This Newsletter briefly reports about the Study Center’s activities in the past year and the agenda for the months ahead. It also contains an interview with Mariacristina De Nardi who taught an advanced doctoral course in summer 2019 on the topic of “Heterogeneous Agents Models. Crafting, Calibration, and Estimation”, and informs about other developments at the Center.

Looking back to 2019, the Study Center organized and hosted a variety of academic activities. Many central bank economists, academics and PhD students from around the world visited Gerzensee. Conference highlights included the event with the Journal of Economic Dynamics and Control, co-organized with the Federal Reserve Bank of St. Louis, the Swiss National Bank and the University of Bern, and featuring papers on “Disaggregate Data and Macroeconomic Models” as well as the traditional meetings co-organized with the Swiss Finance Institute and the Centre for Economic Policy Research. Six Central Bankers Courses, many doctoral course weeks including exams and a graduation ceremony as well as the Alumni Conference completed the academic program.

Looking ahead, we plan a series of events in 2020. These include the bi-annual conference with the Journal of Monetary Economics, co-organized with the Swiss National Bank; conferences with the Swiss Finance Institute and the Centre for Economic Policy Research; six Central Bankers Courses; a new instance of the Swiss Program for Beginning Doctoral Students in Economics; five Advanced Courses in Economics for Doctoral Students and Faculty Members; two Law and Economics Courses for Doctoral Students and Faculty Members, and a workshop on “Money, Banking, Payments and Finance,” jointly with the University of Wisconsin-Madison.

At the Study Center, we benefit from outstanding partner institutions and the support of many individuals. We very much appreciate this collaboration and work hard to organize courses and conferences of the highest quality.

I look forward to welcoming some of this Newsletter’s readers as well as many “newcomers” to the Study Center during the year.

With best wishes,
Dirk Niepelt, Director
Yes, inequality, in both wealth and earnings, is different across countries. In my job market paper, for instance, I compared the United States and Sweden. They are very different countries not only in terms of inequality but also in terms of government intervention, tax structure, and social insurance, with Sweden being much more redistributive.

In this context, there are at least a couple of interesting points to be made. First, you need to be careful how you measure inequality and what the measure of inequality that you use tells you. If you use the Gini coefficient as your measure of inequality, it is going to tell you that Sweden and the United States are quite similar. But they are quite similar in a very different way. The Gini coefficient is high in the United States because the top 1 percent holds a lot of wealth, while it is high in Sweden because the bottom 40% of people do not save very much. Thus, if you just look at the Gini coefficient you are ignoring very important aspects about the entire distribution and where inequality comes from.

Second, the reason why this inequality arises is very different. In Sweden the government insures you a lot. For instance, if you become unemployed, unemployment insurance is comparatively much more generous and if you become sick, you pay almost none of your medical expenditures. There are many other safety nets too, so it is rational for people with relatively lower earnings not to save. Moreover, at the top end, there is much less inequality in Sweden because taxation is more progressive and education is free and of generally high quality. Thus, it is very important to take into account how different institutions lead to inequality.

Generally, you should be careful how you interpret inequality because the fact that a large fraction of people do not hold any wealth is not necessarily a signal that they are poor or badly insured. In fact, in some countries those people are not saving because they do not need to save. Their behavior is the optimal response to the institutions and government programs of the society that they live in.

In some of your recent research you show that medical expenses after retirement are an important driver of wealth inequality. Are these costs such a strong motive for saving?

In many countries, whenever you experience an “impairment of activities of daily living,” which makes it difficult to feed or bath yourself, or go to the toilet on your own, you need to be in a specialized facility, where you receive medical care and support around the clock. This situation is very expensive.

We find that the risk of living long and being hit by these expensive medical conditions is the largest financial risk the elderly face during retirement. We were the first to show that it is an important driver of savings during retirement. To give you an idea of how expensive this is, consider that an accommodation in a nursing home in the United States can easily amount to 75,000 dollars a year for a shared room, an accommodation that would not be considered luxurious by most people. And these costs keep increasing fast over time.

The extent to which these risks drive savings crucially depends on who pays for these costs: the government, the individual, or both.

How important is the government as provider of insurance against the risks associated with old age and how can individuals insure themselves otherwise?

There are two ways in principle you could insure these risks. One is through very good financial products that people can buy on their own and the other one is through government insurance.

Privately purchased financial products include, for instance, private long-term-care insurance and annuities. The problem with the private long-term-care insurance products that are currently sold is that they do not insure people against tail risk. What is a tail risk? An example is making it to very old age and ending up in a nursing home for a long period of time. Thus, it is the combination of the risk of living long and having an expensive nursing home stay.

Current private long-term-care insurance products do not insure you against these worst-case scenarios. For instance, they typically include a maximum insurance coverage over a given period or for the remainder.
of your life. Hence, they do not insure you against the tail risk that you fear the most, the one that is hardest to insure just by saving by yourself.

Why private long-term-care insurance products insuring the tail risk are not sold and purchased much is a very interesting question. But, for whatever reasons, whether they relate to financial firms or the consumer side, the vast majority of these products are very limited in coverage and also have a thin market.

For this reason, the role of government insurance is very important. In the United States, for instance, Medicaid covers approximately 70% of nursing home residents.

You also point out in your research that it matters whether you are single or in a couple both during the working period and retirement. What makes the difference?

Due to modeling complexity, we often assume that in a household there is only one decision maker that faces a set of risks. However, in reality, most adults are in a couple. Thus, during the working period, both can potentially work and experience labor market risk. During the retirement period, the health risk and medical expenses of both and the risk of losing one spouse due to death become increasingly more important.

My most recent research finds that it is very important to model the differences between men and women because the labor supply elasticity of the secondary earner, which historically has been the wife, is very high. This elasticity of labor supply is crucial in determining the way in which the economy responds to taxation and policy reform more generally and thus to design better policies and institutions.

What are the most important policy implications of your recent research?

In my recent research on the labor supply and consumption behavior of couples and singles in the United States, we find that joint income taxation and old age marital social security benefits generate very strong disincentives to female labor supply and savings. I also find that if you reform this system and announce it well in advance, not only will women work much more, but the vast majority of households will experience a welfare gain. Thus, it is important to re-evaluate the provisions that discourage the labor supply of women and secondary earners more generally.

Why did you choose academia and your specific field?

I have worked in both academia and two Federal Reserve banks. Both jobs involve research. In academia, the main complement to research is teaching, while in Federal Reserve banks it is policy work. Obviously, I love doing research and looking for rigorous answers to the questions that I am interested in.

Some teaching is very complementary to research and helps me in avoiding eventually becoming “too narrow” in terms of the topics that I think about. It also has the great benefit of learning from the graduate students, their questions, and their research, if you are fortunate enough to teach them and work with them. Policy work can also be very interesting, depending on the question and your research interests, and has the big advantage of helping you focus on questions that are timely, interesting to many, and of policy relevance.

I did not choose my specific field, there were specific questions that fascinated me and chose me. I am a very questions-driven person and the questions that I study have been evolving and changing over time. And so have been the tools that I use and the field that I learn from.

What would be your advice for young researchers, PhDs and job market candidates?

The most important thing is to work really hard, because it takes an enormous amount of work to get to any interesting answers. The second most important thing is to develop a good team of co-authors to complement your skills. In that regard, you should keep in mind that to be a good economist you need several things: the ability to use math and econometric tools, the ability to write models and understand how they work, the ability to work with data and interpret them, the ability to ask interesting questions, and the ability to tell a compelling story. Most people do not excel along every dimension. You should objectively assess your skills, find ways to develop them, and search co-authors who can help you achieve your research goals.

Professor De Nardi, thank you very much for this interview.

Maria Bolboaca and Lorenz Driussi conducted this interview.
ACADEMIC CONFERENCES

RESEARCH DAYS AND SWISS DOCTORAL WORKSHOP IN FINANCE
June 2–4, 2019, jointly with Swiss Finance Institute
Plenary Session:
Empirical Asset Pricing via Machine Learning
Academic Sessions
PhD Parallel Sessions

EUROPEAN SUMMER SYMPOSIUM IN ECONOMIC THEORY
July 1–12, 2019, jointly with CEPR
Focus Sessions:
Time Consistency and Self Control
Errors and Misspecification
Preferences beyond Expected Utility
Information and Belief Coordination
Bayesian Persuasion

EUROPEAN SUMMER SYMPOSIUM IN FINANCIAL MARKETS
July 15–26, 2019, jointly with CEPR
Focus Sessions:
Pricing and Sharing Bitcoin Risk
Asset Management and Market Equilibrium
Debt Structure and Debt Dynamics
Labour and Finance
Household Finance

OTHER EVENTS
October 24, 2019
Graduation Ceremony for participants of the Swiss Program for Beginning Doctoral Students in Economics 2018/19

October 31–November 1, 2019
Alumni Conference
CONFERENCE WITH THE JOURNAL OF ECONOMIC DYNAMICS AND CONTROL ON DISAGGREGATE DATA AND MACROECONOMIC MODELS

October 18–19, 2019, jointly with the Journal of Economic Dynamics and Control, the Federal Reserve Bank of St. Louis, the Swiss National Bank, and the University of Bern

Trade Integration in Colombia: A Dynamic General Equilibrium Study with New Exporter Dynamics
Authors: George Alessandria and Oscar Avila, University of Rochester
Discussant: Alessandra Bonfiglioli, Queen Mary University of London

What Drives Aggregate Investment? Evidence from German Survey Data
Authors: Ruediger Bachmann, University of Notre Dame, and Peter Zorn, University of Munich
Discussant: Andrea Caggese, Universitat Pompeu Fabra

Regional Data in Macroeconomics: Advice for Practitioners
Author: Gabriel Chodorow-Reich, Harvard University
Discussant: Thuy Lan Nguyen, Santa Clara University

Rising Bank Concentration
Authors: Dean Corbae, University of Wisconsin-Madison, and Pablo D’Erasmo, Federal Reserve Bank of Philadelphia
Discussant: Jochen Mankart, Deutsche Bundesbank

Monetary Policy and Household Inequality
Authors: Jiri Slacalek and Oreste Tristani, European Central Bank, and Gianluca Violante, Princeton University
Discussant: Ralph Lütticke, University College London

Estimating Linearized Heterogeneous Agent Models Using Panel Data
Authors: Tamas Papp and Michael Reiter, Institute for Advanced Studies, Vienna
Discussant: Wouter den Haan, London School of Economics

Capital Income Taxation with Housing
Author: Makoto Nakajima, Federal Reserve Bank of Philadelphia
Discussant: Axelle Ferriere, Paris School of Economics
COURSES

CENTRAL BANKERS COURSES 2019

Advanced Topics in Empirical Finance
External lecturers: Casper de Vries, Thierry Foucault, Michael Rockinger, Norman Schürhoff

Monetary Policy, Exchange Rates, and Capital Flows
External lecturers: Philippe Bacchetta, Giancarlo Corsetti, Philipp Harms, SNB staff

Banking Regulation and Supervision
External lecturers: Philippe Bacchetta, Martin Gonzalez-Eiras, Michel Habib, Jean-Charles Rochet, Michael Rockinger, Heinz Zimmermann, BIS, Finma, Postfinance and UBS staff

Macroeconomic Forecasting
External lecturers: Daniel Kaufmann, Massimiliano Marcellino, Barbara Rossi, SNB staff

Advanced Topics in Monetary Economics
External lecturers: Lawrence Christiano, Stephanie Schmitt-Grohé, SNB staff

Instruments of Financial Markets
External lecturers: Philippe Bacchetta, Amit Goyal, Michel Habib, Erwan Morelec, Michael Rockinger, BIS and SNB staff

SWISS PROGRAM FOR BEGINNING DOCTORAL STUDENTS IN ECONOMICS 2018/19 AND 2019/20

Microeconomics

Macroeconomics
Lecturers: Fernando Alvarez, Jordi Gali, Sérgio Rebelo, Ricardo Reis

Econometrics
Lecturers: Bo Honoré, Mark Watson

ADVANCED COURSES IN ECONOMICS FOR DOCTORAL STUDENTS AND FACULTY MEMBERS 2019

Behavioral Finance, jointly with Swiss Finance Institute
Lecturer: Kent Daniel

Recent Advances in Bayesian Macroeconometrics
Lecturer: Frank Schorfheide

HAM: Heterogenous Agents Models. Crafting, Calibration, and Estimation
Lecturer: Mariacristina De Nardi

Optimal Fiscal and Monetary Policy
Lecturer: Mikhail Golosov

Numerical Methods
Lecturer: Felix Kübler

The Macroeconomics of Credit and Asset Bubbles
Lecturer: Jaume Ventura

LAW AND ECONOMICS COURSES FOR DOCTORAL STUDENTS AND FACULTY MEMBERS 2019

Deals: The Legal and Economic Structure of Business Transactions
Lecturer: Michael Klausner

Law and Economics of Regulation
Lecturer: Richard Revesz

SPECIAL EVENT

Mini Course on "Beliefs and Bounded Rationality in Macroeconomics", jointly with the University of Bern
Lecturer: George-Marios Angeletos
AGENDA

CONFERENCES 2020

Research Days and Swiss Doctoral Workshop in Finance, jointly with Swiss Finance Institute
Workshop on Money, Banking, Payments and Finance, jointly with the University of Wisconsin-Madison
European Summer Symposium in Economic Theory, ESSET, jointly with CEPR
European Summer Symposium in Financial Markets, ESSFM, jointly with CEPR
Conference with the Journal of Monetary Economics, jointly with the Swiss National Bank

CENTRAL BANKERS COURSES 2020

Inflation Forecasting and Monetary Policy
External lecturers: Pierpaolo Benigno, Carlo Favero, Daniel Kaufmann, SNB staff
Monetary Policy, Exchange Rates and Capital Flows
External lecturers: Philippe Bacchetta, Giancarlo Corsetti, Philipp Harms, BIS and SNB staff
Financial Stability
External lecturers: Philippe Bacchetta, Michael Rockinger, Ernst-Ludwig von Thadden, SNB and Swiss Banking staff
Monetary Markets, Liquidity, and Payment Systems
External lecturers: Randall Wright, Ricardo Lagos, SNB staff
Advanced Topics in Monetary Economics
External lecturers: Lawrence Christiano, Stephanie Schmitt-Grohé, SNB staff
Instruments of Financial Markets
External lecturers: Philippe Bacchetta, Amit Goyal, Michel Habib, Erwan Morellec, Michael Rockinger, BIS and SNB staff

SWISS PROGRAM FOR BEGINNING DOCTORAL STUDENTS IN ECONOMICS 2019/20 AND 2020/21

Microeconomics
Lecturers: Piero Gottardi, Johannes Hörner, John Moore, Klaus Schmidt
Macroeconomics
Lecturers: Fernando Alvarez, Jordi Galí, Sérgio Rebelo, Ricardo Reis
Econometrics
Lecturers: Bo Honoré, Mark Watson

ADVANCED COURSES IN ECONOMICS FOR DOCTORAL STUDENTS AND FACULTY MEMBERS 2020

Heterogeneity and Monetary Policy
Lecturer: Gianluca Violante
Recent Advances in International Finance, jointly with Swiss Finance Institute
Lecturer: Hanno Lustig
Inequality, Taxation, and Redistribution
Lecturer: Stefanie Stantcheva
High Dimensional Bayesian Time Series and State Space Models
Lecturer: Sylvia Frühwirth-Schnatter
Macroeconomics with Financial Frictions: Monetary and Macroprudential Policies
Lecturer: Javier Bianchi

LAW AND ECONOMICS COURSES FOR DOCTORAL STUDENTS AND FACULTY MEMBERS 2020

Governance and Regulation of Blockchains and FinTech
Lecturer: David Yermack
Law and Economics of Liability and Enforcement for Corporations and Individuals
Lecturer: Jennifer Arlen
Articles


WORKING PAPERS

19.01 Maria Bolboaca and Sarah Fischer
“News Shocks: Different Effects in Boom and Recession?”

19.02 Maria Bolboaca and Sarah Fischer
“Unraveling News: Reconciling Conflicting Evidence”

19.03 Simon Beyeler
“Streamlining Time-varying VAR with a Factor Structure in the Parameters”

19.04 Chao Gu, Cyril Monnet, Ed Nosal and Randall Wright
“On the Instability of Banking and Other Financial Intermediation”

19.05 Markus K. Brunnermeier and Dirk Niepelt
“On the Equivalence of Private and Public Money”

19.06 Nils Herger
“Unregulated and Regulated Free Banking. The Case of Switzerland Reinterpreted”

VISITORS PROGRAM

Martin Gonzalez-Eiras, University of Copenha
gen, visited the Study Center in May to collabo
date with Dirk Niepelt.

Markus Pape, Bochum-Ruhr University, visited in March to collaborate with Sylvia Kaufmann.

Fabrizio Matteisini, University of Rome Tor Vergata, visited in February, Johnathan Chiu, Bank of Canada visited in May; both collaborated with Cyril Monnet.

STAFF NEWS

Cyril Monnet took a one-year sabbatical and is currently visiting the BIS. Maria Bolboaca tempo-
arily replaced him as Program Director Doctoral Courses. Among the teaching assistants, Lorenz Drissi and Fabienne Schneider successfully com-
pleted the BDP. Fabio Canetg, University of Bern, accepted a part-time teaching assistant position for one year. Lukas Voelmy obtained his doctoral degree from the University of Bern; he left the Study Center for the University of Essex in August.

ABOUT

Foundation of the Swiss National Bank

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