varying contributions by the corporate bond and CDS markets to credit risk price discovery | Niko Dötz |
| 9 | Banking consolidation and small business finance – empirical evidence for Germany | Katharina Marsch<br>Christian Schmieder<br>Katrin Forster-van Aerssen |
| 10 | The quality of banking and regional growth | Iftekhar Hasan<br>Michael Koetter<br>Michael Wedow |
| 11 | Welfare effects of financial integration | Falko Fecht<br>Hans Peter Grüner<br>Philipp Hartmann |
| 12 | The marketability of bank assets and managerial rents: implications for financial stability | Falko Fecht<br>Wolf Wagner |
| 13 | Asset correlations and credit portfolio risk – an empirical analysis | Klaus Düllmann<br>Martin Scheicher<br>Christian Schmieder |
| 14 | Relationship lending – empirical evidence for Germany | Christoph Memmel<br>Christian Schmieder<br>Ingrid Stein |
| 15 | Creditor concentration: an empirical investigation | Steven Ongena<br>Günseli Tümer-Alkan<br>Natalja von Westernhagen |

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| 16 | Endogenous credit derivatives and bank behaviour | Thilo Pausch |
| 17 | Profitability of Western European banking systems: panel evidence on structural and cyclical determinants | Rainer Beckmann |
| 18 | Estimating probabilities of default with support vector machines | Wolfgang K. Härdle<br>Rouslan A. Moro<br>Dorothea Schäfer |

**Annex 2**

## List of Publications of the staff in 2007/2008

(current status: March 2008)

### 2008

### Publications in journals (including forthcoming)


1. Archontakis, T. and W. Lemke (2008), Threshold dynamics of short-term interest rates: Empirical evidence and implications for the term structure, Economic Notes, Vol. 37(1), 75-117.
2. Bartzsch, N. (2008), Precautionary saving and income uncertainty in Germany - New evidence from micro data, Jahrbücher für Nationalökonomie und Statistik, forthcoming.
3. Baumann, F. and N. Stähler (2008), Union Power As a Reason for Europe Not to Introduce Experience Rating?, Journal of Institutional and Theoretical Economics, forthcoming.
4. Bernoth, K. and G. B. Wolff (2008), Fool the markets? Creative accounting, fiscal transparency and sovereign risk premia, Scottish Journal of Political Economy, forthcoming.
5. Döpke, J. and U. Fritsche (2008), Shocking! Do Forecasters Share a Common Believe? Applied Economics Letters, forthcoming.
6. Eickmeier, S. and C. Ziegler (2008), How successful are dynamic factor models at forecasting output and inflation? A meta-analytic approach, Journal of Forecasting, forthcoming.
7. Fecht, F., K. Huang and A. Martin (2007), Financial Intermediaries, Markets, and Growth, Journal of Money, Credit and Banking, forthcoming.
8. Hallerberg, M. and G. B. Wolff (2008), Fiscal institutions, fiscal policy and sovereign risk premia in EMU, Public Choice, forthcoming.
9. Heppke-Falk, K. and G. B. Wolff (2008), Moral hazard and bail-out in fiscal federations: evidence for the German Länder, Kyklos, 61(3).
10. Knüppel, M. (2008), Testing Business Cycle Asymmetries Based on Autoregressions With a Markov-Switching Intercept, Journal of Business & Economic Statistics, forthcoming.
11. Kremer, J. and M. Ruf (2008), Belastung der Kapitalgesellschaften nach der Unternehmensteuerreform 2008, Wirtschaftsdienst, 88. Jahrgang, Heft 1, Januar 2008.

12. Lemke, W. and T. Archontakis (2008), Bond pricing when the short-term interest rate follows a threshold process, Quantitative Finance, forthcoming.
13. Nautz, D. and K. Ruth (2008), Monetary Disequilibria and the Euro/Dollar Exchange Rate, European Journal of Finance, forthcoming.
14. Schumacher, C. (2008), Measuring uncertainty of the euro area NAIRU: Monte Carlo and empirical evidence for alternative confidence intervals in a state space framework, Empirical Economics, forthcoming.
15. Stähler, N. (2008), Firing Costs, Severance Payments, Judicial Mistakes and Unemployment, Labour Economics, forthcoming.
16. Wolff, G.B. and V. Reinthalter (2008), The effectiveness of subsidies revisited: accounting for wage and employment effects in business R&D, Research Policy, forthcoming.

**Publications in volumes (including forthcoming)**

1. Lipponer, A. and C. Stirböck (2008), Beitrag zu Czech-Winkelmann, S. und A. Kopsch (Hrsg.), "Handbuch International Business", Bedeutung internationaler Aktivitäten deutscher Unternehmen, forthcoming.
2. Manzke, B. and K.-H. Tödter (2008), The welfare effects of inflation: a cost-benefit perspective, in: R. Brent, Handbook of Cost-Benefit Analysis, forthcoming.

**2007**

**Publications in journals**

1. Baltzer, M. and G. Kling (2007), Predictability of future economic growth and the credibility of different monetary regimes in Germany, 1870-2003, Applied Economics Letters, 14(6), 401-404.
2. Baumgärtner, F., A. Belke, F. Schneider and R. Setzer (2007), The Different Extent of Privatisation Proceeds in OECD Countries: A Preliminary Explanation Using a Public Choice Approach, Finanzarchiv, Vol. 62, No. 3, 211-243.
3. Bohl, M. T., P. Siklos and T. Werner (2007), Do central banks read to the stock market? The case of the Bundesbank, Journal of Banking and Finance, Vol. 31, 719-733.
4. Bos, J., F. Heid, M. Kötter, J. Kolari, C. Kool and D. Porath (2007), Accounting for distress in bank mergers, Journal of Banking and Finance, forthcoming.

5. Buch, C.M. and A. Lipponer (2007), FDI versus exports: Evidence from German banks, Journal of Banking and Finance, 31, 805-826.

6. Craig, B. and F. Fecht (2007), The Eurosystem Money Market Auctions: A Banking Perspective, Journal of Banking and Finance, Vol. 31, No. 9, 2925 ff.

7. Düllmann, K. and N. Masschelein (2007), A Tractable Model to Measure Sector Concentration Risk in Credit Portfolios, Journal of Financial Services Research 32(1-2), 55-79.

8. Düllmann, K. and A. Sosinska (2007), Credit Default Swap Prices as Risk Indicators of Listed German Banks, Financial Markets and Portfolio Management Journal 21(3), 269-292.

9. Eickmeier, S. (2007), Business cycle transmission from the US to Germany – a structural factor approach, European Economic Review, 51(3), 521-551.

10. Fecht, F. and H.P. Grüner (2007), Limits to International Banking Consolidation, Open Economies Review, forthcoming.

11. Fecht, F., K. G. Nyborg and J. Rocholl (2007), Liquidity Management and Overnight Rate Calendar Effects: Evidence from German Banks, North American Journal of Economics and Finance, forthcoming.

12. von Furstenberg, G. M. and U. von Kalckreuth (2007), Dependence on External Finance by Manufacturing Sector: Examining the Measure and its Properties, Économie Internationale, Vol. 111, 55-80.

13. Hamburg, B., M. Hoffmann and J. Keller (2007), Consumption, wealth and business cycles in Germany, Empirical Economics, published online.

14. Hamerle, A., R. Jobst, T. Liebig and D. Rösch (2007), Multiyear risk of credit losses in SME portfolios, Journal of Financial Forecasting, Vol. 1, No. 2, 1-29.

15. Hayden, E., D. Porath and N. v. Westernhagen (2007), Does Diversification Improve the Performance of German Banks? Evidence from Individual Bank Loan Portfolios, Journal of Financial Services Research, Vol. 30, No. 3, 123-140.

16. Heid, F., T. Nestmann, B. Weder and N. von Westernhagen (2007), German Bank Lending during Emerging Market Crises: A Bank Level Analysis, Kredit und Kapital, 40. Jahrgang 2007, Heft 3, 381-405.

17. Hempell, H.S. (2007), Credit constraints in the euro area? – Bankers' perceptions, Kredit und Kapital, Vol. 40, No.1, 59-88.

18. Herrmann, H. and M. Schroeder (2007), Monetary policy and financial markets, North American Journal of Economics and Finance, forthcoming.

19. Herrmann, H., T. Liebig and A. Weber (2007), Finanzmärkte, Banken und Finanzstabilität: Ausbau der Forschungsschwerpunkte der Deutschen Bundesbank. (50 Jahre Deutsche Bundesbank), Zeitschrift für das gesamte Kreditwesen, 60, 19, 1016-1019.

20. Hoffmann, M. (2007), Fixed versus Flexible Exchange Rates: Evidence from Developing Countries, Economica 74, 425-449.

21. von Kalckreuth, U. and G. Ziebarth (2007), Globalisation, Accumulation and Inequality: the Case of Germany, Zeitschrift für Wirtschaftspolitik, Jg. 56 (2), 231-251.

22. Kamp, A., A. Pfingsten and T. Liebig (2007), Diversifikation oder Spezialisierung – Eine Branchenanalyse der Kreditportfolios der Banken in Deutschland, zfbf, Schmalenbachs Zeitschrift für betriebswirtschaftliche Forschung, Sonderheft 57/07, 1-38.

23. Kick, T. and M. Koetter (2007), Slippery Slopes of Stress: Ordered Failure Events in German Banking, Journal of Financial Stability 3 (2), 132-148.

24. Knetsch, T.A. (2007), Forecasting the Price of Crude Oil via Convenience Yield Predictions, Journal of Forecasting 26, 527-549.

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**Annex 3**

## Conferences and Workshops in 2007

Workshop on micro data based research on FDI

Spring conference: Micro data and macroeconomic analysis

Monetary policy Strategy: Old issues and new challenges

Workshop on "Monetary and Financial economics"

Workshop on "Financial structure of financial and Non-financial firms: Determinants and Consequences " (Kleistvilla-Workshop)

5$^{th}$ Bundesbank FDI Workshop

Conference on "Designing Central Banks"

Conference on the Interaction of Market and Credit Risk

**Workshop on micro data based research on FDI**

Deutsche Bundesbank/NBER
29 March 2007
Cambridge/Massachusetts

**FDI and the composition of tasks: Evidence from linked employer – employee data**

Sascha O. Becker (University of Munich & CESifo)
Marc-Andreas Mündler (UC San Diego & CESifo)

Discussant: Deborah Swenson (UC Davis & NBER)

**FDI and employment volatility**

Claudia M Buch (University of Tübingen & IAW)
Alexander Lipponer (Deutsche Bundesbank)

Discussant: Robert Feenstra (UC Davis & NBER)

**US multinational trade in services**

J Bradford Jensen (Peterson Institute of International Economics)
Catherine L Mann (Peterson Institute of International Economics)

Discussant: Sascha Becker (University of Munich & CESifo)

**The Q-theory of mergers: international and cross-border evidence**

Peter L Rousseau (Vanderbilt University)

Discussant: Farid Toubal (University of Paris I)

**Intercompany loans and foreign tax havens – evidence from company- level data**

Thiess Buettner (University of Munich & CESifo)
Georg Wamser (Ifo Institute & University of Munich)

Discussant: Harry Grubert (US Treasury Department)

**What determines the use of holding companies and ownership chains?**

Alfons J Weichenrieder (University of Frankfurt am Main & CESifo)

Discussant: C Fritz Foley (Harvard Business School & NBER)

## Spring conference 2007

Deutsche Bundesbank/Banque de France
27-28 April 2007
Eltville

Friday, 27 April 2007

| | | | |
|---|---|---|---|
| 08:45 – 09:15 | Opening address<br>Christian Noyer (Banque de France) | | |
| | Chair: | Christian Noyer (Banque de France) | |
| 09:15 – 11:00 | 1st session | | |
| | **Inferring labour income risk from economic choices: An indirect inference approach** | | |
| | Anthony Smith (University of Yale)<br>Fatih Guvenen (University of Texas at Austin) | | |
| | **Monetary policy and stock market boom-bust cycles** | | |
| | Lawrence J Christiano (Northwestern University)<br>Cosmin Ilut (Northwestern Universitsy)<br>Roberto Motto (European Central Bank)<br>Massimo Rostagno (European Central Bank) | | |
| | Discussants: | Harald Uhlig (Humboldt University, Berlin & Deutsche Bundesbank)<br>Per Krusell (Princeton University) | |
| 11:00 – 11:30 | Coffee break | | |
| 11:30 – 13:15 | 2nd session | | |
| | **Sources and mechanisms of cyclical fluctuations in the labour market** | | |
| | Robert Hall (Stanford University) | | |
| | **Taxes, benefits, careers, and markets** | | |
| | Lars Ljungqvist (Stockholm School of Economics)<br>Thomas Sargent (University of New York & Hoover Institution) | | |

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|---|---|---|
| | Discussants: | Guy Laroque (CREST, Paris)<br>Monika Merz (University of Bonn) |
| 13:15 – 14:45 | Lunch | |
| 14:45 – 16:30 | 3rd session | |
| | Chair: | Axel Weber (Deutsche Bundesbank) |

**Financial innovations and Macroeconomic Volatility**

Vincenzo Quadrini (University of Southern California)
Urban Jerman (University of Pennsylvania)

**Financing constraints, micro adjustment of factor use and aggregate implications**

Ulf von Kalckreuth (Deutsche Bundesbank)

| | | |
|---|---|---|
| | Discussants: | Thomas Lubik (Fed Richmond)<br>Vassilis Hajivassiliou (London School of Economics) |
| 18:00 | Bus transfer to the dinner venue | |
| 18:30 | Reception and Dinner at Schloss Johannisberg | |
| | Speaker: | Axel Weber (Deutsche Bundesbank) |

Saturday, 28 April 2007

| | | |
|---|---|---|
| | Chair: | Heinz Herrmann (Deutsche Bundesbank) |
| 09:00 – 10:45 | 4th session | |

**Dependencies between individual banks and the probability of systemic default**

Charles Goodhart (London School of Economics)
Miguel Segoviano Basurto (IMF)

**Financial fragility, heterogeneous firms and the cross section of the business cycle**

Sean Holly (University of Cambridge)
Emiliano Santoro (University of Cambridge)

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|---|---|---|
| | Discussants: | Ben Craig (Fed Cleveland & Deutsche Bundesbank)<br>Claudia Buch (University of Tübingen) |

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|---|---|
| 10:45 – 11:15 | Coffee break |
| 11:15 – 13:00 | 5th session |

**Price stickiness in Ss models: New interpretations of old results?**

Ricardo Caballero (MIT)
Eduardo Engel (University of Yale)

**Lumpy price adjustments: A microeconometric analysis**

Patrick Sevestre (Banque de France)
Emmanuel Dhyne (Banque Nationale de Belgique)
Catherine Fuss (Banque Nationale de Belgique)
Hashem Pesaran (University of Cambridge)

Discussants: Denis Fougère (CREST-INSEE)
Daniel Levy (Bar Ilan University)

| | |
|---|---|
| 13:00 – 14:30 | Lunch |

Chair: Christian Pfister (Banque de France)

| | |
|---|---|
| 14:30 – 16:15 | 6th session |

**Asset Demand and the Distribution of Household Characteristics**

Martin Schneider (University of New York)
Monika Piazzesi (University of Chicago)

**When is Market Incompleteness Irrelevant for the Price of Aggregate Risk?**

Dirk Krueger (University of Pennsylvania)
Hanno Lustig (University of California)

Discussants: Klaus Adam (European Central Bank)
Frank Smets (European Central Bank)

**Monetary policy strategy: Old issues and new challenges**

Joint Deutsche Bundesbank/Federal Reserve Bank of Cleveland Conference

6-7 June 2007

Frankfurt am Main

Wednesday, 6 June 2007

| | | |
|---|---|---|
| 09:45 – 10:05 | Introduction<br>Sandra Pianalto (President, Federal Reserve Bank of Cleveland) | |
| 10:05 – 11:15 | **The optimal monetary policy response to exchange rate misalignments**<br>Campbell Leith (University of Glasgow)<br>Simon Wren-Lewis (University of Oxford) | |
| | Discussants: | Mathias Hoffmann (Deutsche Bundesbank)<br>Robert Kollmann (Université Libre de Bruxelles) |
| 11:15 – 11:45 | Break | |
| 11:45 – 12:55 | **Monetary policy and core inflation**<br>Michele Lenza (European Central Bank) | |
| | Discussants: | Andreas Hornstein (Federal Reserve Bank of Richmond)<br>Michael Krause (Deutsche Bundesbank) |
| 12:55 – 14:30 | Lunch | |
| 14:30 – 15:40 | **Reconsidering the role of monetary indicators for euro area inflation from a Bayesian perspective using group inclusion probabilities**<br>Michael Scharnagl (Deutsche Bundesbank)<br>Christian Schumacher (Deutsche Bundesbank) | |
| | Discussants: | David Altig (Federal Reserve Bank of Cleveland)<br>Livio Stracca (European Central Bank) |
| 15:40 – 16:10 | Break | |

| | | |
|---|---|---|
| 16:10 – 17:20 | **Uncertainty about perceived inflation target and monetary policy** | |
| | Kosuke Aoki (London School of Economics and Political Science)<br>Takeshi Kimura (Bank of Japan) | |
| | Discussants: | Nicoletta Batini (International Monetary Fund)<br>Martin Bodenstein (Federal Reserve Board) |
| 18:30 | Dinner | |
| | Speaker: | Axel Weber (President, Deutsche Bundesbank) |

Thursday, 7 June 2007

| | | |
|---|---|---|
| 10:00-11:10 | **Mortgage markets, collateral constraints and monetary policy: Do institutional factors matter?** | |
| | Alessandro Calza (European Central Bank)<br>Tommaso Monacelli (Università Commerciale Luigi Bocconi)<br>Livio Stracca (European Central Bank) | |
| | Discussants: | Fiorella de Fiore (European Central Bank)<br>Andreas Schabert (University of Dortmund) |
| 11:10 – 11:30 | Break | |
| 11:30 – 12:40 | **Money in monetary policy design : ECB-style cross-checking in the New Keynesian Model** | |
| | Günter Beck (Goethe University Frankfurt)<br>Volker Wieland (Goethe University Frankfurt) | |
| | Discussants: | Stefan Gerlach (Bank for International Settlements)<br>Samuel Reynard (Swiss National Bank) |
| 12:40 – 14:00 | Lunch | |
| 14:00 – 15:10 | **The inflation dynamics mystery** | |
| | Robert King (Boston University)<br>Anthony Landry (Federal Reserve Bank of Dallas) | |
| | Discussants: | Ragner Nymoen (University of Oslo)<br>John M Roberts (Federal Reserve Board) |

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|---|---|
| 15:10 – 15:30 | Break |
| 15:30 – 16:40 | **The rationality and reliability of expectations reported by British households: Micro evidence from the British household panel survey** |

James Mitchell (National Institute of Economic and Social Research)
Martin Weale (National Institute of Economic and Social Research)

Discussants: Mike Bryan (Federal Reserve Bank of Cleveland)
Joachim Winter (University of Munich)

## Monetary and Financial Economics

5th Workshop
21-22 June 2007
Eltville

Thursday, 21 June 2007

| | |
|---|---|
| 11:30-12:15 | Registration |
| 12:15-12:30 | Welcoming Address |
| 12:30-14:00 | Session 1 |
| | **Double Banking Competition and Strategic Acquisition of Screening Technology** |
| | Jung-Hyun Ahn (University of Paris X) |
| | Discussant: Manfred Jäger (Institut der deutschen Wirtschaft Köln) |
| | **Informed Lending and the Structure of Loan Syndicates- Evidence from the European Syndicated Loan Market** |
| | Oliver Bosch (Goethe University Frankfurt)<br>Sascha Steffen (Goethe University Frankfurt) |
| | Discussant: Ben Craig (FED Cleveland & Deutsche Bundesbank) |
| 14:00-14:15 | Coffee break |
| 14:15-15:45 | Session 2 |
| | **Real Wage Rigidities and the Cost of Disinflations: A Comment on Blanchard and Gali** |
| | Guido Ascari (University of Pavia)<br>Christian Merkl (Kiel Institute for World Economy) |
| | Discussant: Leo von Thadden (European Central Bank) |
| | **The Price Puzzle Revisited: Can the Cost Channel explain a Rise in Inflation after a Monetary Policy Shock?** |
| | Steffen Henzel (Ifo Institute for Economic Research)<br>Oliver Hülsewig (Ifo Institute for Economic Research) |

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|---|---|---|
| | Eric Mayer (University of Würzburg)<br>Timo Wollmershäuser (CESifo & Ifo Institute for Economic Research) | |
| | Discussant: | Axel Lindner (Halle Institute for Economic Research) |
| 15:45-16:15 | Coffee break | |
| 16:15-17:45 | Session 3 | |
| | **Optimal Monetary Policy in the Euro Zone: Should the ECB care about Output Stabilization?** | |
| | Andreas Thams (Institut für Statistik und Ökonometrie, Freie Universität Berlin) | |
| | Discussant: | Giovanni Lombardo (European Central Bank) |
| | **A dynamic disaggregated model of the German economy: basis for stress tests** | |
| | Julia von Borstel (Deutsche Bundesbank) | |
| | Discussant: | Kai Carstensen (Kiel Institute for the World Economy) |
| 17.45-18:00 | Coffee break | |
| 18:00-18:45 | Session 4 | |
| | **Does the Underground Economy Hold back Financial Deepening? Evidence from the Italian Credit Market** | |
| | Giorgio Gobbi (Bank of Italy)<br>Roberta Zizza (Bank of Italy) | |
| | Discussant: | Valeriya Dinger (University of Bonn) |
| 19:30 | Dinner | |
| Friday, 22 June 2007 | | |
| 08:30-10:00 | Session 5 | |
| | **The Suspension of Cash Payments as a Monetary Regime** | |
| | Elisa Newby (University of St Andrews) | |
| | Discussant: | Horst Gischer (Otto-von-Guericke-University Magdeburg) |
| | **The Onset of Speculative Currency Attacks** | |
| | Yulia Rodionova (European Bank for Reconstruction and Development) | |

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|---|---|---|
| | Jay Surti (International Monetary Fund) | |
| | Discussant: | Tobias Knedlik (Halle Institute for Economic Research) |
| 10:00-10:15 | Coffee break | |
| 10:15-11:45 | Session 6 | |
| | **Bank Capital Regulation and Efficiency of Corporate Foreign Investment** | |
| | Diemo Dietrich (Halle Institute for Economic Research)<br>Achim Hauck (Halle Institute for Economic Research & University of Leipzig) | |
| | Discussant: | Jose-Louise Peydro-Alcade (European Central Bank) |
| | **The Differential Impact of Bank Liberalization** | |
| | Rainer Haselmann (Mainz University)<br>Vikrant Vig (Columbia Business School) | |
| | Discussant: | Claudia Becker (Martin-Luther-University Halle-Wittenberg) |
| 11:45-12:00 | Coffee break | |
| 12:00-13:30 | Session 7 | |
| | **What Explains the Rise in the EONIA Spread?** | |
| | Tobias Linzert (European Central Bank)<br>Sandra Schmidt (Centre for European Economic Research) | |
| | Discussant: | Christian Offermann (Goethe University Frankfurt) |
| | **The Maastricht convergence criteria and optimal monetary policy for the EMU accession countries** | |
| | Anna Lipinska (London School of Economics) | |
| | Discussant: | Franz Seitz (FH Amberg-Weiden) |
| 13:30 | Lunch | |

## Financial Structure of Financial and Non-financial firms: Determinants and Consequences

3rd Kleistvilla Workshop
9 July 2007
Potsdam

| | | | |
|---|---|---|---|
| 09:00 – 10:00 | **Performance sensitive debt and CEOs' incentives from stocks and options** | | |
| | David Yermack (New York University & FU Berlin) | | |
| | Discussant: | Jörg Rocholl (European School of Management and Technology, Berlin) | |
| 10:00 – 10:15 | Coffee break | | |
| 10:15 – 11:15 | **Financing constraints, micro adjustment of factor use and aggregate implications** | | |
| | Ulf von Kalckreuth (Deutsche Bundesbank) | | |
| | Discussant: | Andrea Schertler (University Kiel) | |
| 11:15 – 11:30 | Coffee break | | |
| 11:30 – 12:30 | **Financial innovation and growth: Cash flow, external equity and the 1990s R&D boom** | | |
| | Steve Fazzari (Washington University) | | |
| | Discussant: | Wolfram Schrettl (Free University Berlin) | |
| 12:30 – 13:30 | Lunch | | |
| 13:30 – 14:30 | **On the interaction of financial frictions and fixed capital adjustment costs: Evidence from a panel of German firms** | | |
| | Christian Bayer (University Dortmund) | | |
| | Discussant: | Ulf von Kalckreuth (Deutsche Bundesbank) | |
| 14:30 – 14:45 | Coffee break | | |
| 14:45 – 15:45 | **The consequences of going public in the Euro area** | | |
| | David Marques-Ibanez (European Central Bank) | | |
| | Discussant: | Rüdiger Bachmann (University of Michigan) | |

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|---|---|---|---|
| 15:45 – 16:00 | Coffee break | | |
| 16:00 – 17:00 | **The Effects of the bank-internal ratings on the loan maturity** | | |
| | Dorothea Schäfer (DIW) | | |
| | Discussant: | Heinz Herrmann (Deutsche Bundesbank) | |
| 17:00 – 17:15 | Coffee break | | |
| 17:15 – 18:15 | **The information content of regulatory liquidity ratios: Evidence from Germany** | | |
| | Dorothee Holl (Deutsche Bundesbank)<br>Andrea Schertler (University Kiel) | | |
| | Discussant: | Ben Craig (Fed Cleveland & Deutsche Bundesbank) | |

## 5th Bundesbank FDI Workshop

26 September 2007

Frankfurt am Main

09:00 – 09:30 **Introduction and MiDi News**

Alexander Lipponer

Beatrix Stejskal-Passler
Dietmar Scholz
Sebastian Hügelschäffer

09:30 – 10:30 **The German Statistics of Trade in Services**

Jens Walter

10:30 – 11:00 Coffee break

11:00 – 12:00 **The Impact of Thin-Capitalization Rules on Multinationals' Financing and Investment Decisions**

Thiess Buettner
Michael Overesch
Ulrich Schreiber
Georg Wamser

Discussant: Jörn Kleinert

13:00 – 14:00 Lunch

14:00 – 15:00 **Offshoring and the Onshore Composition of Occupations, Tasks and Skills**

Sascha O Becker
Karolina Ekholm
Marc-Andreas Muendler

Discussant: Anselm Mattes

15:00 – 15:30 Coffee break

15:30 – 16:30 **The Impact of inward FDI and foreign Ownership on Performance of German Multinational Firms**

Christian Arndt
Anselm Mattes

Discussant: Jan Hendrik Fisch

## Designing Central Banks

Deutsche Bundesbank/Bank of Finland Conference

08/09 November 2007

Eltville

Thursday, 8 November

| | | |
|---|---|---|
| 15:30 – 15:45 | **Opening remarks** | |
| | Heinz Herrmann (Deutsche Bundesbank)<br>David Mayes (Bank of Finland) | |
| 15:45 – 17:30 | **Session 1: Central bank development** | |
| | Chair: | Erkki Liikanen |
| | **Key developments in the history of central banking** | |
| | Speaker: | Forrest Capie (Bank of England) |
| | Discussant: | Marc Flandreau (Institut des Etudes Politiques de Paris) |
| | **The Contribution of the north european model of early central banking** | |
| | Speaker: | Juha Tarkka (Bank of Finland) |
| | Discussant: | Ludger Linnemann (University of Bonn) |
| 17:30 – 17:45 | **Coffee break** | |
| 17:45 – 18:40 | **Session 2: Independence for central banks** | |
| | Chair: | Erkki Liikanen |
| | **Central bank independence and monetary policymaking institutions: past, present, and future** | |
| | Speaker: | Alex Cukierman (Tel Aviv University) |
| | Discussant: | Roland Vaubel (University of Mannheim) |
| 20:00 | **Dinner** | |
| | Speaker: | Erkki Liikanen (Bank of Finland) |

Friday, 9 November

| | | |
|---|---|---|
| 08:30 – 11:00 | **Session 3: Goals for central banks** | |
| | Chair: | Geoffrey Wood (Bank of Finland) |
| | **How to extract information from the ECB's monetary pillar** | |
| | Speaker: | Georg Rich (Swiss National Bank) |
| | Discussant: | Roger Clews (Bank of England) |
| | **What targeting rules for monetary policy?** | |
| | Speaker: | Edward Nelson (Federal Reserve Bank of St Louis) |
| | Discussant: | Anne Sibert (University College London) |
| | **How should central banks define price stability?** | |
| | Speaker: | Mark Wynne (Federal Reserve Bank of Dallas) |
| | Discussant: | David Mayes (Bank of Finland) |
| 11:00 – 11:15 | **Coffee break** | |
| 11:15 – 13:00 | **Session 4: Central bank responsibilities** | |
| | Chair: | Axel Weber |
| | **Achieving financial stability in a world of cross-border institutions** | |
| | Speaker: | Matthias Persson (Bank of Sweden) |
| | Discussant: | Geoffrey Wood (Cass Business School) |
| | **Monetary policy inclination** | |
| | Speaker: | Hans Gersbach (Swiss Federal Institute of Technology Zurich) |
| | Discussant: | Heinz Herrmann (Deutsche Bundesbank) |
| 13:00 – 14:00 | **Lunch** | |
| 14:00 – 15:45 | **Session 5: Central bank governance** | |
| | Chair: | Axel Weber |

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|---|---|---|
| | **Why financial supervision enhances central bank independence** | |
| | Speaker: | Adam Posen (Peterson Institute) |
| | **The predictability of monetary policy** | |
| | Speaker: | Michael Ehrmann (European Central Bank) |
| | Discussant: | Jakob de Haan (University of Groningen) |
| 15:45 – 16:00 | **Coffee break** | |
| 16:00 – 17:30 | **Panel: What kind of research in central banks?** | |
| | Chair: | Axel Weber |
| | Panelists: | Jan Marc Berk (Dutch National Bank)<br>Mar Gudmunsson (BIS)<br>Loretta Mester (Federal Reserve Bank of Philadelphia)<br>Jan Qvigstad (Norges Bank) |
| 17:30 | **Closing remarks** | |
| | Axel Weber (Deutsche Bundesbank) | |

## Conference on the Interaction of Market and Credit Risk

06/07 December 2007
Berlin

Thursday, 6 December

| | |
|---|---|
| 08:30 – 09:00 | Registration (Harnack Haus) |
| 09:00 – 09:15 | **Welcome Address** |
| | Hans Reckers (Deutsche Bundesbank) |
| | **Session 1: Banking and Securitization** |
| | Chair: Myron Kwast (Federal Reserve Board) |
| 09:15 – 10:15 | **Recent Financial Market Developments** |
| | **Keynote address** |
| | E. Gerald Corrigan (Goldman Sachs) |
| 10:15 – 11:05 | **Banking and Securitization** |
| | Wenying Jiangli (Federal Deposit Insurance Corporation)<br>Matthew Pritsker (Federal Reserve Board)<br>Peter Raupach (Deutsche Bundesbank) |
| | Discussant: Deniz O Igan (International Monetary Fund) |
| 11:05 – 11:30 | **Refreshments** |
| | **Session 2: Integrated Modelling of Market and Credit Risk I** |
| | Chair: Klaus Duellmann (Deutsche Bundesbank) |
| 11:30 – 12:10 | **Regulatory Capital for Market and Credit Risk Interaction: Is Current Regulation Always Conservative?** |
| | Thomas Breuer (Fachhochschule Vorarlberg)<br>Martin Jandačka (Fachhochschule Vorarlberg)<br>Klaus Rheinberger (Fachhochschule Vorarlberg)<br>Martin Summer (Oesterreichische Nationalbank) |
| | Discussant: Simone Manganelli (European Central Bank) |

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|---|---|---|---|
| 12:10 – 13:00 | **An Integrated Structural Model for Portfolio Market and Credit Risk** | | |
| | Paul H Kupiec (Federal Deposit Insurance Corporation) | | |
| | Discussant: | Dan Rosen ($R^2$ Financial Technologies Inc.) | |
| 13:00 – 14:30 | **Lunch** | | |
| | **Session 3: Integrated Modelling of Market and Credit Risk II** | | |
| | Chair: | Til Schuermann (Federal Reserve Bank of New York) | |
| 14:30 – 15:20 | **The Integrated Impact of Credit and Interest Rate Risk on Banks: An Economic Value and Capital Adequacy Perspective** | | |
| | Mathias Drehmann (European Central Bank)<br>Steffen Sorensen (Bank of England)<br>Marco Stringa (Bank of England) | | |
| | Discussant: | Jose A. Lopez (Federal Reserve Bank of San Francisco) | |
| 15:20 – 16:10 | **An Economic Capital Model Integrating Credit and Interest Rate Risk** | | |
| | Piergiorgio Alessandri (Bank of England)<br>Mathias Drehmann (European Central Bank) | | |
| | Discussant: | Andrea Sironi (Bocconi University) | |
| 16:10 – 16:40 | **Refreshments** | | |
| 16:40 – 18:00 | **Panel discussion** | | |
| | Moderator: | Myron Kwast (Federal Reserve Board) | |
| | Panelists: | Pierre Cailleteau (Moody's)<br>Christopher Finger (RiskMetrics)<br>Andreas Gottschling (Deutsche Bank)<br>David M. Rowe (SunGard) | |
| 20:00 | **Conference Dinner** | | |
| | (with Gerhard Hofmann, Deutsche Bundesbank) | | |

Friday, 7 December

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| | **Session 4: Risk Measurement and Markets** | |
| | Chair: | Thilo Liebig (Deutsche Bundesbank) |
| 09:00 – 09:50 | **A Value at Risk Analysis of Credit Default Swaps** | |
| | Burkhard Raunig (Oesterreichische Nationalbank)<br>Martin Scheicher (European Central Bank) | |
| | Discussant: | Alistair Milne (Cass Business School) |
| 9:50 – 10:40 | **The Pricing of Correlated Default Risk: Evidence From the Credit Derivatives Market** | |
| | Nikola Tarashev (Bank for International Settlements)<br>Haibin Zhu (Bank for International Settlements) | |
| | Discussant: | David Lando (Copenhagen Business School) |
| 10:40 – 11:10 | **Refreshments** | |
| 11:10 – 12:10 | **Structural Models and the Linkage between Equity and Credit Markets** | |
| | **Keynote Address** | |
| | Hayne Leland (The University of California, Berkeley) | |
| | **Session 5A: Securitization, Regulation and Systemic Risk** | |
| | Chair: | Hayne Leland (The University of California, Berkeley) |
| 12:10 – 13:00 | **Solvency Regulation and Credit Risk Transfer** | |
| | Vittoria Cerasi (Milano-Bicocca University)<br>Jean-Charles Rochet (Toulouse University) | |
| | Discussant: | Loriana Pelizzon (University of Venice) |
| 13:00 – 14:30 | **Lunch** | |

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| 14:30 – 15:20 | **Determinants of Banks' Engagement in Loan Securitization**<br>Christina E. Bannier (Frankfurt School of Finance and Management)<br>Dennis N. Hänsel (Goethe University Frankfurt)<br>Discussant: Gabriel Jimenez (Bank of Spain) |
| 15:20 – 16:10 | **Systemic Bank Risk in Brazil: An Assessment of Correlated Market, Credit, Sovereign and Inter-Bank Risk in an Environment with Stochastic Volatilities and Correlations**<br>Theodore M. Jr. Barnhill (The George Washington University)<br>Marcos Rietti Souto (International Monetary Fund)<br>Discussant: Mathias Drehmann (European Central Bank) |
| | **Session 5B: Credit Dependencies and Market Risk**<br>Chair: Kostas Tsatsaronis (BIS) |
| 12:10 – 13:00 | **Interaction of Market and Credit Risk: An Analysis of Inter-Risk Correlation and Risk Aggregation**<br>Klaus Böcker (UniCredit Group)<br>Martin Hillebrand (Sal. Oppenheim)<br>Discussant: Rüdiger Frey (University of Leipzig) |
| 13:00 – 14:30 | **Lunch** |
| 14:30 – 15:20 | **Market Conditions, Default Risk and Credit Spread**<br>Dragon Tang (Kennesaw State University)<br>Hong Yan (University of South Carolina)<br>Discussant: Til Schuermann (Federal Reserve Bank of New York) |

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| 15:20 – 16:10 | **The Effect of Seniority and Security Covenants on Bond Price Reactions to Credit News** |
| | David D. Cho (State University of New York at Buffalo)<br>Hwagyun Kim (Texas A&M University)<br>Jungsoon Shin (State University of New York at Buffalo) |
| | Discussant: Joerg Rocholl (European School of Management and Technology in Berlin) |
| 16:10 – 16:30 | **Final Remarks** |
| | Philipp Hartmann (European Central Bank) |
| 16:30 – 17:00 | **Refreshments** |

**Annex 4**

**List of visitors 2007**

(1 week or more)

| **Name** | **Institution** |
|---|---|
| Arndt, Christian | Institute for Applied Economic Research, Tübingen |
| Bachmann, Rüdiger | University of Michigan, Ann Arbor |
| Bayer, Christian | Bocconi University, Milan |
| Becker, Johannes | University of Cologne |
| Becker, Sascha | Ludwig-Maximilians University, Munich |
| Behr, Andreas | Münster University |
| Bellak, Christian | University of Vienna |
| Blank, Sven | Eberhard Karls University, Tübingen |
| Bohl, Martin | Münster University |
| Böve, Rolf | Münster University |
| Breitung, Jörg | Rheinische Friedrich-Wilhelms-University, Bonn |
| Buch, Claudia | Eberhard Karls University, Tübingen |
| Büttner, Thiess | Ifo Institute for Economic Research, Munich |
| Craig, Ben | Federal Reserve Bank of Cleveland |
| De Graeve, Ferre | Ghent University |
| Döpke, Jörg | University of Applied Sciences, Merseburg |
| Dovern, Jonas | Kiel Institute for the World Economic |
| Egger, Peter | Ifo Institute for Economic Research, Munich |
| Ekholm, Karolina | Stockholm University |
| Fendel, Ralf | WHU – Otto Beisheim School of Management, Vallendar |
| Fingerlos, Uwe | University of Vienna |
| Fisch, Jan Hendrik | Zeppelin University |
| Förstemann, Till | Friedrich-Alexander University Erlangen-Nürnberg |
| Gerlach, Stefan | Johann Wolfgang Goethe University of Frankfurt |

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| Gersl, Adam | Czech National Bank, Prague |
| Grammig, Joachim | Eberhard Karls University, Tübingen |
| Hadder, Nadine | Ludwig-Maximilians University, Munich |
| Hemmelgarn, Thomas | University of Cologne |
| Hesse, Heiko | The World Bank, Washington |
| Hlavacek, Michal | Czech National Bank, Prague |
| Hoffmann, Mathias | University of Zurich |
| Huang, Ruogu | University of Amsterdam |
| Hussinger, Kathrin | Catholic University Brussels |
| Kesternich, Iris | Ludwig-Maximilians University, Munich |
| Kleinert, Jörn | Eberhard Karls University, Tübingen |
| Koetter, Michael | University of Groningen/Kiel Institute for the World Economic |
| Kumbhakar, Subal | Binghamton University |
| Kuzin, Vladimir | Johann Wolfgang Goethe University of Frankfurt |
| Levy, Daniel | Bar-Illan University, Ramat-Gan |
| Lubik, Thomas | Federal Reserve Bank of Richmond |
| Marcellino, Massimiliano | Bocconi University, Milan |
| Mattes, Anselm | Institute for Applied Economic Research, Tübingen |
| Müller, Ramona | Friedrich-Alexander University Erlangen-Nürnberg |
| Müller-Spahn, Sophie | University of Nottingham |
| Mündler, Marc-Andreas | University of California, San Diego |
| Neumann, Manfred | Rheinische Friedrich-Wilhelms-University, Bonn |
| Norden, Lars | University of Mannheim |
| Nyborg, Kjell | Norwegian School of Economics and Business Administration, Bergen |
| Offermanns, Christian | Johann Wolfgang Goethe University of Frankfurt |
| Overesch, Michael | Centre for European Economic Research, Mannheim |
| Peters, Heiko | Münster University |
| Reimers, Hans-Eggert | University of Technology, Business and Design, Wismar |

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| Riedl, Alexandra | University of Vienna |
| Rocholl, Jörg | European School, Berlin |
| Ruf, Martin | University of Mannheim |
| Schertler, Andrea | Kiel Institute for the World Economic |
| Schmidt, Caroline | Swiss Federal Institute of Technology Zurich |
| Schneider, Christoph | University of Mannheim |
| Seitz, Franz | University of Applied Science, Amberg-Weiden |
| Silbermann, Leonid | Johann Wolfgang Goethe University of Frankfurt |
| Snir, Avichai | Bar-Illan University, Ramat-Gan |
| Toubal, Farid | University Paris I |
| Tümer-Alkan, Günseli | Center for Financial Studies, Frankfurt |
| Wamser, Georg | Ifo Institute for Economic Research, Munich |
| Weber, Anke | University of Cambridge |
| Weichenrieder, Alfons | Johann Wolfgang Goethe University of Frankfurt |
| Wild, Michael | University of Vienna |
| Windischbauer, Helen | Johann Wolfgang Goethe University of Frankfurt |
| Zeng, Ming | Johann Wolfgang Goethe University of Frankfurt |

Internships

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|---|---|
| Ahnert, Toni | Humboldt University of Berlin |
| Auer, Benjamin | University of Applied Sciences, Ingolstadt |
| Brumm, Johannes | Ludwig-Maximilians University, Munich |
| Engelstätter, Benjamin | Christian-Albrechts-University Kiel |
| Gissler, Stefan | Albert-Ludwigs-University Freiburg |
| Gloede, Oliver | Bayreuth University |
| Grill, Michael | Munich University of Technology |
| Günnel, Stefan | Chemnitz University of Technology |
| Höwer, Daniel | University of Duisburg-Essen |
| Jang, Min-Kyu | University of Cologne |

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|---|---|
| Ketterer, Janina | Ludwig-Maximilians University, Munich |
| Koch, Cathérine | Eberhard Karls University, Tübingen |
| Küll, Jonathan | Karlsruhe University |
| Merlo, Valeria | Ludwig-Maximilians University, Munich |
| Merz, Christina | Ulm University |
| Mihaleva, Sonya | University of Mannheim |
| Moll, Katharina | Johann Wolfgang Goethe University of Frankfurt |
| Peters, Christian | Catholic University Eichstätt-Ingolstadt |
| Podlich, Natalja | Bonn University |
| Poghosyan, Tigran | University of Groningen |
| Rauck, Erica | Ulm University |
| Rodenburg, Jan | University of Groningen |
| Silbermann, Leonid | Johann Wolfgang Goethe University of Frankfurt |
| Siassi, Nawid | Humboldt University of Berlin |
| Wewel, Claudio | University of Mannheim |