

# Master-Seminar:

## Macroeconomic Imbalances in the Euro Area

### (Modul: Macroeconomics and Growth)

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#### Outline

**Course Description:** This seminar deals with macroeconomic imbalances in the euro area. The topic is of high relevance in particular for the ongoing crisis in the euro area and possible policy measures to deal with the crisis. Currently, macroeconomic performance differs largely throughout the euro area. Some countries like Germany show solid growth and a low unemployment rate, while others, like for example Spain and Greece, struggle with high unemployment rates and high stocks of sovereign debt. This situation is highly problematic for policy makers. In a currency area, monetary policy can hardly address different macroeconomic situations in different member countries. With respect to fiscal policy, countries with a weak macroeconomic performance struggle with high indebtedness so that fiscal stimulus is hardly an option to increase output and lower unemployment. In this seminar we deal with a variety of topics related to macroeconomic imbalances in currency areas. We study causes of financial crises, economic policies to deal with crises – ranging from structural reforms to unconventional monetary policy measures –, the European Commission's macroeconomic imbalance procedure and trade imbalances in the euro area. A list of possible topics can be found below. Students can also propose their own topic (get in contact with Stefan Kooths or Maik Wolters).

#### **Time and place:**

Introductory Session: Thursday, 26.03.2015, 16:00-17:00 in the lecture hall at the Kiel Institute for the World Economy (Kiellinie 66, ground floor, room A-032).

Block seminar: (preliminary plan) Friday/Saturday, 5.6.2015 and 6.6.2015, 9:00-18:00 in the lecture hall at the Kiel Institute for the World Economy.

**Lecturers:** The seminar is organized by Prof. Wolters ([maik.wolters@ifw-kiel.de](mailto:maik.wolters@ifw-kiel.de)) and Prof. Kooths ([stefan.kooths@ifw-kiel.de](mailto:stefan.kooths@ifw-kiel.de)). In addition, seminar papers will be supervised by PhD students of Maik Wolters and Economists of the Forecasting Center of the Kiel Institute for the World Economy.

**Prerequisites:** A good knowledge of empirical and theoretical Macroeconomics on the Master level is required. This seminar will deal with scientific papers on a high level that might not be easy to understand.

**Admittance and distribution of topics:** Please send an e-mail including your name and matriculation number and a list of three preferred topics (rank 1 to 3) to Birthe Scholz, [scholz@economics.uni-kiel.de](mailto:scholz@economics.uni-kiel.de), to register for the seminar. The deadline for registration will be **March 20, 2014**. The number of participants is limited. Participants will be chosen on a first come first serve basis and will be informed via email. To participate you will need to attend our preliminary meeting.

**Course requirements:** Requirements include attending the preliminary meeting, writing a term paper (maximum of 15 pages (1.5 space, 11 point font size, margins 2.5cm) + references, tables and graphs), a presentation of the paper and active participation in the seminar. The term paper should give an overview about the topic alongside the papers listed for each topic. Of course, you can (and should) check other related literature. The term paper should be clearly structured and have a clear format. The term paper and the presentation should answer the following questions:

- Why is the topic important?
- How do the different papers deal with the topic?
- Which questions are answered in the papers?
- What is the connection between the different papers?
- Which methods are used and why are these methods suitable for this topic?
- What are the main results? What is the rationale for these results (main mechanism of theoretical model or how does the empirical methodology lead to these results?)
- What is the policy relevance of the results?
- Do you have any suggestions on future research topics that could extend the work of these papers?

The term paper should be understandable for other Master students who have not directly worked on this topic and have not read the papers. So, make sure that you develop some intuition! Make also sure that your term paper is clearly organized, includes page numbers a clear numbering of sections and no typos. Make sure that you always include a reference when you cite the work of others. The references should be clearly organized (Hint: Take a look at the reference list at the end of the papers from your topic.). Figures and tables should be numbered and have a caption. Equations should also be numbered. Term papers with many typos/mistakes will be graded with 5.0 regardless of the quality of the content (Hint: Work together to proofread each other's term papers. The presentation should be clear and I suggest practicing it in advance with your classmates!).

**Grading:** The grade for the course will depend on the **term paper (60%)**, **presentation (30%)** and **participation (10%)**.

**Handing-in of essay:** The term paper needs to be handed in twice. Please send a pdf version via Email to Ms. Scholz, [scholz@economics.uni-kiel.de](mailto:scholz@economics.uni-kiel.de), and hand in a printed version to Ms. Scholz at WSP 1, room 411 (notice that the office is not open all day and not open on all days) on **Friday, May 29, 2015** at the latest. There will be no exceptions! If you send in your term paper late or hand in the printed version late you will get a grade of 5.0.

**Academic integrity:** Make sure that your work does not violate anyone else's rights. In particular, copying contents without listing the source is not acceptable. All submissions will be scanned for plagiarism!

## Topics

1. Origins of the euro area crisis (supervision by Maik Wolters)
  - Lane, P.R. (2012). The European Sovereign Debt Crisis. *Journal of Economic Perspectives*, 26(3), 49-68.
  - Shambaugh, J.C., R. Reis, H. Rey (2012). The Euro's Three Crises. *Brookings Papers on Economic Activity*, Spring 2012, 157-231.
  
2. Predicting crisis events: the signal approach (supervision by Tim Schwarzmüller)
  - Kaminsky, G., S. Lizondo, C. M. Reinhart (1998). Leading Indicators of Currency Crisis. *IMF Staff Papers*, Vol 45, No.1, p. 1-48.
  - Knedlik T. (2014). The impact of preferences on early warning systems - The case of the European Commission's Scoreboard. *European Journal of Political Economy*, Vol. 34, p. 157-166.
  - Prognosezentrum-Gutachten (IfW). Das europäische Verfahren zur Vermeidung und Korrektur Makroökonomischer Ungleichgewichte – Auswertung der bisherigen Erfahrung und mögliche Reformansätze. Kapitel 4 (this source is available in German only from the Kiel Institute's forecasting center)
  
3. Predicting crisis events: probit and logit models (supervision by Tim Schwarzmüller)
  - Barrell R., E. P. Davis, D. Karim, I. Liadze (2010). Bank regulation, property prices and early warning systems for banking crises in OECD countries. *Journal of Banking & Finance*, 34, 2255-2264.
  - Berg A., C. Pattillo (1999). Predicting currency crises: The indicators approach and an alternative. *Journal of International Money and Finance*, 18, 561–586.
  - Bussiere M., M. Fratzscher (2006). Towards a new early warning system of financial crises. *Journal of International Money and Finance*, 25, 953-973.
  
4. The European Imbalances procedure: description and assessment of its institutional design (supervision by Klaus-Jürgen Gern)
  - European Commission (2015). The Macroeconomic Imbalances Procedure. [http://ec.europa.eu/economy\\_finance/economic\\_governance/macroeconomic\\_imbalance\\_procedure/index\\_en.htm](http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/index_en.htm)
  - Prognosezentrum-Gutachten (IfW). Das europäische Verfahren zur Vermeidung und Korrektur Makroökonomischer Ungleichgewichte – Auswertung der bisherigen Erfahrung und mögliche Reformansätze. Kapitel 2, 5 und 6 (this source is available in German only from the Kiel Institute's forecasting center)
  - Dreher, A. (2009). IMF Conditionality: Theory and Evidence. *Public Choice*, 141, 233-267.

5. Imbalances vs. Disequilibria – A critical assessment of the theoretical foundations of the European Macroeconomic Imbalance Procedure (supervision by Stefan Kooths)
  - European Commission (2012). Scoreboard for the surveillance of macroeconomic imbalances. Occasional Papers 92. Brussels.
  - Regulation (EU) No 1176/2011 of the European Parliament and of the council of 16 November 2011 on the prevention and correction of macroeconomic imbalances. Official Journal of the European Union.
  - Prognosezentrum-Gutachten (IfW). Das europäische Verfahren zur Vermeidung und Korrektur Makroökonomischer Ungleichgewichte – Auswertung der bisherigen Erfahrung und mögliche Reformansätze. Kapitel 3 und 7 (this source is available in German only from the Kiel Institute's forecasting center)
  
6. Default risk contagion in the Eurozone and how to deal with it (supervision by Gerret Halberstadt)
  - Favero, C., A. Missale (2012). Sovereign spreads in the eurozone: which prospects for a Eurobond?, *Economic Policy*, 27(70), 231-273.
  - De Grauwe, P., Y. Ji. (2012), Mispricing of sovereign risk and multiple equilibria in the Eurozone, Centre for European Policy Working Paper 361.
  
7. The Target 2 Dispute (supervision by Maik Wolters)
  - Homburg, S., (2012). Notes on the Target2 Dispute, *CESifo Forum*, 13, 50-54.
  - Sinn, H.-W., T. Wollmershäuser (2012). Target Loans, Current Account Balances and Capital Flows: The ECB's Rescue Facility, *International Tax and Public Finance* 19(4), 468-508.
  - Bindseil, U., P.J. König (2011). The Economics of TARGET2 Balances, SFB 469 Discussion Paper 2011–35.
  - Kooths, S., B. van Roye (2012). Euro Area: Single Currency - National Money Creation. Kiel Working Paper, 1787, Kiel Institute for the World Economy (a more detailed version is also available in German).
  
8. External imbalances in the euro area (supervision by Galina Potjagailo)
  - Lane, P.R., B. Pels (2014). Current Account Imbalances in Europe, *Moneda y Credito*, 234.
  - Belke, A., C. Dreger (2013). Current account imbalances in the Euro area: Does catching up explain the development? *Review of International Economics*, 21(1).
  - Blanchard, O., F. Giavazzi (2002). Current account deficits in the euro area: the end of the Feldstein-Horioka puzzle?. *Brookings papers on economic activity*, 2002(2), 147-209.
  
9. Fiscal policy and trade balances (supervision by Magnus Reif)
  - Beetsma, R., M. Giuliadori, F. Klaasen (2008). The Effects of Public Spending Shocks on Trade Balances and Budget Deficits in the European Union, *Journal of the European Economic Association*, 6(2-3), 414-423.
  - Abbas, S.M.A., J. Bouhga-Hagbe, A. Fatás, P. Mauro, R.C. Velloso (2011). Fiscal Policy and the Current Account, *IMF Economic Review*, 59(4), 603-629.
  
10. Effects of structural reforms within a currency union (supervision by Magnus Reif)
  - Gomes, S., P. Jacquinot, M. Mohr, M. Pisani (2013). Structural Reforms and Macroeconomic Performance in the Euro Area Countries: A Model-Based Assessment, *International Finance*, 16(1), 23-44.

- Eggertsson, G., A. Ferrero, A. Raffer (2014). Can structural reforms help Europe?, *Journal of Monetary Economics*, Elsevier, 61(C), 2-22.
- Forni, L., A. Gerali, M. Pisani (2010). Macroeconomic Effects Of Greater Competition In The Service Sector: The Case Of Italy, *Macroeconomic Dynamics*, 14(05), 677-708

#### 11. Asymmetric transmission of a common monetary policy (supervision by Galina Potjagailo)

- Georgiadis, G. (2014). Towards an explanation of cross-country asymmetries in monetary transmission. *Journal of Macroeconomics*, 39, 66-84.
- Barigozzi, M., A.M. Conti, M. Luciani (2014). Do euro area countries respond asymmetrically to the common monetary policy? *Oxford Bulletin of Economics and Statistics*, 76(5), 693-714.
- Boivin, J., M.P. Giannoni, B. Mojon (2008). How has the Euro changed the monetary transmission? NBER Working Paper 14190.

#### 12. Financial stability and monetary policy (supervision by Gerret Halberstadt)

- Smets, F. (2013), Financial stability and monetary policy: How closely interlinked?, *Sveriges Riksbank Economic Review* 3, 121-160.
- Woodford, M. (2012). Inflation targeting and financial stability, *National Bureau of Economic Research*, No. w17967.

#### 13. Monetary policy and financial stability in low interest rate environments (supervision by Nils Janssen)

- Maddaloni, A., J.-L. José-Luis Peydró (2011). Bank Risk taking, Securitization, Supervision, and Low Interest Rates: Evidence from the Euro-area and the US Lending Standards, *Review of Financial Studies*, 24(6), 2121-2165.
- Adrian, T., N. Liang (2014). Monetary Policy, Financial Conditions, and Financial Stability, *Federal Reserve Bank of New York Staff Reports* No. 690.
- Jorda, O., M. Schularick, A.M. Taylor (2015). Betting the House, *Journal of International Economics*, forthcoming.

#### 14. Monetary Policy in the Aftermath of Banking Crises (supervision by Nils Janssen)

- White, W. (2012). Ultra Easy Monetary Policy and the Law of Unintended Consequences. *Globalization and Monetary Policy Institute*, Working Paper No. 126. Federal Reserve Bank of Dallas.
- Bech, M., L. Gambacorta, and E. Kharroubi (2014). Monetary policy in a downturn: are financial crises special? *International Finance*, 17(1), 99-119.
- Bank for International Settlements (2013). Monetary policy struggles to normalize. 84th BIS Annual Report, 2013/2014, Chapter V.
- Janssen, N., G. Potjagailo, and M. Wolters. Monetary Policy during Financial Crises Is the Transmission Mechanism Impaired? Unpublished (available from the authors).

15. Unconventional monetary policy and its macroeconomic effects (supervision by Maik Wolters)

- Borio, C., P. Disyatat (2010). Unconventional monetary policies: An appraisal, *The Manchester School*, 78, 53-89.
- Lenza, M., H. Pill, L. Reichlin (2011). Monetary Policy in Exceptional Times, *Economic Policy*, 25, 295-339.
- Gambarcorta, L., B. Hofmann, G. Peersman (2014). The Effectiveness of Unconventional Monetary Policy at the Zero Lower Bound: A Cross-Country Analysis, *Journal of Money, Credit and Banking*, 46(4), 615-642.

16. Macroeconomic Effects of Forward Guidance (supervision by Danvee Floro)

- Campbell, J.R., L.C. Evans, J.D.M. Fisher, A. Justiniano (2012). Macroeconomic Effects of Federal Reserve Forward Guidance, *Brookings Papers on Economic Activity* 44(1), 1-80.
- Woodford, M. (2012). Methods of policy accommodation at the interest-rate lower bound, *Proceedings - Economic Policy Symposium - Jackson Hole*, Federal Reserve Bank of Kansas City, pages 185-288.
- den Haan, W. (2013). Forward Guidance, *VoxEU.org eBook*, <http://www.voxeu.org/article/forward-guidance-new-vox-ebook>
- International Monetary Fund (2013). Unconventional monetary policies: recent experiences and prospects (focus here on the part on forward guidance)

17. Quantitative easing in the Eurozone (supervision by Danvee Floro)

- Anunziata, M. (2015). The ECB's QE Decision, [www.voxeu.org](http://www.voxeu.org), 23 January
- Giavazzi, F., G. Tabellini (2015). Effective Eurozone QE: Size matters more than risk-sharing, (<http://www.voxeu.org/article/effective-eurozone-qe-size-matters-more-risk-sharing>)
- Buiter, W.H. (2014). The Simple Analytics of Helicopter Money: Why It Works - Always, *Economics: The Open-Access, Open-Assessment E-Journal*, 8, 1-51.
- Giannone, D., M. Lenza, H. Pill, L. Reichlin (2012). The ECB and the Interbank Market, *Economic Journal*, 122(564), F467-F486.

18. Deflation and depression: Is there an empirical link? (supervision by Dominik Groll)

- Atkeson, A., P. Kehoe (2004). Deflation and depression: Is there an empirical link? *American Economic Review*, 94, 99-103.
- Beckworth, D. (2008). Aggregate supply-driven deflation and its implications for macroeconomic stability. *Cato Journal*, 28, 363-384.
- Bordo, M., A. Filardo (2005). Deflation and monetary policy in a historical perspective: Remembering the past or being condemned to repeat it? *Economic Policy*, 44, 800-844.
- Bordo, M., J. Landon-Lane, A. Redish (2010). Deflation, productivity shocks and gold: Evidence from the 1880-1914 period. *Open Economies Review*, 21, 515-546.