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Goethe-Universität Frankfurt

# Newsletter Q4

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## NEWSLETTER SUBSCRIPTION

The House of Finance opened in 2008. It integrates Goethe University's interdisciplinary research on finance, monetary economics, and corporate and financial law under one umbrella. Eight academic research and training units work together in the House of Finance.

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

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# EDITORIAL

Just a year after the worst economic and financial crisis of the last 60 years, Germany is enjoying a robust recovery. This may make it all too easy to forget the tremendous turmoil being experienced by some of our neighbors, for example, Ireland.

So this is precisely the right time for Germany, and its economic and financial heart, Frankfurt, to accept responsibility for guiding the discourse now required. We have to help steer the discourse on how the factors behind the crisis should be corrected, and provide the expertise necessary for taking the right decisions in its aftermath. Leadership must originate in Frankfurt. This is an opportunity, not just for the Rhine-Main region, but also for the whole of Germany.

The crisis has revealed that those who have exercised caution, like Germany and other European countries, have generally fared better. Overall, the Frankfurt banking center, characterized by the concept of "universal banks", has proven more resilient than its Anglo-Saxon counterparts who have relied on an investment banking model. Recent studies indicate that the losses prompted by the crisis were significantly higher in London and Paris, and that the policy of striving for financial market stability has proven wise and sustainable.

It is our shared objective to assure that Frankfurt rises to the challenge of international competition and continues to be acknowledged as a leading center for finance, a prime address for respected, economically strong companies, and as a place for science and research. With these goals in mind, it is imperative that we attract and retain the best minds, so that good quality and sustainable growth is actually possible. The House of Finance is a cornerstone in this respect. By combining research, education, theory and practice in one place, we have created a nucleus where research excellence meets the world of practice, leading to many fruitful synergies.

With the establishment of the European Systemic Risk Board at the ECB and the location of the new European supervisory authority for insurance companies in Frankfurt, a number of key elements of the European regulatory architecture will be situated here.

As residents of Hessen, we are conscious of our responsibility and confident in the joint efforts between the financial and political communities. The Frankfurt Institute for Risk Management and Regulation (FIRM) has been founded to carry out a lasting review of the causes and consequences of the financial crisis. It is affiliated with the House of Finance, and conducts practice-related research at an international level while contributing substantially to international projects in the field of risk management.

The Chair of Insurance, Supervision and Regulation and the International Center for Insurance Regulation have been established at the House of Finance in support of the new supervisory authority for the European insurance industry. This is one more element in our efforts to create an international network for research and teaching, and to develop a common frame of reference for research and regulation. As a major component of our financial structure, the German Stock Exchange is a further important source of support here.

However, we also need to ensure that our financial, industrial and economic systems are supported by a broad social consensus. The Federal Government, in particular, is grappling with a difficult situation right now. While Germany has been praised for the way in which it has managed the crisis, many Germans have the impression that nothing has changed since the crisis passed.

We are all familiar with the consequences of such contradictory perceptions. For example, many believe that the European rescue fund of €500 billion is merely a subsidy for the banking sector. And the argument over bonuses has become crucial to evaluating the integrity of not just a single industry, but also the actions of a whole government.

As a political and financial community, we all share a responsibility for ensuring that the financial sector is accepted by all segments of society. This will take much hard work to achieve, as well as tact and diplomacy in the face of considerable public scrutiny; a task that must be shared with unwavering commitment by politicians and practitioners alike. It will take nothing less for us to discharge our responsibility to our fellow citizens.

**Volker Bouffier**
Minister President
of the State of Hessen

# CONSUMER DECISION MAKING AND OPTIMAL RISK MANAGEMENT FOR INSURANCE COMPANIES

**Helmut Gründl**
Goethe University and
Director International Center
for Insurance Regulation

**Sebastian Schlütter**
Goethe University

**Solvency regulation for insurers and reinsurers in the European Union is undergoing a significant change. Besides risk-adjusted capital requirements and adequate risk management processes, the future supervisory regime Solvency II demands that insurers and reinsurers provide public reports on their solvency and financial condition. The expectation is that well-informed insurance buyers will incorporate an insurer's financial soundness into their purchase decision, and that insurance demand will incentivize insurers to provide a high level of safety. Thus, market discipline will efficiently ensure insurers' solvency. By conducting a series of experiments, we test how consumers react to information about insurance default risk and derive a default risk-sensitive insurance demand function. Based on these results, we theoretically analyze insurers' optimal risk management strategies in disciplined insurance markets.**

To examine under which conditions market discipline in insurance markets will be effective, and to make predictions on the consequences of increasing market transparency, we consider the following questions:

- How do consumers react to information on insurer default risk?
- How will insurers incorporate consumer behavior into their risk management strategies?
- What are the crucial determinants for the effectiveness of market discipline in insurance markets?
- To what extent are consolidation activities and their financial outcome affected by market discipline?

Prior research on these questions can be divided into two streams of literature: first, experimental research that examines the consumer reaction to insurance default risk. However, from the results here, one can hardly draw any conclusions about optimal pricing and risk management for insurers. Second, work with a few normative approaches for dealing with insurers' risk management and incorporating the consumer reaction to default risk. However, consumer behavior in these models is not quantified on an empirical basis.

## CONSUMER REACTION TO INSURANCE DEFAULT RISK

To gain more insight into consumer purchase behavior and the consumer reaction to different ways of providing information, we experimentally analyze consumers' reactions to insurance default risk (see Zimmer et al., 2009). Consistent with previous research, the results of this experiment reveal that insurance with default risk is very unattractive for insurance buyers. Consumers ask for large reductions in insurance premiums, and a considerable fraction of consumers completely refuses to accept any default risk. The latter result indicates that some consumers find insurance unacceptable as long as they are still subject to some of the risk they wanted to get rid of. However, such behavior cannot be explained by any rational decision model. We find that irrespective of the choice of default probability representation, i.e. the reason for default, the framing of the default risk, and the default-proneness of the reference insurance, default risk is a very unattractive feature of insurance contracts for most individuals.

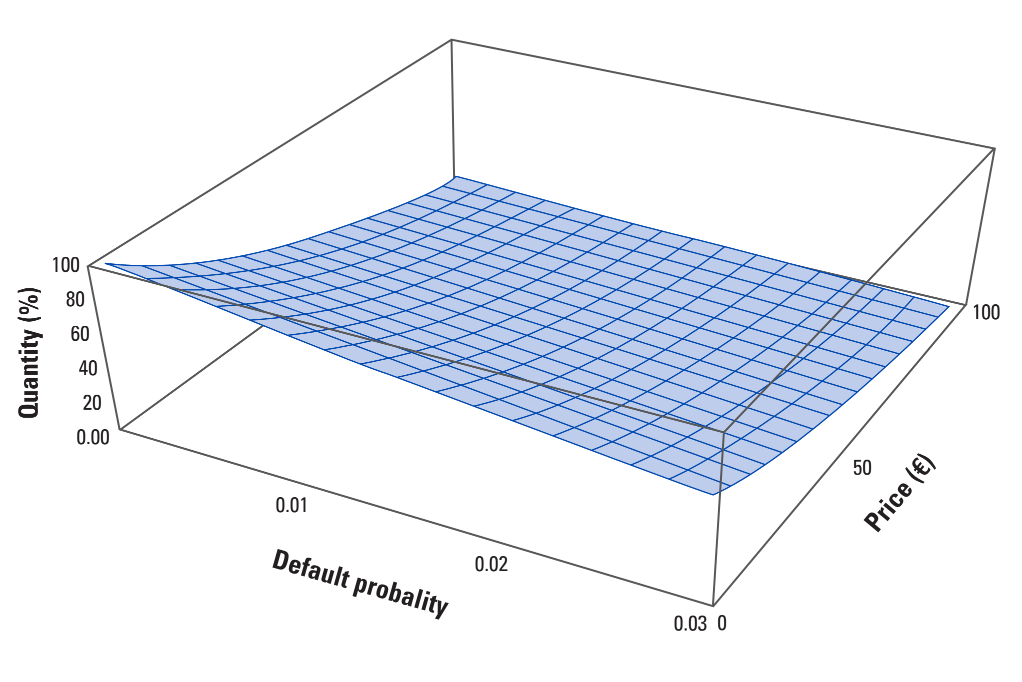


Figure 1: Insurance demand function depending on price and default probability

In a further experiment, we derive a default risk-sensitive insurance demand function that can be incorporated into normative risk management models for insurance companies (see Zimmer et al., 2010). For this purpose, participants were asked to imagine that they had inherited a coin collection worth 800 euros that was threatened by a 5% risk of theft. To insure against this risk, participants were offered four insurance contracts with different levels of default risk. We elicited participants' actual willingness to pay by using a secret price mechanism. In addition, participants' decision making had real money consequences. Figure 1 illustrates the resulting two-parametric insurance demand function, with price and default probability as the parameters.

## OPTIMAL INSURER RISK MANAGEMENT

To analyze the impact of risk transparency on insurer behavior, we incorporate this insurance demand function into a normative stock insurer model. Under this model, the insurer's optimal safety level is the outcome of a balancing act: on the one hand, a higher safety level increases profits because the insurer can attract more customers and offer insurance contracts for higher prices while, on the other, a higher safety level reduces shareholders' limited liability protection, and causes higher transaction costs for risk management (e.g. as regards corporate taxation, agency costs or the transaction costs for reinsurance).

In general, the insurer will optimally decide on a positive probability of ruin once risk management causes transaction costs. However, facing the experimentally obtained demand function – which represents the situation of perfect transparency – the insurer decides on a ruin probability of quasi zero, even if transaction costs for risk management are in place. In this situation, insurers will have an incentive to hold capital far above the minimum level stipulated by regulatory requirements, and market discipline will be effective.

The type of insurance demand function derived allows for a closed-form solution for the optimal safety level and, thus, we can explore the effects of the model parameters on the insurer's default risk (see Schlütter and Gründl, 2010). We find that the optimal default risk level is low if:

- insurance demand reacts strongly to default risk
- insurance demand reacts weakly to price
- insurance risks and asset risks have low volatility
- the risky positions in the asset-liability portfolio are weakly correlated
- transaction costs for risk management are relatively low

We also find that how insurance demand reacts to default risk influences shareholders' incentives for consolidation and group building. In markets with default risk transparency, groups will arrange capital and risk transfers, e.g. in terms of intra-group reinsurance or capital guarantees, and achieve higher safety levels for their subsidiaries. Since policyholders reward the additional safety net in terms of a higher willingness to pay, the group as a whole achieves a higher shareholder value than the stand-alone insurers. Hence, unlike the attempts in the prior literature, a conglomerate discount and lower shareholder value cannot be explained by the reduction of shareholders' limited liability through diversification.

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# ASSET PRICES AND BUSINESS CYCLES WITH FINANCIAL FRICTIONS

**Ctirad Slavik**
Goethe University Frankfurt

**Pedram Nezafat**
University of Minnesota

**This article is a non-technical summary of the following research paper by Pedram Nezafat and Ctirad Slavik titled "Asset Prices and Business Cycles with Financial Frictions" (2010).**

The big unresolved issue in macroeconomics and finance that we explore in this paper is that of the high asset price volatility observed. We want to understand why the aggregate stock market is so much more volatile than aggregate quantities. More specifically, we want to build a model that would perform well both in terms of aggregate quantities and asset prices.

It is true that macroeconomic models with production (starting with the seminal contribution of Kydland and Prescott, 1982) have been quite successful in explaining the behavior of aggregate quantities. However, most of these do not generate hardly any asset price and asset return volatility. This is because they assume that capital can be produced one-to-one from the general consumption good. Then the price of capital in terms of the general consumption good is constant at one. There is a large body of literature that has tried to make changes to the standard framework that would keep the good fit on the quantity side and improve our understanding of the asset price behavior.

In our paper, we want to see whether building financial frictions into a macroeconomic (dynamic stochastic general equilibrium – DSGE) model could help us understand high asset price volatility. Financial frictions have been argued to matter for quantities, but to our knowledge there is no paper showing a clear link between financial frictions and high asset price volatility.

## THE DSGE MODEL WITH FINANCIAL FRICTIONS

Our model is one based on the work of Kiyotaki and Moore (2008). It is an infinite horizon model with two types of agents: workers who work and consume, but do not participate in asset markets, and entrepreneurs who run businesses, create new capital, consume, but do not work. Entrepreneurs are the crucial players in our model.

The model has three major components: technology, asset markets and primitive shocks. As for the structure of technology, there are two technologies. All entrepreneurs can access the production technology for the general consumption good. However, only a fraction of entrepreneurs can start new investment projects. As for the asset market structure, we assume that capital cannot be directly traded, and that equity is the only asset traded. Entrepreneurs without the possibility of starting a new project will want to buy shares in other projects. Meanwhile, financial friction restricts the access of an entrepreneur to outside financing. An entrepreneur can only finance a fraction of a project externally, i.e. by selling equity to other entrepreneurs. Finally, there are two primitive shocks in our model. All entrepreneurs are subject to the same aggregate productivity shock. Also, we assume that the tightness of financial friction (i.e. the ratio of outside to total financing) changes over time. This is a novel feature of our model, one which we document in the data as well.

## ASSET PRICE VOLATILITY IN THE THEORETICAL MODEL

In the paper, we first show theoretically how shocks to productivity and the financial friction

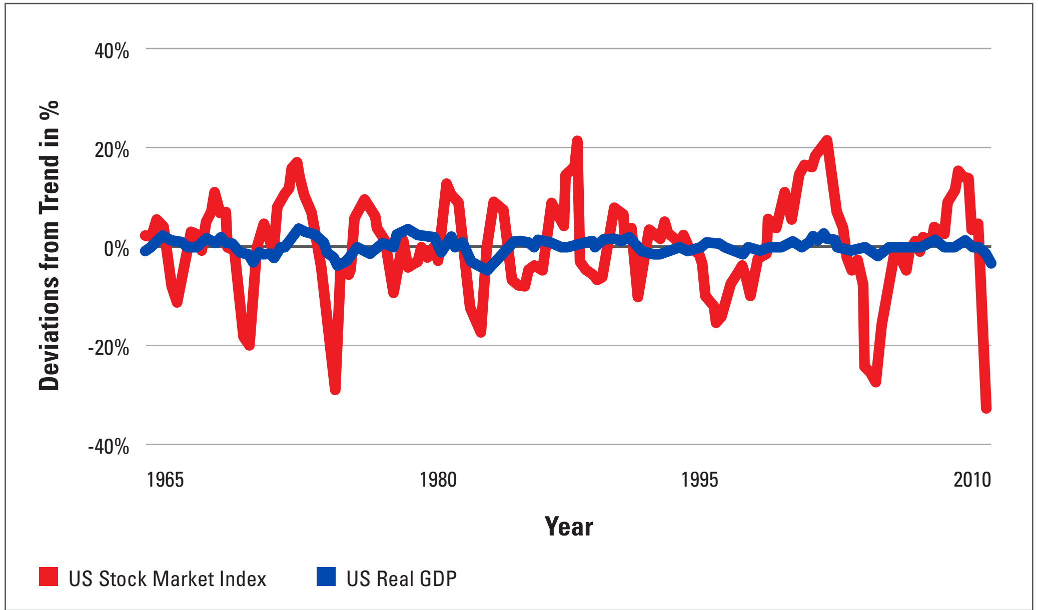


Figure 1: Volatility of the US Stock Market versus the US GDP

parameter imply shifts in equity supply and demand, and thus changes in equity prices. By doing so, we show that the model has the potential to generate asset price volatility. However, we want to know whether the forces we identify are important quantitatively. Therefore, we take the model to the data.

## THE QUANTITATIVE MODEL

There are two non-standard variables that we need to determine for our quantitative exercise: the fraction of entrepreneurs who can start a new project at any given period of time, and the ratio of outside to total financing. We set the fraction of firms with a project in the model equal to the fraction of firms that undertake a lot of investment relative to their size in the data. Our calibration is thus motivated by the literature on investment spikes.

We construct our measure of outside to total financing as the ratio of funds raised in markets divided by the fixed investment of the corporate non-financial sector in the flow of funds. We then estimate an AR(1) process (Gaussian first-order autoregressive process) on this variable and detrended total factor productivity. And we use the estimated processes when we simulate the model.

## ASSET PRICE VOLATILITY IN THE QUANTITATIVE MODEL

We focus on a comparison of two different versions of the model: that is, one in which both productivity and financial tightness are stochastic, and another in which financial tightness is constant and productivity shocks are the only source of uncertainty. We obtain three main results. First, we show that shocks to productivity alone do not generate much asset price volatility. This result means that financial frictions are not strong propagators of productivity shocks, which is in line with previous research (see, for example, Gomes, Yaron and Zhang, 2003). Second, we find that adding shocks to the financial tightness parameter increases the asset price volatility dramatically. It is about 80% relative to the aggregate US stock market.

Finally, we find that fluctuations in financial tightness affect investment, but not so much output. This is a manifestation of the fact that in our model investment is the only channel through which financial frictions affect the economy. The way forward in this line of research lies in incorporating other channels through which financial frictions would affect other real variables, in particular output. Nevertheless, we view our results as very promising and we conclude that financial frictions seem to contribute to asset price movements even at times in which no movements in fundamentals (productivity and output) are observed.

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# RETAIL INVESTOR PROTECTION IN CLOSED-END FUNDS – EFFICIENCY, INVESTOR BEHAVIOR AND EMPOWERMENT IN THE GERMAN "DRAFT FOR DEBATE OF AN ACT ON STRENGTHENING INVESTOR PROTECTION AND IMPROVING THE FUNCTIONALITY OF THE CAPITAL MARKETS"

**Brigitte Haar**
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**Stefan Jobst**
Goethe University

**Given the large number of retail investors who endured high financial losses during the recent financial crisis, retail investor protection ranks high on the political agenda. As a result, the German legislator plans to adopt the so-called "Draft for debate of an Act on Strengthening Investor Protection and Improving the Functionality of the Capital Markets" (i.e., the Anlegerschutz- und Funktionsverbesserungsgesetz, BT-Drs. 17/3628). Generally speaking, this draft intends to strengthen investor protection and to improve investors' trust in the integrity and fairness of capital markets. More specifically, the aim of the draft is to qualify fund shares as "capital investments", as per the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG). Furthermore, the draft provides for more detailed information in sales brochures. Last, but not least, open property funds would be subject to a minimum retention period of two years. What implications does this draft have for the further development of retail investor protection regarding closed-end funds?**

## I. RETAIL INVESTOR PROTECTION BY WAY OF CAPITAL MARKET EFFICIENCY

In general, investor protection under German law is based on the idea of capital market efficiency. This is reflected in the high priority that European directives – the essential parameters for Germany's investor protection laws – give to this goal. From this point of departure, substantial information requirements applicable to capital investments under the WpHG are of key importance to attaining efficient capital markets and, therefore, a high level of retail investor protection.

The furtherance of informational efficiency by market prices requires liquid capital markets for freely tradable capital investments. However, closed-end fund shares have the feature that they are complex long-term capital investments with a limited fungibility. Therefore, they do not fall within the reach of the WpHG so far, which only applies to so-called "financial instruments" (as defined under § 1) requiring fungibility and free tradability. The *"Draft for debate of an Act on Strengthening Investor Protection and Improving the Functionality of the Capital Markets"* now aims to qualify fund shares as "capital investments", as per the WpHG, in order to extend the requirements for appropriate investment advice. These would include, for example, the requirement to record the investor consultation process in a special written protocol or to disclose the commission for sale.

## II. INVESTOR PROTECTION BY WAY OF CAPITAL MARKET EFFICIENCY IN THE FACE OF IMPERFECT INFORMATION PROCESSING AND IRRATIONAL INVESTMENT BEHAVIOR

Having said this, access to more detailed information will only be useful if investors are able to handle the information effectively with regard to their investments. As demonstrated, fund shares are highly complex investments which are frequently beyond the understanding of most ordinary investors. At the same time, there is the risk of an "information overload". These foreseeable dangers are at odds with the legislative idea of efficient information processing in capital markets. Indeed, they have been highlighted by the findings of behavioral law and economics that call into question the very idea of "rational investor behavior". Behavioral finance, for example, provides empirical evidence for instances of investor overconfidence, optimism bias, hindsight bias, and the availability heuristic.

Hence, together with increasing the amount of information available to investors, there may be a need to simplify the information provided. Only then, may retail investors actually be able to handle the information received effectively. In fact, the so-called "Bond" decision of the Bundesgerichtshof (Germany's Federal Court of Justice) in 1993 already allows for these limitations, stating that the information provided to an investor has to take into account his/her individual level of knowledge. This decision, of course, has only been one step in a case-by-case process towards an overall concept of an adequate retail investor protection meeting the needs of modern capital markets.

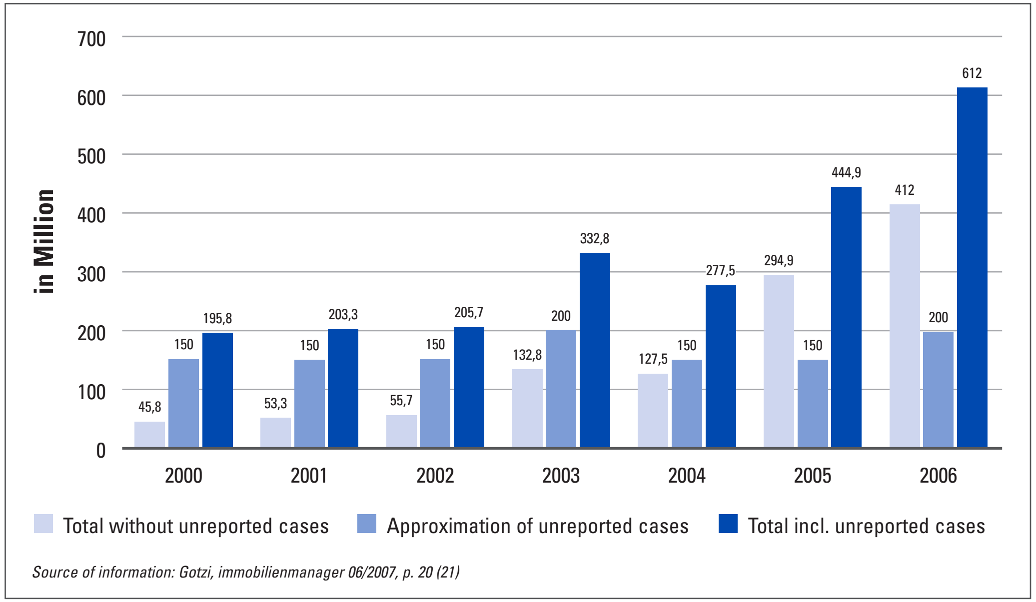


Figure 1: Transaction volume of Closed-end fund shares on secondary market

## III. APPLYING THE CONCEPT OF "INVESTOR EMPOWERMENT" IN ORDER TO RECONCILE EFFICIENCY CONCERNS WITH BEHAVIORAL FINANCE

In light of the recent financial crisis, the shortcomings of the rationality assumption, the systemic risk implied by investor irrationality, and also the dangers of a consumer protectionist approach have all become clear. Therefore, a new regulatory paradigm is beginning to emerge. Neither informational efficiency nor behavior-oriented regulatory interventions seem to do justice to the needs of capital market turbulence. There is evidence that regulators are aiming to empower retail investors via targeted disclosure strategies in order to enhance trust in the functioning of capital markets.

The *"Draft for debate of an Act on Strengthening Investor Protection and Improving the Functionality of the Capital Markets"*, for example, provides for a new type of information brochure. This brochure has to contain all of the relevant information in a short, comprehensive and standardized manner. It is envisaged that standardization will allow for investors to make comparisons (especially with respect to how shares in closed-end funds match up with other capital investments), and simplify how they handle information. However, at the same time, this gives reason to fear that investors' expectations about the risk level for a capital investment may diverge from its true risk profile under a longer term perspective. While enhancing this risk even more, the draft also aims to implement a minimum retention period of two years for those investing in open property funds. In this regard, it seems that developing private information initiatives may be more preferable.

The draft shows that the concept of retail investor protection is changing. It remains to be seen whether the German legislator is also willing to pursue a change of paradigm with respect to the European Commission's Draft Directive for Alternative Investment Fund Managers (the AIFM draft directive) and the Packaged Retail Investment Products (PRIP) initiative, as well as how the remaining questions concerning the implementation of this concept will be resolved. It seems possible that the future of retail investor protection lies not so much in information efficiency, but in investor empowerment and investors' trust in the functioning of capital markets.

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# COMMENT ON THE GERMAN BANK RESTRUCTURING ACT

**Jan Pieter Krahnen**
Goethe University
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**Helmut Siekmann**
Goethe University
and Director Institute for
Monetary and Financial Stability

**The financial crisis has shown that the regulation of financial markets has to mitigate the risks of systemic instability and worldwide contagion without arousing expectations that the equity providers and creditors of "problem" banks will be safeguarded from the consequences of any insolvency by the unconditional support of such banks using taxpayers' money.**

The draft of the German Bank Restructuring Act ("An act for the restructuring and orderly liquidation of credit institutions, for the establishment of a restructuring fund for credit institutions, and for an extension to the period of limitation for the liability of the organs of these institutions according to the German Stock Corporation Law") was prepared by the German Federal Ministry of Finance and adopted by the German Federal Government as a legislative proposal. It contains measures to prevent the insolvency of credit institutions by means of a two-tier process: in a first step, a bank can voluntarily – or under pressure from the German Federal Financial Supervisory Authority (BaFin) – commence a *restructuring* process. In close cooperation with BaFin, a restructuring advisor is appointed by court order to oversee the implementation of restructuring measures. As soon as the restructuring is expected to fail, and a closing of the bank threatens to destabilize the entire financial system, a *reorganization* procedure can be initiated. The supervisory agency BaFin is then entitled to order the bank to transfer the systemically relevant parts of its business or assets to another entity (the "good bank"). By doing so, the systemically risky parts of the bank can be salvaged and restructured. Meanwhile, the systemically non-relevant parts of the bank's business are not secured by the "good bank". In this way, shareholders and creditors of the bank have to bear the burden of a collapse.

By limiting the rescue measures to systemically relevant parts of the financial institution, the strong incentive for moral hazard and the enormous burden on taxpayers are both reduced. This was previously impossible.

In our view, the Restructuring Act is to a large degree a suitable solution for one of the major problems of banking supervision today – namely, how to internalize the external effects of systemic risk into the decision making processes of shareholders, creditors and their representatives.[1] The success of the measures adopted will, however, depend on the ability to determine which of a financial institution's commitments are in fact systemically relevant (and to be salvaged) or systemically non-relevant (and to be liquidated).

Our main criticism is that the mechanisms of the Act can only be fully effective if a binding obligation is imposed on all credit institutions to permanently sell a specified minimum volume of bonds (for instance, 10% of debt capital) to non-financial institutions. These bonds may not, in turn, be purchased by other financial institutions, which would render them systemically relevant contrary to the objective of the Act. To achieve this, it would be necessary to amend the statutory rules and regulations for institutional investors, life insurers and pension funds.

The Act also provides for the formation of a special restructuring fund in order to finance the stabilizing measures adopted under the new statutory rules, for instance the future "bridge bank" to take over parts or all of a systemically relevant financial institution. This restructuring fund is to be financed by the proceeds from a specific contribution (i.e. bank levy) that has to be paid by all banks with systemically risky activities. The levy will be assessed in such a manner that it reflects the degree to which a bank's assets contribute to overall systemic risk.

During the legislative process involved, detailed provisions were added to the original draft of the Act to make sure that the contribution from the bank levy is truly risk-adjusted. In our view, reinvesting the proceeds of the bank levy into the respective credit institutions by way of contingent convertible bonds (CoCo bonds), instead of feeding a fund, would be more preferable. Such bonds could then be converted into equity when deemed appropriate by the supervisory authority.[2]

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

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

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## POLICY PLATFORM NEWS

Prof. Baums has been appointed the German representative in a "Group of Academic Company Law Experts" by the European Commission . This group, initiated by the Internal Market and Services DG, will reflect on the European framework for company law and on possible adjustments and completions thereof. The European Commission is planning a broader public conference on this topic in May 2011. The expert group will prepare reflection documents on issues such as the establishment of uniform rules, the level of harmonization and the possibility of having a model company law in Europe.

# DON'T TIGHTEN THE FINANCIAL SCREWS TOO MUCH

**Dr. Volker Wissing**
Member of the German Federal Parliament (Bundestag)

**Dr. Volker Wissing is a Member of the German Federal Parliament (Bundestag) since 2004. He is a member of the FDP parliamentary group. Before being elected to the Bundestag Dr. Wissing worked as judge in his home state, Rheinland-Pfalz. Among his manifold responsibilities, Dr. Wissing chairs the parliament's Finance Committee and is the spokesman on finance of his parliamentary group.**

***In 2011, Germany will see the introduction of a restructuring fund for the banking industry, which will be financed by the financial sector. What does the Federal Government hope to gain by this action?***

**Dr. Wissing:** The fund represents a systemic solution for systemic crises. The Hypo Real Estate case showed particularly clearly that protective institutions of this kind are indispensable for stabilizing the financial markets. With this restructuring fund, the proven state mechanisms for stabilization in Germany will be set on a permanent foundation. This would include the granting of guarantees and provisions for financial assistance. The purpose of the fund is to ensure financing so that an institution that is too big to fail can be restructured or liquidated in an orderly manner. This burden will no longer have to be borne by taxpayers.

***In this context, Germany will be introducing a levy for banking institutions. Who will be affected by this levy?***

**Dr. Wissing:** This levy must be paid by all companies that have their own license to operate as a credit institution in Germany. We expect it will generate revenues of about €1 billion per year. The amount payable will be based on a progressive payment scale, reflecting the implications that an institution has for the financial system. No market participant will be burdened disproportionately by the forthcoming bank levy.

***Is Germany planning further taxes for the financial sector?***

**Dr. Wissing:** The Federal Government plans to introduce additional taxes for the financial sector as of 2012, which are expected to generate €2 billion per year. The effect on intra-European competition must be taken into account when choosing the appropriate methods of taxation. These must also not create a situation that would favor the migration of funds to unregulated financial centers. According to calculations by the FDP (Free Democratic Party), the financial sector already accounts for a quarter of the entire tax revenues for federal level in Germany. So the financial screws should not be tightened too much.

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"A New Paradigm in Payments: The strengths of networks",
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"Die Finanzmarktaufsicht in der Krise",
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Journal of Risk and Insurance, Vol. 77, pp. 715 – 747

## NICOLA FUCHS-SCHÜNDELN WINS AN ERC STARTING GRANT

Nicola Fuchs-Schündeln has been awarded a prestigious ERC Starting Independent Researcher Grant. Such grants from the European Research Council aim to support up-and-coming research leaders who are about to establish or consolidate a proper research team and to start conducting independent research in Europe. The scheme targets promising researchers who have the proven potential of becoming independent research leaders. Fuchs-Schündeln's project, titled "The Role of Preferences and Institutions in Economic Transitions", was able to shine in the extremely competitive process for these grants.

## ANDREAS HACKETHAL NAMED "PROFESSOR OF THE YEAR"

Andreas Hackethal, a member of the House of Finance and Dean of the Goethe Business School, has been named "Professor of the Year" by the magazine Unicum Beruf. The jury praised the excellent structure of Hackethal's bachelor's, master's, and executive education courses, which prepare students well for their final entry into the job market.

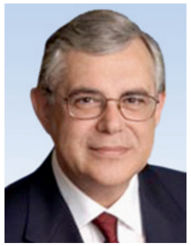
## JAN PIETER KRAHNEN APPOINTED AN EXPERT BY GERMANY'S FEDERAL MINISTRY OF FINANCE

Jan Pieter Krahnen, a Director of the Center for Financial Studies, has been appointed a member of the scientific advisory council for Germany's Federal Ministry of Finance. This council was established in the 1960s, and aims to support politicians by providing them with advice on the fundamental challenges for the future. The council has an independent status and considers itself as being the "scientific conscience" of the politicians that it serves.

## MICHALIS HALIASSOS TO ADVISE THE GREEK GOVERNMENT

Michalis Haliassos has been appointed as a member of Greece's newly established National Council for Research and Technology (NCRT). This 11-member council has the mission of providing advice on how to redesign the institutional framework governing how research is conducted and funded in Greece. Haliassos will be the only economist among the council members, and will work alongside scientists from MIT, Brown University, the LSE and other leading institutions for academic research.

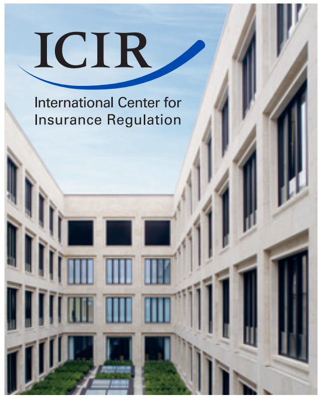
## LUKAS PAPADEMOS A SENIOR FELLOW AT THE CFS



Lukas Papademos has joined the Center for Financial Studies as a Senior Fellow. Papademos, a former Vice-President of the European Central Bank, was previously a professor at Columbia University and the University of Athens. Earlier in his career he worked for the Federal Reserve Board of Boston. Later he joined the Bank of Greece where he subsequently rose to the position of Governor.


## WIWI NEWS NOW AVAILABLE ONLINE

The newsletter of the Faculty of Economics and Business Administration is now available as an online subscription. It provides readers with up-to-date information on the faculty. For more information, please visit: http://www.wiwi.uni-frankfurt.de/en/faculty/newsletter.html.




## INTERNATIONAL CENTER FOR INSURANCE REGULATION INAUGURATED

On November 24, 2010, the International Center for Insurance Regulation (ICIR) was officially inaugurated. With this center, Goethe University establishes itself as a unique global center for scientific research on insurance regulation. The center, headed by Prof. Helmut Gründl, will aim to conduct internationally acknowledged research providing insights and advice on current issues of interest in the field of insurance regulation. In cooperation with Goethe Business School, it is envisaged that new theoretical insights will be channeled into executive education programs for regulators and insurance staff. The ICIR's proximity to the European Insurance and Occupational Pensions Authority (EIOPA) will help to further enrich its activities. The ICIR is funded by the Berlin-based Gesamtverband der Deutschen Versicherungswirtschaft (German Insurance Association) and Germany's state of Hessen.

# QUARTERLY EVENT CALENDAR

## JANUARY

Monday, 3rd
5 pm
**E-Finance Lab Jour Fixe:**
**"Competition among electronic markets and market quality – Evaluation of the MiFID effect on European equity"**
Speaker: Marco Lutat, Goethe University

Wednesday, 12th
12 pm – 1 pm
**Brown Bag Seminar Finance:**
**"Development and Concentration in the European Retail Banking Sector"**
Speaker: Frank Müller, Goethe University

Thursday, 13th
2 pm – 6.45 pm
**Goethe Business School:**
**GMAT Introduction Course and GBS Information Session**

Thursday, 13th
5.15 pm
**Frankfurt Seminar in Economics**

Tuesday, 18th
5.15 pm – 6.30 pm
**Finance Seminar**
Speaker: Frank de Jong, Tilburg University

Tuesday, 18th
**CFS Lecture**

Wednesday, 19th
12 pm – 1 pm
**Brown Bag Seminar Finance:**
**"The Impact of the Financial and Economic Crisis on Asset Allocation, Work Effort and Retirement Behavior over the Lifecycle"**
Speakers: Jingjing Chai, Raimond Maurer, Ralph Rogalla, Goethe University

Thursday, 20th
12 pm
**HoF Brown Bag Seminar:**
**"Die Europäisierung der Finanzmarktaufsicht"**
Speaker: Helmut Siekmann, Institute for Monetary and Financial Stability

Thursday, 20th
5.15 pm
**Frankfurt Seminar in Economics**

Monday, 24th
10.15 am
**Frankfurt Seminar in Economics:**
**"An International Comparison of Altruism and Bequest Motives"**
Speaker: Charles Yuji Horioka, Osaka University, Institute of Social and Economic Research

Tuesday, 25th
3.30 pm – 6 pm
**Goethe Business School Graduation**

Wednesday, 26th
12 pm – 1 pm
**Brown Bag Seminar Finance:**
**"Valuation of Bankable Emission Allowances in a Stochastic Control Model"**
Speaker: Sha He, Goethe University

Thursday, 27th
12.15 pm
**Frankfurt Seminar in Economics**
Speaker: Nezih Guner, Barcelona Graduate School of Economics

## FEBRUARY

Tuesday, 1st
5.15 pm – 6.30 pm
**Finance Seminar**
Speaker: Monika Trupp, University of Cologne

Wednesday, 2nd
12 pm – 1 pm
**Brown Bag Seminar Finance:**
**"Banking Competition and Corporate Risk: Does the Risk Shifting Channel Exist?"**
Speaker: Felix Noth, Goethe University

Thursday, 3rd
12.15 pm
**Frankfurt Seminar in Economics:**
**"Growth Effects of Financial Globalization"**
Speaker: Georgios Georgiadis (joint with Michael Binder and Sunil Sharma), Goethe University

Thursday, 3rd
2 pm – 6.45 pm
**Goethe Business School**
GMAT Introduction Course and GBS Information Session

Monday, 7th
5 pm
**E-Finance Lab Jour Fixe:**
**"The Influence of Product Announcements on Stock Market Performance: The Role of Product Innovativeness, Product Complexity and Financial Risk"**
Speaker: Bernd Skiera, Goethe University

Tuesday, 8th
5.15 pm – 6.30 pm
**Finance Seminar**
Speaker: Stefan Ruenzi, University of Mannheim

Wednesday, 9th
12 pm – 1 pm
**Brown Bag Seminar Finance**
Speaker: Raimond Maurer, Goethe University

Wednesday, 9th
**CFS Colloquium**

Thursday, 10th
5.15 pm
**Frankfurt Seminar in Economics**

Friday, 11th
1.30 pm
**IMFS/LEMF Conference**
**"Finanzsektor im Wettbewerb"**
Speakers (among others): Prof. Wernhard Möschel, Dr. Horst Satzky, Prof. Daniel Zimmer, Prof. Dr. Hannes Rehm

Tuesday, 15th
5.15 pm – 6.30 pm
**Finance Seminar**
Speaker: Peter Feldhütter, Copenhagen Business School

Wednesday, 16th
5.15 pm – 6.30 pm
**Brown Bag Seminar:**
**"Valuing employee stock options and restricted stock in the presence of market imperfections"**
Speaker: Simon Benninga (joint with Menachem Abudy), Tel-Aviv University

Thursday, 17th
12.15 pm
**Frankfurt Seminar in Economics**
Speaker: Falco Juessen, University of Dortmund

Tuesday, 22nd
2 pm
**EFL Spring Conference 2011:**
**"Financial System Stability – Can IT Contribute to a Solution?"**
Online Registration: www.efinancelab.de/events/conferences/spring-conference-2011/

Thursday, 24th
12 pm
**HoF Brown Bag Seminar**

## MARCH

Wednesday, 2nd
**CFS Colloquium**

Wednesday, 2nd
2 pm – 6.45 pm
**Goethe Business School**
GMAT Introduction Course and GBS Information Session

Monday, 7th
5 pm
**E-Finance Lab Jour Fixe:**
**"Considering Quality of Service for Complex Service-based Workflows in the Financial Services Industry"**
Speaker: Dieter Schuller, TU Darmstadt

Wednesday, 23rd
**CFS Colloquium**

Saturday, 26th
**German-American Lawyers´ Association: Annual Meeting of Legal Sections (DAJV-Fachgruppentag) in cooperation with the Institute for Law and Finance (ILF)**

Monday, 28th –
Friday, 8th of April
**ILF Spring School 2011**
**"Corporate Law in Legal Consultancy Practice"**

*Please refer to* http://www.hof.uni-frankfurt.de/de/eventlist.html *for continuous updates of the event calendar.*

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