Univ.-Prof. Thomas P. Gehrig, Ph.D.
Institut für Finanzwirtschaft

Financial Crises and Macroprudential Regulation

Winter 2018/19

Seminar within the specializations **"Financial Markets**" and **"Financial Intermediation"**

Ten years after the Great Financial Crisis economic conditions seem to repeat themselves; monetary policy tightening starts in the US and Europe seems to follow with some lag, interest rates are on the rise, stock market valuations are high but volatile, real estate markets are in bubble conditions, securitization activity reaches historically high levels, etc. etc. Are the Western economies better prepared this time to deal with rising interest rates? Have the lessons of the GFC been learned and has the financial systems been mended in order to be able to deal with the stress of stricter monetary policy?

The big lessons learned are now commonly summarized under the concept of macroprudential regulation. In this seminar we will discuss the regulatory reactions to the GFC and the institutional changes that have been made. We will discuss first empirical evidence in order to assess its effectiveness and to identify potential loopholes in need to be repaired in order to increase the resiliency of the financial system. In particular, we will need to discuss the role of liquidity and, hence, the role of monetary policy in avoiding financial crises. This is an old research topic dating back to the “Austrian School” (particularly Böhm-Bawerk, Mises and Hayek) with possibly different lessons.

Cooperation: This seminar is organized in cooperation with **Dr. Stefan Kerbl (Oesterreichische Nationalbank, Financial Stability and Macroprudential Supervision Division**)

Requirements:

This is an advanced master-level seminar. It also serves as a potential basis for the preparation of a master thesis or other advanced work. Therefore, having passed successfully the course "Basics of Finance" is a pre-requirement. The knowledge of the course in “Financial Intermediation” is strongly recommended.

Background Reading:

- Allen, Franklin and Douglas Gale: *Understanding Financial Crises*, Oxford University Press, 2009.
- Eichengreen, Barry: *Globalizing Capital: A History of the International Monetary System,* Princeton University Press, 2008
- Razin, Assaf: *Understanding Global Crises: An Emerging Paradigm.* MIT Press, 2014.
- Hyun Song Shin: *Risk and Liquidity*. Clarendon Lectures in Finance, 2010.

Topics

1. Lessons from the Great Financial Crisis

    - securitization
    - counter party risk and liquidity
    - interbank contagion
    - fire sales, pro-cyclical adjustments

2. Systemic Risk

    - systematic risk versus systemic risk
    - feedback effects
    - correlation and amplification
    - measuring systemic risk

3. Macroprudential Regulation

    - emergence of the concept, important tools and objective
    - actual policy role in Europe and Austria today
    - empirical evidence so far

4. Monetary Policy and Macroprudential Supervision

    - relation between monetary policy and macroprudential supervision
    - real effects of monetary policy?
    - empirical evidence

Literature

Ad 1) Lessons from the Great Financial Crisis

- Danielson, Jon, Marcela Valenzuela and Ilknur Zer (2018): Learning from History: Volatility and Financial Crises, Systemic Risk Centre, London, Discussion Paper 57.
- Drehmann, M (2013): "Total credit as an early warning indicator for systemic banking crises", BIS Quarterly Review, June, pp 41-5.
- Financial Crisis Inquiry Report, Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States, FCIC, US Government Printing Office, Jan. 2011.
- IMF (2010) Central Banking Lessons from the Crisis (https://www.imf.org/external/np/pp/eng/2010/052710.pdf)
- Luc Laeven and Fabián Valencia (2012) Systemic Banking Crises Database: An Update. IMF Working Paper. WP/12/163, https://www.imf.org/external/pubs/ft/wp/2012/wp12163.pdf [data freely available here https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Systemic-Banking-Crises-Database-An-Update-26015]
- Reinhart, C. and Rogoff, K. (2009). *This time is different: Eight centuries of financial folly*. Princeton University Press.

Ad2) Systemic Risk

- Acharya, V., L. Pederson, P. Phillipon and M. Richardson (2017): Measuring Systemic Risk, Review of Financial Studies, 30(1), 2-47.
- Allen, F., A. Babus, E. Carletti (2012): Asset Commonality, debt maturity and systemic risk, Journal of Financial Economics 104, 519-534.
- Brownlees D. and R.F. Engle (2017): SRISK: A Conditional Capital Shortfall Measure of Systemic Risk, Review of Financial Studies 30(1), 48-79.
- Danielson, Jon, Hyon-Song Shin and Jean-Pierre Zigrand (2011): Endogenous and Systemic Risk, FMG Working Paper.
- De Bandt, O., P Hartmann (2000): Systemic Risk: a Survey, ECB, Working Paper 35. [dated pre-crisis views]
- Gehrig, T., M.C. Iannino (2017): Did the Basel Process of Capital Regulation Enhance the Resiliency of European Banks?, ESRB Discussion Paper.
- Greenwood, Landes, Thesmar (2012): Vulnerable Banks, NBER Discussion Paper 18537.
- Zigrand, Jean Pierre (2014): Systems and Systemic Risk in Economics and Finance, Systemic Risk Centre, London, Special Paper 1.

Ad 3) Macroprudential Regulation

- Acharya, V., R. Engle and D. Pierret (2014): Testing Macroprudential Stress Tests: The Risk of Regulatory Risk Weights, Journal of Monetary Economics 65, 36-53.
- Aiyar, S., Calomiris, C. and Wieladek, T. (2011). Does Macro-Pru leak? Evidence from a UK policy experiment. NBER Working Papers 17822, National Bureau of Economic Research.
- BIS (2018) Moving forward with macroprudential frameworks. Chapter 4 in the BIS Annual Report 2018, pp. 63-89. https://www.bis.org/publ/arpdf/ar2018e4.pdf
- Borio, C. (2003). Towards a macro-prudential framework for financial supervision and regulation? BIS Working Papers No 128, February.
- ESRB (2018) A Review of Macroprudential Policy in the EU in 2017. European Systemic Risk Board. https://www.esrb.europa.eu/pub/pdf/reports/esrb.report180425_review_of_macroprudential_policy.en.pdf
- Hanson, S., Kashyap, A. and Stein, J. (2011). A macroprudential approach to financial regulation. *Journal of Economic Perspectives*, 25: 3-28.
- Kuttner, K and I Shim (2016): “Can non-interest rate policies stabilize housing markets? Evidence from a panel of 57 economies”, Journal of Financial Stability, vol 26, pp 31–44.
- Aguirre, H and G Repetto (2017): “Capital and currency-based macroprudential policies: an evaluation using credit-registry data”, BIS Working Papers, no 672, November.
- Altunbas, Y, M Binici and L Gambacorta (2018): “Macroprudential policy and bank risk”, Journal of International Money and Finance, vol 81, pp 203–20.
- Sophia Döme & Stefan W. Schmitz & Katharina Steiner & Eva Ubl, 2016. "The changing role of macroprudential policy in Austria after World War II," Monetary Policy & the Economy, Oesterreichische Nationalbank (Austrian Central Bank), issue 3, pages 163-189.
- Eidenberger, J., D. Liebeg, S. W. Schmitz, R. Seliger, M. Sigmund, K. Steiner, P. Strobl und E. Ubl. 2014. Macroprudential Supervision: A Key Lesson from the Financial Crisis. In: OeNB Financial Stability Report 27. 83–94

Ad 4) Monetary Policy and Macroprudential Supervision

- Acharya, Viral and Guillaume Plantin (2017): Monetary Easing and Financial Instability, Systemic Risk Centre, London, Discussion Paper 64.
- Gerba, Eddie and Corrado Macchiarelli (2015): Interaction between monetary policy and bank regulation: Theory and European practice, Systemic Risk Centre, London, Special Paper 10.
- Nier, Erlend and Kang, Heedon, (2016), Monetary and macroprudential policies – exploring interactions, p. 27-38 in Settlements, Bank for International eds., Macroprudential policy, vol. 86, Bank for International Settlements. Available here: https://www.bis.org/publ/bppdf/bispap86e.pdf
- Tayler, William & Zilberman , Roy, (2016) Macroprudential regulation, credit spreads and the role of monetary policy. Bank of England working papers 599, Bank of England. https://ideas.repec.org/p/boe/boeewp/0599.html

Grading:

Grading is based on three elements:

1. The worked out seminar paper (40 points).
   Each candidate has to submit a single-authored paper not exceeding 12 pages.

   The seminar draft has to be ***submitted one week prior to the presentation*** in electronic form. This version is distributed to seminar participants in order to allow them preparation. After the presentation the paper can still be improved.

   Final submission for all papers **is January 31, 2019**. Thereafter no corrections are possibly anymore.

2. Presentation of the seminar paper (30 points)

   Presentations can be shared, but each candidate will be assessed on his/her own part.

3. Course participation (30 points)

   Active preparation and participation are required as well as active reception and discussion of the work and presentations of peers. A seminar requires two-way communication, i.e. both a sender and a receiver. Accordingly, both roles will be relevant for grading.

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040074 Seminar (MA) - Univ.-Prof. Dipl.-Vw. Thomas Gehrig, PhD

SCHEDULE

KW	Datum	Tag	Beginn-Ende	Raum	
40	01.10.2018	Mo	15:00 - 16:30	SR 4	Introduction
41	08.10.2018	Mo	15:00 - 16:30	SR 4	Macropru
42	15.10.2018	Mo	15:00 - 16:30	SR 4	Systemic Risk
43	22.10.2018	Mo	15:00 - 16:30	SR 4	…
44	29.10.2018	Mo	15:00 - 16:30	SR 4	
45	05.11.2018	Mo	15:00 - 16:30	SR 4	
46	12.11.2018	Mo	15:00 - 16:30	SR 4	
47	19.11.2018	Mo	15:00 - 16:30	SR 4	
48	26.11.2018	Mo	15:00 - 16:30	SR 4	
49	03.12.2018	Mo	15:00 - 16:30	SR 4	
50	10.12.2018	Mo	15:00 - 16:30	SR 4	
02	07.01.2019	Mo	15:00 - 16:30	SR 4	
03	14.01.2019	Mo	15:00 - 16:30	SR 4	
04	21.01.2019	Mo	15:00 - 16:30	SR 4	…
05	**28.01.2019**	**Mo**	**08:00 – 13:00**	**Skylounge**	**Final Presentations**