

Frankfurt Finance Summit, 21.3.2012

Wolfgang König, Executive Director, House of Finance

Dear Ladies and Gentleman,

I am delighted and very proud to welcome you to the second day of the Frankfurt Finance Summit. My name is Wolfgang König, and I speak to you as the Executive Director of the House of Finance. We proudly co-sponsor the Frankfurt Finance Summit.

The House of Finance is the impressive building on the upper left side of this wonderful campus that – I am sure – has already caught your attention. We concentrate 170 researchers from the areas Finance, Money and Macroeconomics and Corporate and Financial Law.

We had a wonderful conference-begin yesterday, with very interesting speeches and discussions. Let me just recall Mr. Weidmann's speech on the new challenges for monetary policy – and for macroeconomic and financial research, too. Afterwards, we had a lively and stimulating panel discussion on the role of central banking. One major point at issue – dealt with from various perspectives – was the interaction between central banks and the financial sector. I, personally, also gained a lot from the second panel about regulation and international coordination. It turned out that there is a wide range of different views on regulatory framing, implementation of rules and timing.

Today, this Summit is going to take a closer look at systemic risk and the future of banking in Panel III and the euro crisis and government debt in Panel IV. From an academic point of view, these two issues traditionally belonged to two separate academic fields: on the one hand *Business Administration*, in which financial markets, companies and instruments are studied; and, on the other hand, *Macroeconomics*, which takes a broader look at government budgets as well as fiscal and monetary policy.

Of course, there are benefits of this academic specialization that have certainly led to remarkable output in quite a lot of cases. But there are also significant drawbacks that have become evident throughout the financial crisis: Banking and financial market structures have shown to interact substantially with macroeconomic conditions and monetary policy. This interaction has apparently contributed to systemic instability.

Traditional, specialized research tends to neglect this interplay. Conventional macroeconomic models don't take the financial sector seriously into consideration, and research in finance usually doesn't account for monetary or fiscal phenomena. For example: The models used by central banks before the financial crisis considered risks from financial markets and intermediaries only in a very limited scope.

Against this background, it has turned out to be a forward-looking decision of Goethe University and the state of Hessen to have established the House of Finance as an interdisciplinary competence center in the area of finance. In contrast to the usual academic separation, our more than 170 scholars strive to gain insights of the **big picture** by taking into account the view of business administration as well as the macroeconomic and the legal point of view.

To give you an example: Several researchers at the House of Finance are currently working together on a new generation of economic models that shall be capable of taking the interaction between finance and macroeconomics into account. They are going to include banking, default risks, and leverage effects into macroeconomic modeling but also the heterogeneous expectations of market participants – think of the risk of bubbles fed by wrong expectations.

To provide better forecasting results, researchers are also developing tools for model comparison and testing. In this respect, I have to mention Volker Wieland, who holds the Chair of Monetary Economics at the Institute for Monetary and Financial Stability and the House of Finance. Volker Wieland and his team have developed a database of (at present) 50 macroeconomic models. This database is easily accessible via internet and free to use for researchers all over the world; either to compare the implications of specific economic policies across models, or as a testing ground for new models.

This database is continuously being expanded. Macroeconomic models that integrate banking risks and heterogeneous expectations will be included as soon as they are available.

The overall objective of this large project, which was funded by a European Union grant, is to identify policy recommendations that are robust to model uncertainty. In other words: The wide range of different models and model frames within this database allows researchers and policy-makers to gain a better assessment of the actual effects of different policy measures, thus enabling better policy recommendations. In addition, Professor Wieland and his collaborators hope that new modeling approaches will not only improve

forecasting performance but will also offer more sophisticated explanations of the sources of the financial crisis.

This new area of research has several implications for monetary and fiscal policy. If we consider the financial sector as a potential source of systemic risk, do we have to modify traditional monetary and fiscal policy rules? Which regulatory measures will prove to be effective or ineffective, when scrutinized by the best of existing macroeconomic models that also take a differentiated financial sector into account?

I am sure that, in these days, a close interaction between academia and policy is more important than ever. The past four years have taught us all a big lesson: Not only every individual stakeholder in the financial markets but also decision makers in monetary policy, fiscal policy and financial regulation must have a deep understanding of financial markets, their potential dynamics and risks.

The House of Finance has answered to this challenge by founding a Policy Platform. The idea behind the Policy Platform is to stimulate a fruitful dialogue between academics and politicians – fruitful in both directions. In order to do so, the Policy Platform invites high-ranking decision-makers from politics and regulation to small informal workshops with researchers from the House of Finance.

Furthermore, the Policy Platform publishes articles and commentaries of immediate relevance to current debates on financial topics on its website. Among the most recent publications, you will find, for example, comments on the Corporate Governance Codex and on a financial transaction tax; also, many papers on different aspects of the current crisis. For instance, a legal evaluation

of the EU support mechanisms, and recommendations for the regulation of shadow banking.

The House of Finance regularly hosts a multi-faceted series of events which usually feature well-known speakers from academia, politics or industry. Our objective hereby is to facilitate the knowledge exchange between the realm of theory and the world of implementation. This Summit is an outstanding example for this strategy.

To put it in a nutshell: The title of this Summit, „Regaining Systemic Resilience“, is a high priority on the agenda of House of Finance researchers. The House of Finance is optimally set up to advance the overall knowledge in the broad area of finance by producing solid and extensive research results that contribute to *Regaining Systemic Resilience*. And of course: We are always happy to exchange ideas and knowledge with partners from politics, regulation and industry.

I wish everyone an exciting second conference day, constructive discussions and – hopefully – new insights.

Thank you for your attention.