JANUARY 2005

newsletter

STUDY CENTER GERZENSEE

INTERWIEW WITH MICHAEL WOODFORD

THE THEORY OF MONETARY POLICY

Referring to growth theory, Robert Lucas wrote that, once one has started thinking about it, it is hard to think about anything else. Does the same apply to the theory of monetary policy?

It is certainly a topic that has been very fascinating to me for quite a while now without exhausting my interest. I guess the thing I like the most about it is that, on the one hand, it is full of very subtle conceptual challenges, but at the same time it has a lot of practical importance such that the application of intellectual work is very visible. That makes it especially rewarding as a topic.

The empirical evidence on the effect of moderate inflation on growth is rather inconclusive, and some economists argue that disciplined monetary policy has contributed little to lowering industrialized countries' output volatility in the recent past. How do you convince your students that monetary economics is nevertheless a relevant topic?

I think that there is at least fairly clear evidence that bad monetary policy can make real outcomes worse. For example, I am inclined to think that a lot of Japan's problems in the last decade were made worse - though maybe not purely caused - by fairly clumsy monetary policy. I also believe that better monetary policy has been an important factor in Japan's recent recovery. And I think that the fact that the US went through a similar asset price collapse without such bad effects has something to do with a considerably better conduct of monetary policy. Those things make me think that monetary policy does matter for real outcomes.

In the preface to your recent book on monetary economics, you mention some doubts whether the present moment is ripe for a systematic exposition of a theory of

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ACADEMIC CONFERENCES

MACROECONOMICS AND POLITICAL ECONOMY

On October 1-2, the Study Center Gerzensee hosted the seventh conference in a series organized jointly with the *Journal of Monetary Economics*. Conference organizers Philippe Bacchetta and Robert King (Boston University) selected six papers to be presented.

Daron Acemoglu, of the Massachusetts Institute of Technology, presented "An Economic Model of Weak and Strong States". The model formalizes the notion that the inability of states to collect revenue - the "weakness" of states - creates both advantages and disadvantages, in particular for developing countries. On one hand, the inability to tax makes it difficult for governments to provide productive public goods. On the other hand, it encourages private investments because weaker governments find it more difficult to expropriate citizens. Since economic performance relies both on public good provision and private investments, the model predicts an intermediate level of government strength to be optimal. Many countries feature high taxes despite significant control by society over the government (i.e., despite being weak). Acemoglu's model rationalizes this observation by pointing to the role of institutions fostering trust between citizens and the government.

Alberto Alesina, of Harvard University, presented a paper on "Corruption, Inequality, and Fairness", co-authored with George-M. Angeletos of the Massachusetts Institute of

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editorial

Macroeconomic policies in both developed and developing countries are often constrained by the political decision process. These constraints deserve a better understanding. Our recent conference with the Journal of Monetary Economics on Macroeconomics and Political Economy has precisely dealt with this issue, both from a theoretical and empirical perspective. The papers presented at this conference are described in the following pages. We also provide a description of the main topics covered at the Summer Symposia in Economic Theory and in Financial Markets organized jointly with CEPR.

In 2004, we were again lucky to be able to offer doctoral courses taught by the best specialists in their respective fields, including a Nobel Prize laureate - Professor James J. Heckman, University of Chicago. Professor Michael Woodford, who recently wrote an influential book on monetary economics, taught one of these courses. A central aspect of his book is the limited role played by monetary aggregates in monetary policy and the crucial role played by interest rates. The enclosed interview gives interesting insights on this view and on the perspective of this author.

Prof. Philippe Bacchetta
Director

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INTERWIEW from cover

monetary policy. Which considerations gave rise to such doubts?

Mostly the fact that the subject is developing very rapidly. So given that it takes a long time to write a book and that you cannot do it very often, you always have to be a little scared that in a year or two you might already have left behind the things that you wrote. But that did not deter me from trying to write a provisional synthesis of the area.

I would describe your book as a monograph rather than a textbook on monetary economics. Is this correct?

That was the intention. If I had defined it as a textbook I would have felt more obligated to cover all of the topics that people think should be reviewed in a course. So this is not a book attempting to survey the area, but to set out in detail some personal views that I hope are of interest.

Throughout your book, you emphasize the importance of Knut Wicksell's ideas in shaping your thoughts on monetary policy. When and how did you get in touch with Wicksell's writings?

I suppose I first heard of Wicksell's ideas in Milton Friedman's presidential address to the American Economic Association, which of course I only read many years after he gave it. I was intrigued by what he said about Wicksell's cumulative process there. But I probably did not get seriously interested in Wicksell until a few years later when I read an essay of Axel Leijonhufvud - I think it was called "The Wicksell Connection" - in which he was arguing for the importance of Wicksellian ideas and suggesting that they had been somewhat neglected. One reason this caught my attention is that at that time I had already been very interested in interest rate policy as a way of describing monetary policy. I was also very much interested in the role of expectations in the dynamics of a macroeconomy, and the Swedish school was very important to me for the emphasis they had given very early on to the role of expectations. It was in the mid-1980s that I had started coming across these ideas, but I did not really know what to do with them for quite a while. It was only quite recently that I realized that the ideas I was interested in were closer to Wicksell's ideas than I had immediately understood.

Do you think that the profession converges towards a consensus on the optimal conduct of monetary policy? Where are the remaining conflicts and dividing lines?

I think there has indeed been important convergence, even since the time that I began studying macroeconomics, twenty-five years ago. We now have a great deal of consensus on the fact that low and relatively stable inflation are very important features of a good monetary policy regime, and that low and stable inflation can be achieved pretty successfully without various kinds of straightjackets that were popular back in the 1980s. At that time there were proposals of going back to the gold standard as a way of controlling monetary policy, monetary targeting was very important, and people thought that other kinds of simple rules like currency boards might be a way to discipline monetary policy. To a large extent people now accept that competent central bankers can do a good job stabilizing inflation without being tied to such rigid formulas. However, I would not say that there is now complete consensus about the subject. Maybe the biggest controversy concerns the question whether paying attention to some kind of output gap concept makes sense, or whether central bankers should not think about output gaps at all. There is a wide spectrum of different opinions on this question even now. I would say that the debate has become more sophisticated, but that does not mean that all the questions have been settled.

Do the concepts you propose in your book apply to all countries alike? Or are there some aspects that need to be qualified when talking, e.g., about developing countries?

I do not claim that the framework I present should be universally applicable. Macroeconomics is a subject where finding successful models requires making good choices about which simplifications are useful. And the simplifications that are not harmful to make may be different for different economies. What I am doing in the book is going through a framework that allows for variations in order to take the models to particular circumstances. But the framework as a whole may be more easily tailored to some countries than to others. In particular, the analytical framework that I use relies a lot on the assumption that financial markets are highly developed and very efficient. This abstraction is reasonably useful for many advanced economies now, but I would not say that with the same confidence for developing economies, where financial market imperfections are much larger and where many households and firms are constrained in their ability to borrow. Those things are probably very important for the transmission mechanism of monetary policy, but they are entirely off-stage in the kind of models that I discuss in my book. Political economy issues are another example of something that I do not discuss in the book. Obviously it is an institutional question whether one can discuss monetary policy rules assuming that enlightened central bankers could implement them if they understood them. In some parts of the world the big problem may not be the understanding of central bankers, but all kinds of pressures that the central bank is subject to. Again, my book is not trying to diagnose those pressures or to discuss institutional arrangements needed to deal with them. It is assuming a setting in which competent central bankers can to a large extent carry out their job without inference, and tries to provide a conceptual framework they can use in doing this.

In your writings, you stress the benefits of rule-based monetary policy. How would you explain the success of the Federal Reserve whose behaviour is not guided by an explicit rule?

I do not think that the relative success of Fed policy is entirely contradictory to this. First of all, I believe that the Fed, particularly recently, has behaved in a fairly systematic and predictable way. People in the markets have felt that they could understand and predict the Fed's behavior, and we have observed an evolution toward greater transparency about its goals and about the likely direction of future policy. In my book I emphasize the importance of being able to behave in a way such that the private sector can anticipate policies in advance, and this is one of the most important advantages of rule-based policymaking. I think that the Fed has made important steps toward behaving in a more systematic way, that this has helped the private sector to anticipate its policy fairly well, and that this is an important element in the recent success of Fed policy. However, I suspect that the Fed can still improve by going further in the direction of committing itself to rule-based behavior. The Fed is neither the leading example of rule-based policy-making at present or the leading example of transparency. But I don't think that it is the worst example for either of these precepts, either.

One of the recurrent motives in your writings is that central banks should use interest rates as their operating target, paying little attention to monetary aggregates. Given this concept, should people stop estimating money demand equations?

I do not claim that there are no transactions frictions that result in a transactions demand for money, and I have no reason to assert that there cannot be stable money demand functions. But I would argue that this is not as essential a topic for understanding the effects of monetary policy as a lot of the literature of the past few decades had assumed that it was. It is a topic that has been very extensively researched, and I would have allocated more effort to some other topics. For example, the analysis that I have presented suggests that understanding variations in the natural rate of interest ought to be of great practical importance. There is almost no research on trying to implement that empirically and to track variations of the natural rate of interest in real time. This is an example of something that, I hope, will get more research in the future than it had in the past. I also think that untangling the nature of nominal rigidities deserves more research. It has certainly been an important topic of study, but it is not understood as well as it ought to be, given how central it is for understanding what the tradeoffs are for monetary policy.

In your book, you consider the boundary case of a cashless economy in which there is no transactions motive of money demand. What is the role of central banks in such an economy?

I think that a cashless economy is a reasonable approximation to the way monetary policy rules affect the economy in economies with highly developed financial markets. But I do not think that it is a literal description of any actual economy, and I do not expect that it should become a literal description any time soon. The role in my analysis is very similar to what it was in Wicksell's book Interest and Prices: some aspects of the analysis are simplified by considering what the consequences of monetary policy would be in this cashless environment. Once one understands this point, one can add in the transactions frictions and ask to what extent they make a difference. The conclusion that I reach in my book is that realistically specified transactions frictions do not make a large quantitative difference for a number of exercises.

Another reason for being interested in what would happen in a cashless world is that there are people who have argued that the development of electronic means of payment might bring about a loss of the transactions role for central bank liabilities fairly soon, and that this would be a very dangerous situation. It has thus been proposed to regulate the development of electronic means of payment to prevent this from happening. I argue that such regulation is not important. My analysis implies that the cashless economy would not make central banks powerless to stabilize prices or to pursue their other stabilization objectives, in so far as people in the private sector would still find it convenient to use central bank liabilities to define the unit of account in which they are quoting prices. And I think this would continue to be convenient even if there is no special role for transfers of central bank liabilities in the payments mechanism. There would continue to be a role for central banks in defining the unit of account and in using monetary policy to achieve stability of the purchasing power of that unit of account. So I think central banks would continue to be as important as they are now.

Prof. Michael Woodford is Harold H. Helm '20 Professor of Economics and Banking at Princeton University. He has previously held positions at Columbia University and the University of Chicago, in addition to visiting appointments at a number of institutions in the U.S. and Europe. He has served as a consultant to the Federal Reserve Bank of New York and as Professorial Fellow in Monetary Economics at the Reserve Bank of New Zealand; he is also a Fellow of the Econometric Society and a Research Associate of the National Bureau of Economic Research. In addition to publications in academic journals, he is the author of *Interest and Prices: Foundations of a Theory of Monetary Policy* (Princeton University Press, 2003); co-editor, with John B. Taylor, of *Handbook of Macroeconomics* (3 vols., North Holland, 1999); co-editor, with Ben S. Bernanke, of *Inflation Targeting* (University of Chicago Press, forthcoming); and co-author, with Jordi Gali, Stefan Gerlach, Julio Rotemberg, and Harald Uhlig, of *The Monetary Policy Strategy of the ECB Reconsidered* (CEPR, 2004).

This edited interview was conducted by Philipp Harms

ACADEMIC CONFERENCES

from cover

Technology. In Alesina and Angeletos' framework, redistribution and corruption reinforce each other. On one hand, more redistribution and larger size of government raise the possibilities for corruption. On the other, corruption raises the political support for redistribution, because it increases inequality, or because it increases the component of inequality considered "unfair". As a result of this mutual reinforcement, multiple combinations of corruption, inequality, and redistribution can arise in equilibrium.

Jong-Wha Lee, of Korea University, presented work entitled "IMF Programs: Who Is Chosen and What Are the Effects?" In this paper, co-authored with Robert J. Barro of Harvard University, the authors try to quantify the effect of IMF loans on various measures of economic performance as well as other outcomes. To identify these effects in the data, Barro and Lee have to overcome an identification problem relating to the fact that the data might reflect not only the effect of loans on outcomes, but also the reverse effect. The latter arises since the IMF typically extends loans to those very countries that are in economic distress. Barro and Lee note that IMF loans tend to be larger and more frequent when a country has a bigger quota and more professional staff at the IMF, and when it is better connected politically and economically to the United States and major European countries. They use this observation to construct instrumental variables in order to isolate the effect in question from the effect driven by reverse causality. The findings suggest that a higher IMF loan-participation often leads to worse outcomes.

Allan Drazen, of Tel-Aviv University and the University of Maryland, presented a paper on "Political Budget Cycles in New versus Established Democracies", co-authored with Adi Brender of the Bank of Israel. Like previous studies, the authors find evidence for a political deficit cycle in a large cross-section of countries. In contrast to previous literature, however, Brender and Drazen argue that this cycle only arises in a subset of countries, in particular those that recently switched to a system with competitive elections ("new democracies"). This might explain differences in the political cycle across governmental and electoral systems as well as levels of development; it might also reconcile two contradictory views of preelectoral manipulation, one arguing that fiscal manipulation is a useful instrument to gain voter support and a widespread phenomenon, the other arguing that voters punish rather than reward such manipulation.

Per Krusell, of the Institute for International Economic Studies at Stockholm University (IIES) and Princeton University, presented a paper on "The Dynamics of Government", co-authored with John Hassler of IIES, Kjetil Storesletten of IIES and Oslo University, and Fabrizio Zilibotti of IIES. Hassler et al. analyze how political pressure for intra-generational redistribution and inter-generational redistribution interact when the collection of government revenue distorts investment, for example in human capital. Their model predicts that redistribution tends to be too persistent relative to what a utilitarian planner under commitment would choose. The difference is larger, the lower is the political influence of young voters, the lower is the altruistic concern for future generations, and the lower is the political pressure for intra-generational redistribution. Lacking commitment, the political process tends to yield too high levels of redistribution.

Finally, Guido Tabellini, of IGIER, Bocconi University, presented joint work with Francesco Giavazzi, also of IGIER, on "Economic and Political Liberalizations". Giavazzi and Tabellini study empirically the effects of economic liberalizations (defined as measures increasing the scope of the market in the economy), political liberalizations (defined as the event of becoming a democracy), and interactions among the two. Comparing changes in economic performance, macroeconomic policy and structural policies in countries that liberalized with the corresponding changes in countries not liberalizing, Giavazzi and Tabellini argue that positive feedback effects exist between economic and political reforms, with causality more likely to run from political to economic liberalizations. They also argue that the sequence of reforms matters: Countries first liberalizing and then becoming democracies perform better than countries pursuing the opposite sequencing. Not surprisingly, this last result of Giavazzi and Tabellini's analysis spurred a heated debate. More generally, all presentations and comments contributed to a very interesting and stimulating conference. After the papers have gone through the usual refereeing process, they will be published, if accepted, in a special issue of the Journal of Monetary Economics. The papers are currently available on our web site.


Our new cafeteria


Alberto Alesina, Allan Drazen, Philipp Harms, Beatrice Weder


Discussion at coffee break


Pascal St-Amour, Christian Pfister and Philippe Bacchetta


Robert King, Per Krusell, Dirk Niepelt

PROGRAM MACROECONOMICS AND POLITICAL ECONOMY

Daron Acemoglu, MIT
"An Economic Model of Strong and Weak States"
Discussants: Philipp Harms, Gerzensee & RWTH Aachen,
Pierre Sarte, Federal Reserve Bank of Richmond

Alberto Alesina, Harvard University and
George-Marios Angeletos, MIT
"Corruption, Inequality, and Fairness"
Discussants: Marco Bassetto, University of Minnesota
Beatrice Weder, University of Mainz

Robert J. Barro, Harvard University and
Jong-Wha Lee, Korea University
"IMF Programs: Who Is Chosen and What Are the Effects?"
Discussants: Michael Binder, Goethe-University
Roberto Perotti, Bocconi University

Adi Brender, Bank of Israel and
Allan Drazen, Tel-Aviv University & University of Maryland
"Political Budget Cycles in New versus Established Democracies"
Discussants: Robert J. Franzese, University of Michigan
Ludger Schuknecht, European Central Bank

John Hassler, IIES Stockholm University,
Per Krusell, IIES Stockholm University & Princeton University,
Kjetil Storesletten, IIES Stockholm University & U. of Oslo, and
Fabrizio Zilibotti, IIES Stockholm University
"The Dynamics of Government"
Discussants: Edward Green, Federal Reserve Bank of Chicago & Pennsylvania State University, Dirk Niepelt, Study Center Gerzensee & IIES Stockholm University

Francesco Giavazzi and **Guido Tabellini**, Bocconi University
"Economic and Political Liberalizations"
Discussants: Ignazio Angeloni, European Central Bank
John C. Williams, Federal Reserve Bank of San Francisco

EUROPEAN SUMMER SYMPOSIUM IN ECONOMIC THEORY (ESSET)

From July 5-16, the Study Center once more hosted the annual European Summer Symposium in Economic Theory (ESSET), organized by CEPR and sponsored by the Society of Economic Analysis. Leonardo Felli (LSE) and Margaret Meyer (Oxford) organized the program. The meeting's purpose was to bring together established scholars and promising young researchers who share an interest in microeconomic theory and its applications.

The diversity of papers presented during the Symposium reflected the diversity of challenges confronted by contemporary research in economic theory: on the one hand, there is an ongoing interest in applying game-theoretic concepts to positive and normative questions in fields like industrial organization, contract theory, and public choice. Accordingly, the conference organizers devoted ample space to papers exploring the strategic interaction of firms in non-competitive markets, the implications of private information for the design of contracts and collective decision making, and the role of reputation for agents' choices in a dynamic setting.

On the other hand, a growing stock of empirical evidence seems to challenge the traditional model of rational individuals acting in a narrowly defined self-interest. Thus, several presentations at the Symposium addressed issues like the prevalence of cooperation in prisoners-dilemma situations, the value of seemingly worthless "social assets", and the emergence of herd behavior in financial markets.

Two fields that received particular attention at this year's symposium were law and economics and political economy: while special "focus sessions" organized by Andrew Postlewaite and Michele Piccione, respectively, bundled papers in these areas, the number of presentations spread over the conference program revealed a strong interest in identifying the impact of the legal and political framework on agents' behavior, and the desirability to explore the endogenous emergence of formal and informal institutions.

Another cluster of presentations focused on the economics of education and human capital accumulation. Thus, a number of contributions analyzed the incentives involved in employee training and learning,


George Mailath


Andrea Prat


Lucy White and Larry Samuelson

and a focus session on "Strategic Behavior and Educational Outcomes" (organized by Christopher Avery) combined talks on the design of school allocation mechanisms as well as on the determinants and consequences of "grade inflation".

Seen together, the presentations of these two weeks reveal two broad tendencies: first, the success of theoretical insights in affecting the design of real-world mechanisms, laws and institutions. Second, an ongoing (and growing) willingness to challenge the fundamental concepts on which these insights are based. The combination of these tendencies is likely to guarantee an inspiring debate for the foreseeable future.

The full program is available on our homepage at:
www.szgerzensee.ch/conferences

EUROPEAN SUMMER SYMPOSIUM IN FINANCIAL MARKETS (ESSFM)

In the midst of this year's summer season, financial researchers from Europe as well as overseas gathered at the Study Center for the fortnight-long European Summer Symposium on Financial Markets. Organized together with the CEPR, this annual conference has since long become a regular entry in the Center's academic calendar. The program broke down the conference in a first week on topics like corporate finance, growth, law & finance as well as executive compensation, and a second week on asset pricing. This year's program organizers were Bernard Dumas (Insead) and Denis Gromb (LBS).

The first focus session on “Corporate Finance and Growth” was organized by Philippe Aghion, featuring next to himself talks by Enrico Perotti and Chenggang Xu. There were quite a few lively presentations


Chenggang Xu

at the symposium and in what was probably one of the most lively ones, Aghion laid out a potential explanation for Europe's lower per-capita GDP level vis-à-vis the U.S.: An intermediate level of financial development. By enriching an endogenous growth model with credit constraints, he showed how convergence in growth rates could come about at different per-capita levels of activity with financial development being a key variable.

Mitchell Petersen organized the next session on “Soft Information”. He dubbed his introduction into the topic an “old man's talk” -- a bit tongue-in-cheek that one. But despite appearances, this focus session was on a serious mission: Calling on researchers to explore the utilization of data on “Soft Information”. “Use the entire 10K [company filing with the SEC], not just the accounting numbers”, says Petersen. “Hard information”, say in the form of asset prices or accounting numbers, is relatively easy to store and compare, whereas “soft information” is prone to subjectivity and individual interpretations. However in applications such as bank lending, it matters a lot, with repercussions for questions such as the internal organization of a bank (Jose Liberti's talk) or governance related aspects such as common directorships between borrowers and banks (Randall Kroszner).

The two focus sessions of the asset-pricing week were about liquidity and aggregate asset pricing, a.k.a. macro-finance. On the former, which had been organized by Dimitri Vayanos, Lasse Heje Pedersen presented his work written jointly with Markus Brunnermeier. They thoroughly modeled a set of phenomena which are commonplace to market practitioners, but which caught the attention of academia probably only once they became a centerpiece of the LTCM story: A large investor risks front-run-


Philippe Aghion

ning or predatory trading by other investors, particularly once she undergoes financial distress. In other words, market participants withdraw liquidity by trading (initially) in the same direction as she, at the very moment when she would be most in need of liquidity services to unwind her positions.

Urban Jermann had put the final session on “Aggregate Asset Pricing” together. He kicked it off by presenting work on backing out the persistence of the marginal utility of wealth from asset prices. A key result being that standard utility functions cannot reproduce the high importance he and his coauthor Fernando Alvarez find attached to the persistent component of marginal utility in asset price data. Hence, the session turned to two presentations on the capability of other utility functions to explain asset prices. Andrew Abel presented a synthesis of work on various forms of habit formation with a particular focus on closed-form solution. Stanley Zin's talk emphasized how a resolution of the equity premium requires counter-cyclical risk aversion and proposed the model of “generalized disappointment aversion”.

Going back to Milton Friedman, a group qualifies as “serious” if willing to meet in Chicago during January. This conference group met in Gerzensee during summer time, but given how they kept working inside and outside the conference room, they certainly qualified as being a serious group as well.


Enrico Perotti


José Liberti


Alisa Röell

DOCTORAL COURSES

PROGRAM FOR ADVANCED DOCTORAL STUDENTS IN ECONOMICS AND FACULTY MEMBERS 2004

Our four one-week August courses, taught by the best specialists in the field - including a Nobel Prize laureate - were again a big success. The courses were:

Financial Intermediation
Prof. Douglas W. Diamond,
University of Chicago

Econometric Policy Evaluation
Prof. James J. Heckman,
University of Chicago

Open Economy Macroeconomics
Prof. Eric van Wincoop,
University of Virginia

The Theory of Monetary Policy
Prof. Michael Woodford,
Princeton University

PROGRAM FOR DOCTORAL STUDENTS IN LAW AND ECONOMICS 2004

As in previous years, the Study Center offered two one-week courses. They were:

Antitrust Law and Economics
Prof. Daniel L. Rubinfeld,
University of California at Berkeley

Environmental Law and Policy
Prof. Richard Revesz,
New York University


James J. Heckman


Douglas Diamond


Philippe Bacchetta and Eric van Wincoop


Dirk Niepelt

STAFF NEWS

Several changes in the staff occurred in 2004. Last August, we were happy to welcome back **Philippe Bacchetta** who spent his sabbatical leave at Harvard University, Depart-ment of Economics, and the National Bureau of Economic Research. **Andreas Fischer** - who was program director during the absence of Philippe Bacchetta - returned to his previous research position at the Swiss National Bank, Zurich. We are also pleased to welcome **Dirk Niepelt** as assistant professor. He studied economics at the University of St.Gallen, attended our "Swiss Program for Beginning Doctoral Students in Economics", and obtained his Ph.D. in economics from MIT in 2000. He has been assistant professor at IIES in Stockholm and held research positions at applied research institutes in St.Gallen and Zurich as well as teaching positions at MIT. His recent research has been published in the Quarterly Journal of Economics and the Journal of Public Economics. **Daniel Burren** joined the Study Center in September as teaching assistant and will participate in next year's doctoral program. **Monique Ebell** and **Philipp Harms** reduced their joint positions with the Study Center. Philipp Harms is now full professor at RWTH Aachen and Monique Ebell is assistant professor at Humboldt University in Berlin.

WORKING PAPERS

04.07
Dirk Niepelt:
"Timing Tax Evasion"

04.06
Andreas M. Fischer
and Marlene Amstad:
"Sequential Information Flow and Real-Time Diagnosis of Swiss Inflation: Intra-Monthly DCF Estimates for a Low-Inflation Environment"

04.05
Philipp Harms
and Michael Rauber:
"Foreign Aid and Developing Countries' Creditworthiness"

04.04
Andreas M. Fischer:
"Price Clustering in the FX Market: A Disaggregate Analysis using Central Bank Interventions"

04.03
Philippe Bacchetta
and Eric van Wincoop:
"Higher Order Expectations in Asset Pricing"

04.02
Pinar A. Yesin:
"Tax Collection Costs, Tax Evasion and Optimal Interest Rates"

04.01
Philippe Bacchetta
and Eric van Wincoop:
"A Scapegoat Model of Exchange Rate Fluctuations"

ACADEMIC AGENDA 2005

CONFERENCES

From April 28-May 1, the Study Center will host the "Theoretischer Ausschuss des Vereins für Social Politik 2005" organized with Prof. E. Baltensperger, University of Berne. A "Swiss Doctoral Workshop in Finance" organized jointly with NCCR FINRISK in Zurich, will be held from June 5-7. The traditional European Summer Symposia in Economic Theory and in Financial Markets - in collaboration with CEPR in London - will again take place from July 4-29.

CENTRAL BANKERS COURSES

07.02 - 18.02	**Advanced Topics in Empirical Finance**
04.04 - 22.04	**Monetary Theory and Monetary Policy**
16.05 - 03.06	**Banking Regulation and Supervision**
13.06 - 24.06	**Advanced Course in Monetary Policy**
01.08 - 19.08	**Monetary Policy in Developing Countries**
19.09 - 07.10	**Instruments of Financial Markets**

In addition to our teaching staff, the main lecturers in these courses will be Professors Carl Walsh (University of California, Santa Cruz), Sebastian Edwards (UCLA), Anthony Saunders (New York University), Fabio Canova (Universitat Pompeu Fabra), Michael Rockinger (University of Lausanne), Casper de Vries (Erasmus University Rotterdam), Harris Dellas (University of Berne), Thierry Foucault (Groupe HEC, Paris), Xavier Freixas (Universitat Pompeu Fabra), and Erwan Morellec (University of Lausanne).

PROGRAM FOR ADVANCED DOCTORAL STUDENTS IN ECONOMICS 2005

01.08 - 05.08	**Financial Markets & the Macroeconomy** Prof. F.X. Diebold, University of Pennsylvania
08.08 - 12.08	**Development Economics** Prof. D. Acemoglu, MIT
15.08 - 19.08	**Optimal Monetary and Fiscal Policy** Prof. V.V. Chari, University of Minnesota
29.08 - 02.09	**Cooperative Game Theory** Prof. E.S. Maskin, Institute for Advanced Study, Princeton

PROGRAM FOR ADVANCED DOCTORAL STUDENTS IN LAW AND ECONOMICS 2005

23.05 - 27.05	**Insolvency Issues** Prof. J. Fried, University of California at Berkeley
27.06 - 01.07	**Intellectual Property Issues** Prof. P. Menell, University of California at Berkeley

CULTURAL CALENDAR 2005

Do make a note to join us for the following events. CHF 10.- admittance, all concerts begin at 20.00h. For reservations, please call 031 780 3131

MARCH 23
The Glue Glue Five
Jazz band

APRIL 20
Combo Tzigane
Salonmusik

MAY 31
Christine Lauterburg
Jodel special - Folksmusic

JUNE 22
The Hobos' Life Train Trio
Blues

SEPTEMBER 28
EOS-Quartett
Latin Adventures

DECEMBER 7
SINGtonic
Vocal Comedy

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