

**Activity Report**  
**September 1, 2009 – August 31, 2010**



Excellence in  
Management  
Education

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## 1 Preface



During the academic year 2009-2010, Chair of Macroeconomics and International Economics and its team together with the Center for European Studies (CEUS) were again significantly involved in teaching and research activities of the WHU – Otto Beisheim School of Management. Likewise, there were again a number of activities outside the WHU, in which the members of the team were involved.

Regarding teaching activities, the team of the Chair of Macroeconomics and International Economics contributed courses and modules to virtually all programs WHU offered during the academic year. Courses were given at both the undergraduate and graduate level. They were part of the core courses of the different programs, but also contributed to the specialization and electives. One of the highlights of the programs the team organized was once again the National Model of United Nations (NMUN) in the Bachelor of Science program. In this course, a group of selected students participate in a simulation of the work of the United Nations in New York. In this simulation, different university student groups each represent the delegation of a specific country and negotiate the text of various communiqués. Before the actual simulation begins, students prepare for the meetings at their home institutions by studying various aspects of the country they represent and the topics to be covered by the communiqués. This time, 18 WHU students represented the African country of Gabon and prepared intensively for the simulation of the work of the United Nations in New York. At the end of the actual simulation in April 2010, there was a particular reason to rejoice for the students as they received an “Outstanding Position Paper Award” for their work.

Regarding research activities, there was a continuous focus on studying the behavior of forecasters which led to several papers with some of them already published or accepted for publication. The members of the team also participated in a number of conferences and presented research papers in various research seminars. The Center for European Studies (CEUS) organized a workshop on “Twenty Years of Economic Reforms in Central and Eastern Europe” which brought together scholars from various European countries.

Other activities included contributing to the leadership of the WHU, serving on editorial boards of several academic journals, forming – together with Professor Fendel – the academic liaison for Germany of the World Economic Forum for the management survey in the context of generating the Global Competitiveness Report, and service to other institutions.

## 2 The Team

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## 3 Teaching



The Chair organizes courses in the various degree and non-degree programs of WHU that look at the macroeconomic and the international economic environment. Degree programs of the WHU in which courses are offered by the team comprise the Bachelor of Science program, the Master of Science program, the MBA program, the Executive MBA program, the Master of Law and Business program and the doctoral program. In addition, the Chair and the Center for European Studies was involved in the special university programs. The Chair also coordinates the program of the core courses in economics, mathematics and statistics in the Bachelor of Science program. The courses are partly delivered by adjunct faculty members from other universities.

### 3.1 Courses, Fall Term 2009

#### Bachelor of Science

##### Principles of the Market Economy

Professor Ralf Fendel, Professor Michael Frenkel

The course introduced participants to principles of economics and demonstrated the basic functioning of a market economy. It also discusses the role of the public sector in market economies. The material covers both microeconomic and macroeconomic topics.

2 SWS – 3.0 ECTS

##### Heraeus Quandt Forum “National Model United Nations”

Professor Michael Frenkel, Eliza Lis, Andreas Tudyka

The aim of the course was to prepare a group of students for the conference National Model United Nations (NMUN). The conference took place in spring 2010 and the group actively participated in this conference. The idea of NMUN was to simulate the process of diplomatic decision making in the different committees of the United Nations. During the conference the student group represented a specific country. The course highlighted the history and structure of the UN as well as the historic and economic background of the represented country/organization. Furthermore, basics of diplomatic behavior in disputes were trained.

2 SWS – 3.0 ECTS

## Literature Seminar in Economics: Economic Challenges of Developing and Emerging Countries

Professor Michael Frenkel

Students studied different topics with regards to economic challenges of developing and emerging countries by preparing seminar theses rounding it up by a presentation. Thereby, students were introduced into the methods of academic research.

2 SWS – 3.0 ECTS

## Statistics I

Professor Peter M. Schulze

The course provided a survey of the most important instruments and procedures for economists in descriptive statistics with illustration by example.

2 SWS – 3.0 ECTS

## Mathematics II: Linear Algebra

Professor Jan-Christoph Rülke

The course covered mathematical methods required for economic analysis. Additionally, the course provided an overview of functions of several variables, the implicit function theorem (The Swiss Army-Knife of Comparative Statics), convex sets, concave and quasi-concave functions, unconstrained and constrained optimization. Moreover, equality and inequality constraints were discussed as well as matrix algebra, linear equation systems and their solution. Throughout the course we emphasized applications from Micro, Macro and International Economics.

2 SWS – 3.0 ECTS

## Master of Science

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### Exchange Rates and International Finance

Professor Michael Frenkel, Professor Jan-Christoph Rülke

The course introduced concepts used to analyze finance aspects in the world economy. It examined how economic linkages between countries affect domestic economic developments and studies, in particular the role of the exchange rate and the relationship between exchange rates, inflation, and interest rates.

2 SWS – 3.0 ECTS

### Seminar on Globalization

Professor Michael Frenkel, Professor Jan-Christoph Rülke

The seminar covered recent developments in international monetary economics. In order to analyze different topics such as exchange rate models or determinants of international capital flows, the students turned in a seminar thesis and presented their results in a block course.

2 SWS – 3.0 ECTS

## Doctoral Studies

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### Recent Developments of International Economics

Professor Michael Frenkel

The course discussed several recent publications in international economics.

2 SWS

### Research Seminar Economics (FORSEM)

Professor Achim Czerny, Professor Ralf Fendel, Professor Michael Frenkel, Professor Felix Höffler, Professor Kai Hüscherlath, Professor Jan-Christoph Rülke, Professor Jürgen Weigand

The seminar offered the opportunity to learn more about and to discuss recent research papers presented by economists of different universities and research institutions.

2 SWS

## 3.2 Courses, Spring Term 2010

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### Bachelor of Science

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#### Macroeconomics I: Production, National Income Accounting and Business Fluctuations

Professor Michael Frenkel, Eliza Lis

Macroeconomics focuses on the economy as a whole by considering all factors together in the economy, i.e., households, firms, and the government. Macroeconomics helps to develop an understanding for recent economic developments, which companies have to consider in their strategic plans in order to avoid mistakes. As a consequence, macroeconomics focuses on aggregate markets and also on aggregate variables such as output, unemployment, growth, inflation, interest rate etc. The course was divided into two parts: The first part dealt with national accounting and therefore the question “What have been?”. The second part focused on the developments in the goods and money market in the short run. Furthermore, the possibilities and limitations of economic policy were discussed.

2 SWS – 3.0 ECTS

#### Seminar in Economics: Money, Banking, and Financial Markets

Professor Michael Frenkel

Financial markets are central to every macroeconomy. Without them, firms would not be able to borrow money, you could not obtain a loan for a house or a car, buy shares or pay your groceries with your debit card. Here, banks are key agents and their well-being is crucial for the well-functioning of these markets. Moreover, money is the pivotal aspect that causes the existence of banks and brings players in these markets together heavily influencing the determination of interest rates, prices and exchange rates. The importance of this complex system and its



importance for overall macroeconomic performance was once more brought to our attention through the outbreak of the financial crisis of 2007 to 2009. The seminar covered recent developments in the financial markets and aimed at giving participating students an overview of a number of problems related to banking and financial transactions. The students turned in a seminar thesis and presented their results in a block course. The seminar also served as an introduction to academic work and prepared students for their bachelor thesis.

2 SWS – 5.0 ECTS

### Statistics II

Professor Peter Schulze

The course surveyed the most important instruments in inductive statistics and procedures in econometric analysis. The course taught students the basic methods of inductive statistics and introduced the students to econometric analysis to examine and quantify economic phenomena.

2 SWS – 3.0 ECTS

### Introduction into Economic Analysis and Forecasting – Empirical Methods

Professor Ulrich Schittko

The course was designed to introduce students to the basic techniques of econometric analysis (Empirical Methods). Mainly we focused on the understanding of the linear regression model, its extensions and its empirical applications in econometrics and related fields. The main objective was to enable students to learn and apply standard econometric techniques to answer quantitative economic questions using real-life data. The used software was STATA.

2 SWS – 3.0 ECTS

### Business Environment in Europe

Lilli Zimmermann

The course covered the main economic aspects and the current developments of the European Union. The topics of the course were related to the creation of the Single European Market, the European Monetary Union, and the common policies of the European Union. The focus was on the discussion of the rationale, the content, and the implications of various policies in the context of European integration. In each lecture, the course aimed to point out the advantages and disadvantages of these measures for governments, the business sector, and individuals.

2 SWS – 3.0 ECTS

## Doctoral Studies

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### Recent Developments of International Economics

Professor Michael Frenkel

The course discussed several recent publications in international economics.

2 SWS

### Research Seminar Economics (FORSEM)

Professor Achim Czerny, Professor Ralf Fendel, Professor Michael Frenkel, Professor Felix Höffler, Professor Kai Hüscherlath, Professor Jan-Christoph Rülke, Professor Jürgen Weigand

The seminar offered the opportunity to learn about and to discuss recent research papers presented by economists of different universities and research institutions.

2 SWS

## Master of Business Administration

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### The World Economy

Professor Michael Frenkel

This course introduced the main international aspects that are relevant for firms involved in international business transactions and discussed special features of the European integration process. The global business environment involves trade, international investment and foreign exchange operations. The topics covered in the course explored how economic linkages between countries affect the optimal decision of firms and how they affect domestic economic developments. European aspects focus on trade integration and the monetary unification process.

3 SWS – 3.0 ECTS

## Executive Master of Business Administration

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### The Business Environment in Europe

Professor Michael Frenkel, Professor Jürgen Weigand

This part of the European module introduced the main aspects of trade integration, foreign direct investment and monetary unification that are relevant for firms involved in international transactions with Europe. It emphasized that international business needs to understand the implications of integration issues and foreign direct investment opportunities if it aims at making optimal decisions and avoiding crucial mistakes. The insights were relevant not only for Europe, but to several major regions in the world where economic integration has become a significant policy issue. The course studied the principle issues and looked at cases as examples of how these issues impact on individual firms.

## Bucerius/WHU Master of Law and Business

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### International Trade and Investment

Professor Michael Frenkel

This course introduced the main international aspects which are relevant for firms involved in international business transactions and discusses features of regional economic integration. Important aspects of the global business environment involve trade and international investment. The topics covered in the course explored how economic linkages between countries affect the optimal decision of firms and how they affect domestic economic developments.

## Executive Education

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### Metro Business Program

Developments in International Trade

Professor Michael Frenkel

The course provided an overview over recent developments in international trade. Some stylized facts highlighted the main quantitative aspects of the current situation. The module introduced participants also into basics of the rationale of trade policies. Since regional integration has also played an important role in the context of international trade policies, the module also covered economic and political aspects of regional integration. Furthermore, the discussion focused on the World Trade Organization (WTO) as the main body for the promotion of international trade liberalization.

## Special University Programs

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### European MBA Summer Institute I and II

The Economic and Political Environment of Business in Europe

Professor Michael Frenkel

The course introduced participants to business-relevant stylized facts of European countries, the role of European countries in the global economy, and the rationale of European integration. The implications for international business were assessed and the prospects of further integration in Europe were discussed. The course also examined the international role of the euro and studies how the European Monetary Union (EMU) works. It combined official views from the European Central Bank with an assessment from the banking industry.

Michigan BBA Program  
The Economic Environment of Business in Europe  
Professor Michael Frenkel

The course introduced participants to business relevant stylized facts of European countries, the role of European countries in the global economy, and the background of European trade integration. The course also examined the monetary integration in Europe and the role of the euro in the world economy. In addition, the course studied the rationale of the European Monetary Union (EMU) and combined the views of Deutsche Bundesbank representatives.

European Summer Institute  
Bachelor of Business Administration Program  
Trade Integration in Europe and the European Union  
Professor Michael Frenkel

The course examined the functioning of the European Monetary Union and the current developments in the euro area. It combined official views from the European Central Bank with an assessment from the banking industry. Furthermore, the course introduced participants to business relevant stylized facts of European countries, the role of European countries in the global economy, and the background of European trade integration.

International Module of the MBA-Program Tepper School of Business  
Business Environment in Europe: Regional Integration in Europe and Its Rationale  
Professor Michael Frenkel

The course introduced participants to business relevant stylized facts of European countries, the role of European countries in the global economy, and the background of European integration. Furthermore, the course focused on the consequences of the Single European Market and the process of European monetary integration. The implications for international business were assessed and the relationship between trade and monetary integration were examined. Finally, the course examined the functioning of the European Monetary Union and the current developments in the euro area. It combined official views from the European Central Bank with an assessment from the banking industry.

EMBA-Program CEIBS  
The Economic Environment of Business in Europe  
Professor Michael Frenkel

The lecture discussed the European Union, multilateral and regional integration, effects of trade liberalization in Europe and the European monetary integration.

### 3.3 Defense of the Dissertation

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#### 3.3.1 Economic Aspects of European Union Foreign Trade Policy by Marco Semmelmann

With a share of 17.0% in world trade of goods and 28.5% in services, the EU-27 has the biggest share in world trade, ahead of the United States (14.5% in goods, 18.2% in services; 2007 figures). It is therefore the largest trade destination and origin in the world. Consequently, an analysis of the trade policy of the European Union is particularly insightful. The aim of the dissertation is to analyze the economic impacts of the European Union's trade policy.

In the first part of the dissertation, the impact of recent preferential trade agreements that have been agreed upon between the European Union and its respective contractual partners will be analyzed by using a gravity model and applying econometric techniques. This will be done both on an aggregate EU level and on a country level, in order to explain whether individual EU countries have benefited more than other countries. In addition to that, it will be tested whether individual extra-EU trade partner countries profited from the agreements.

The second part will deal with EU trade defense instruments, in particular anti-dumping investigations. An empirical analysis of anti-dumping measures will be conducted, while controlling for trade diversion and changes in trade patterns in the aftermath of the application of anti-dumping measures.

The third part intends to shed light on the correlation between trade policy and its significance for development economics. It focuses on the role of foreign trade policy in the development cooperation between the European Union and the respective developing countries. This subject is particularly important, as the European Union is a major player in the complex system of one-way trade preferences to developing countries and because the European Union is the most important trading partner for the majority of these countries.

Do decisions in anti-dumping investigations depend on whether developing countries or industrial countries are concerned in the investigation? Which factors are important for the decision? A probit model will be used to answer this question.

### 3.4 Dissertation Project Presentations

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#### 3.4.1 Monetary Policy Rules: Empirical Applications based on Survey Data by Dirk Bleich

The objective of the dissertation is to provide empirical applications of monetary policy rules. Therefore a unique data set with expectations for macroeconomic variables for 75 different countries from 1989 to 2009 is used.

First, the question whether inflation targeting (IT) makes a difference as a monetary policy framework is addressed. Novel evidence on inflation stabilisation in IT countries is provided and it is shown that the introduction of inflation targeting significantly shifts the central bank's reaction function towards inflation stabilizing for the majority of countries. It is also shown that the long-term inflation rate significantly decreases in the inflation targeting period compared to the period before. Moreover, there is evidence for a time-varying effect. These results can be interpreted as strong evidence that the introduction of inflation targeting makes the difference for monetary policy strategies.

Second, the influence of oil price expectations on monetary policy is analyzed. Estimates for the Bank of Canada, Bank of England, Federal Reserve and the European Central Bank show that a one percent increase in oil price expectations leads to an interest rate increase of on average about eleven basis points. Moreover, there is provided evidence for asymmetries in the central banks behaviour. Finally it is shown that those central banks do not respond to the realized oil price.

Third, the link between monetary policy and the Spanish real estate bubble is investigated. It is demonstrated that a central bank only responsible for the Spanish economy and following the same monetary policy rule as the Banco de España in the time period from 1995 to 1998, would have set the interest rate up to 3.0% above the ECB's interest rate between 1999 and 2007. Thus, an inadequate monetary policy seems to be an important issue for the explanation of the emergence of the Spanish real estate bubble. This result provides a show case of possible negative consequences of a central bank that has to conduct a "one-size-fits-all" monetary policy in a monetary union with economic heterogeneity among its members.

### 3.4.2 New Impulses Affecting Fiscal Policy by Eliza Lis

First, we use the ECB's Survey of Professional Forecaster to show that euro area expectations are consistent with standard macroeconomic building blocks such as the Phillips curve, Okun's law, and the Taylor rule. Moreover, the paper finds that the financial and economic crisis of 2007-2009 did not change the expectation formation process as professional forecasters still adopt macroeconomic building blocks for their forecast. The scepticism that has recently been raised concerning macroeconomic building blocks has apparently not yet affected professional forecasts. On the contrary, we conclude that professional forecasters still have faith in macroeconomic building blocks.

Secondly, we empirically analyze whether budget balance expectations are anchored. To this end, we use budget balance forecasts for 12 industrialized and emerging economies. We examine whether budget balance rules improve the anchoring of budget balance expectations and find mixed results. Our results have far reaching policy implications as they indicate that only countries implementing budget balance rules with strong enforcement mechanisms are successful.

Thirdly, we explore the linkages between fiscal responses and credit crunches and hereby the effectiveness of fiscal policy during credit crunches for 63 advanced and developing countries during 1970 – 2008. In a first step we determine the financial cycles of private credit and therefore are able to determine the beginning and duration of crises episodes. We identify 228 credit contractions and consider the top 25% as credit crunch episodes (57 episodes) based on the cumulative losses, which serve as an indicator for the severity of a crisis. By estimating a simultaneous equations model with three equations we are able to identify whether financial crises trigger a fiscal response and how effective fiscal policy is in responding to financial crises.

### 3.4.3 Trade Determinants and Current Account Forecasts by Lilli Zimmermann

The dissertation follows a multiple-paper approach and comprises research papers on empirical issues in international economics.

The first part of the dissertation focuses on the determinants of merchandise trade, adding to international trade literature. More precisely, several theoretical hypotheses are reviewed aiming to explain the performance of trade and factors are examined explaining the dynamics of merchandise exports. As Germany has traditionally been one of the most successful export countries in the world, one of the papers analyzes which factors explain Germany's export performance. Based on the estimation of several specifications of a conditional single equation error correction model for export demand, numerous determinants are systematically examined for their ability to explain German exports during the period 1992-2008. The estimation results indicate that besides the traditional determinants (world demand and price competitiveness) other determinants, such as energy prices and the increasing fragmentation of production processes are also crucial. An assessment of the relative importance of the determinants reveals that price competitiveness, despite prolonged effort in containing costs through wage moderation, played a comparatively smaller role in explaining German exports. The increased fragmentation of production processes, by contrast, significantly contributed to its upsurge, indicating that German firms have been able to optimize their value chain of production in such a way as to make use of the comparative advantages of individual firms and locations.

The second part of the dissertation focuses on the properties of current account expectations and contributes, therefore, to the forecasting literature. As global external imbalances have received considerable attention in the last decade and expectations about the current account movements provide valuable insights for policymakers, it is inevitably important to study how current account forecasters form their expectations. Using data from the Consensus Economics Forecast Poll one of the papers shows that private sector forecasts for the euro area and G7 countries do not satisfy the traditional unbiasedness and orthogonality criteria for forecast rationality. A further empirical investigation indicates that this outcome relates to an anti-herding behaviour of forecasters. As the cross-sectional heterogeneity of forecasters with regard to anti-herding translates into cross-sectional heterogeneity with regard to forecast accuracy, there is some evidence

that forecasters who tend to herd provide more accurate forecasts than their colleagues who follow an anti-herding strategy. These results provide valuable information for policymakers, especially when it comes to the assessment of future external developments.

## 3.5 Bachelor Theses

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### 3.5.1 The Impact of Rising Oil Prices on the Real Economy by Christoph Diermann and Marc Janus

This Bachelor Thesis derives a theoretical model based on existing research with the aim of showing how oil prices affect the macroeconomy. Furthermore, it tests the model implications for the German economy by means of empirical regression analysis. The effects of rising oil prices are not only determined with regard to macroeconomic variables, but also with regard to economic sectors and industries. In summary, German macroeconomic variables relate to the oil price for the most part as predicted by the model assumptions although showing some particularities. The economic sectors show a varying response to oil price increases, according to their energy intensity of input and the oil price elasticity of demand for their output.

### 3.5.2 Different Approaches for a German Health Care Sector Reform Compared (OT: Modelle zur Reform des deutschen Gesundheitssystems im Vergleich) by Susanne Kreimer

The thesis investigates different approaches for a health care sector reform in Germany. In a first part, historical and theoretical aspects are reviewed. This part is used as a base for the analysis of the second part, where different approaches for a health care sector reform are compared.

### 3.5.3 Inflation Targeting as a Monetary Policy Framework by Victoria Bragin

The thesis analyses the monetary policy framework of inflation targeting. Theoretical and practical aspects are discussed and inflation targeting is compared to other strategies. Moreover, the performance of emerging market countries and industrial countries is analysed.

### 3.5.4 What are the Economic Effects of Minimum Wages? by Nicolas Urban

The thesis discusses the theoretical and practical effects of minimum wages. Among other things, the effects on employment, on wage distribution, on prices and firm profits, and education and skills is analysed. Moreover, some alternatives to minimum wages are introduced.



### 3.5.5 Debt Sustainability in the EMU: An Empirical Analysis for Selected Countries

by Arne Kristian Richard Doll

The bachelor thesis analyzes the sustainability of public debt in the European Monetary Union (EMU). The first part of the thesis covers economic theories related to public debt. The second part of the thesis follows an empirical approach to study the sustainability of public debt in selected EMU countries. Based on several estimation techniques the results suggest that none of the selected economies have sustainable debt levels.

### 3.5.6 The Financial Crisis in Russia - The Dependency on Oil

by Natalie Schmitke

The thesis investigates the determinants of economic growth in Russia with a focus on the country's main export product, oil. It describes Russia's development over the last twelve years starting with the default in 1998 and including an analysis of strong economic growth of the following years, pointing out its specific characteristics and weaknesses. Furthermore, a summary of the start of the current global crisis is included as well as its impact on Russia's markets and a discussion of government measures to counteract economic turmoil. It also introduces an empirical study in order to investigate the factors influencing Russia's economic growth. Particularly the thesis analyzes the relationship of oil price and economic growth based on an assumption of strong dependency on this resource. A significant influence of several variables including oil price is discovered.

### 3.5.7 The Effectiveness of Fiscal Rules – Fiscal Sustainability in the European Union

by Johanna Amberger

The sustainability of public finances is not only a prerequisite for European Union membership, but as it aims at ensuring economic growth and stability, it also provides the foundation of the European Economic and Monetary Union. Both, supranational (Maastricht Treaty & Stability and Growth Pact) and national fiscal rules are to ensure countries' adherence to the 3% deficit-to-GDP and the 60% debt-to-GDP ratio. The central question of this paper is whether or not fiscal rules have been effective in establishing sustainable fiscal positions in the European Union since 1985.

Based on the consensus of contemporary researchers as well as the estimation of fiscal reaction functions, a general conclusion can be drawn: Fiscal rules are associated with improved fiscal performance and thus increased fiscal sustainability in the European Union.

The mere existence of any of the four types of fiscal rules (Debt Rules, Expenditure Rules, Revenue Rules, Budget Balance Rules) does, however, not ensure improved fiscal performance, as confirmed by individual regression analyses. Specific characteristics – most noteworthy the enforcement mechanism – are decisive in supporting countries' sustainability of public finances. The beneficial

influence of “strong” fiscal rules on fiscal performance and macroeconomic stability thus depends on the implementing authority, the national government. The run-up to the European EMU has, until now, been the most effective enforcement instrument of Maastricht Treaty and SGP. Similar results have been found to explain the supporting role of fiscal rules in the course of large adjustments.

### **3.6 Master Theses**

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#### **3.6.1 Expectation Formation in the Oil Market – Evidence from the Survey Data**

by Andreas Dinkel

The thesis examines the expectation formation process in the oil market and particular looks into how oil price forecasters predict the future oil price. To this end, the thesis uses survey data to analyze whether oil price forecasters form stabilizing or destabilizing expectations. The paper aims to explain the recent swings in the oil price.

#### **3.6.2 Debt Restructuring in Argentina – An Empirical Analysis and Policy Implications**

by Manuel König

The subject of the thesis is the debt restructuring in Argentina. Of particular interest are the implications and the policy implications of alternative strategies of debt restructuring. To this end, the thesis compares Argentina to other emerging economies and provides some policy recommendations.

#### **3.6.3 Economic Development and Natural Resources**

by Hanna Lisa Haferkamp

The thesis analyzes the linkage between economic development and the management of natural resources. Of particular interest is the question how developing countries cope with water scarceness. To this end, the thesis examines IMF and Worldbank programmes which aim to promote economic growth in emerging economies.

#### **3.6.4 The Impact of the Financial Crisis on the Monetary Exchange Rate Policy in Asian Economies**

by Jin-Kyu Jung

The thesis examines how the Asian Economies have coped with the financial crisis and whether monetary and exchange rate policy have helped to stabilize the economies during and after the financial crisis. The thesis also provides policy implications for future monetary policy and looks into the institutional framework in Asian economies.

## 3.7 EMBA Thesis

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### 3.7.1 Can the Ukrainian Export Sector Be Enhanced by the Banking Sector?

by Oleksandr Nesterenko

Oleksandr Nesterenko explores the Ukrainian export sector in his master thesis and analyzes whether the export activities can be enhanced by the Ukrainian banking sector. Oleksandr Nesterenko presents a description of the export sector and examines the competitiveness of the Ukraine exports in international markets as well as the potential role the government and the financial institutions could play in promoting export sector growth.

## 3.8 Thesis WHU/BLS Master of Law and Business

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### 3.8.1 Improving the Trade-Development-Nexus: How to make EU Trade Policy More Development-Friendly

by Inez von Weitzershausen

Inez v. Weitzershausen analyzes whether and how EU trade policy can be designed to make it a powerful and consistent instrument of the overall policies of the EU towards developing countries. In the first part, the thesis first describes the trade and development policies of the EU and points out that development policy – unlike trade policy – is pursued on different levels in the EU (member countries, different directorates of the EU Commission). She then continues by examining the trade development nexus and explaining that the focus of trade policy has shifted from multilateral to bilateral agreements.

In the second part, Inez v. Weitzershausen examines the link between trade policy and development policy of the EU. She does this by using a case study, namely the negotiations of Economic Partnership Agreements (EPAs). Generally, the relationship between the EU and the ACP countries is considered to be a development partnership. The negotiations of the EPAs as a useful case study for the trade-development-nexus results from the comprehensive objectives of these agreements. The EPAs were also explicitly considered by the European Commission as a crucial instrument for combining trade and development policy, i.e., creating a trade-development-nexus. Although an agreement in principle has been reached with a number of the ACP countries, negotiations with some countries have not yet been concluded even two years after the initial deadline of the negotiations. Therefore, the thesis examines whether the EU indeed has so far negotiated in the interest of the developing countries too. Inez v. Weitzershausen examines three critical issues of the EPA negotiations: capacity building, providing market access and taking into account the state of regional integration in the different regions of the ACP countries.

In the third part, Inez v. Weitershausen explores the policy agenda for the topic of her thesis. She identifies the extension and clarification of EU competence and improvements of the institutional set-up as the recent changes in connection with development and trade policies of the EU. She also proposes measures beyond the Treaty of Lisbon for the purpose of making trade policy work for development.

### **3.9 Seminar on Globalization**

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In the elective “International Economics and Finance” in the “Master of Science” program, a seminar was conducted on the topic “Recent Developments in International Monetary Economics”. It focused on recent issues in the fields of exchange rate economics, international monetary economics and international finance. The seminar emphasized on theoretical foundations as well as empirical applications of exchange rate related problems. Topics dealt with central bank intervention in foreign exchange markets, profitability of central bank operations, central bank communication, empirical assessment of macroeconomic forecasts and monetary policy rules. The seminar was held at the WHU.

### **3.10 Seminar: Economic Challenges of Developing and Emerging Countries**

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In the “Bachelor of Science” program, a seminar was conducted on the topic “Economic Challenges of Developing and Emerging Countries”. Within the scope of the seminar students studied different topics related to economic challenges of developing and emerging countries by preparing seminar theses rounding it up by a presentation. The seminar emphasized on theoretical foundations as well as the introduction of the students into the methods of academic research. Among others the following topics were regarded: The Reform Process in Brazil; The World Millennium Goals: Content – Measures – Achievements; Sustainable Development; The Importance of the Agricultural Sector for Development; Financial Sector Development; Poverty Reduction Strategies; Poverty and Inequality; The Relevance of Geography in Economic Development; Trade and Development.

### **3.11 Seminar: Money, Banking, and Financial Markets**

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In the “Bachelor of Science” program, a seminar was conducted on the topic “Money, Banking, and Financial Markets”. The seminar covered recent developments in the financial markets and aimed at giving participating students an overview of a number of problems related to the banking and financial sector taking into account recent developments both in research and in policy. The seminar also served as an introduction to academic work and prepared students for their bachelor thesis. Among others the following topics were regarded: The Transmission Mechanism of Monetary Policy; Monetary Policy Rules; Central Banks Compared; Objectives, Strategies and Tactics.

## 3.12 Research Seminar in Economics (FORSEM)



### 3.12.1 Fall Semester 2009

- **Dr. Markus A. Schmidt** (Deutsche Bundesbank)  
“The Dealer’s Oracle: How Useful is Order Flow Data for Out-Of-Sample Forecasting in FX Markets”
- **Pia Pinger** (ZEW and University Mannheim)  
“Intergenerational Transmission of Inequality: Maternal Skills, Prenatal Risk Behavior and Birth Outcomes”
- **Professor Gerhard Satzger** (University Karlsruhe)  
“Service Innovation: Capturing Value from Networks”
- **Marcelo Sanchez** (European Central Bank)  
“Relative Prices and Sectoral Productivity: Is There Evidence of Structural Change in the Euro Area?”
- **Frank Gotthardt** (CompuGROUP)  
“Das deutsche Gesundheitssystem – Auslaufmodell oder Chance für erfolgreiches unternehmerisches Engagement?”
- **Professor Carsten Eckel** (Otto-Friedrich-University Bamberg)  
“International Trade and Retailing”
- **Dr. Vanessa von Schlippenbach** (DIW)  
“Quality Distortions in Vertical Relations”
- **Christina Günther** (Max Planck Institute of Economics)  
“Firm Survival in Dynamic Industries – Innovation in the German Machine Tool Sector”

### 3.12.2 Spring Semester 2010

- **Professor Gerd Mühlheusser** (University Bielefeld)  
“Sequential Location Games”
- **Professor Daniel Rubinfeld** (UC Berkeley)  
“Can Federalism in South Africa Survive Democracy?”
- **Professor Christian von Hirschhausen** (TU Berlin)  
“Desertec: Economics – Engineering – Institutional Analysis”
- **Paul de Bijl** (CPB Netherlands Bureau for Economic Policy Analysis)  
“Competition, Innovation and IRPs in Software Markets”
- **Anja Schmiele** (ZEW Mannheim)  
“The Influence of International Dispersed vs. Home-based R&D on Corporate Growth”
- **Dr. Martin Weiss** (University Erlangen-Nürnberg)  
“Die Diversifikation von Unternehmen und deren Erfolg – Empirische Erkenntnisse und weitere Forschungsfelder”
- **Professor Matti Liski** (Helsinki School of Economics)  
“Energy Saving Investments: Simple Analytics and an Application to Electricity”

### 3.13 National Model United Nations – NMUN



In April 2010, 18 WHU students travelled to New York to take part in the NMUN NY 2010 conference and represent the Gabonese Republic, an interesting, but also challenging task. National Model United Nations (NMUN) is a realistic simulation of processes, functioning and decision-making at the United Nations. The fundamental idea is to give students the opportunity to get to know the internal structures of the United Nations better and experience first-hand how politics is conducted on the world stage. NMUN – this means 4000 students from the whole world with different moral concepts, ideals, backgrounds and ways of life who slip in the role of an unfamiliar country for them. Since October 2009 participating students prepared the five day lasting conference in New York. By conducting research, presentations and discussions the students created a knowledge base concerning tasks, challenges, structure and function of the UN.

NMUN is part of the Studium Generale program for Bachelor students and is offered by the Chair of Macroeconomics and International Economics. Special thanks go out to the „Bertha Heraeus und Kathinka Platzhoff Stiftung“ without whose support the visit to the conference would not have been possible and with it the opportunity to get to know the functions and working methods of the UN.



## 4 Research Activities: Publications, Cooperation and Presentations



In its research activities the Chair analyzes theoretical and empirical aspects of macroeconomics and international economics with relevance to economic policy. During the period covered by this report, the research activities resulted in a number of publications in books and academic journals.

### 4.1 Publications in Refereed Journals

Fendel, R., Lis, E. and Rülke, J. 2009. Expectations on the NAIRU – Evidence from the G7 Countries. *Empirical Economic Letters* 8 (6), pp. 544-553.

Frenkel, M., Rülke, J. and Stadtmann, G. 2010. Expectations on the Yen/Dollar Rate – Evidence from the Wall Street Journal Forecast Poll. *Journal of the Japanese and International Economics* 24, pp. 355-368.

Frenkel, M., Rülke, J. and Stadtmann, G. 2009. Two Currencies One Model? Evidence from the Wall Street Journal Poll. *Journal of International Financial Markets, Institutions and Money* 19, pp. 588-596.

Hartmann, R., Nägele, E. and Rülke, J. 2009. Do Central Banks win or lose in the Foreign Exchange Market. *Empirical Economic Letters* 8 (10), pp. 1021-1032.

Pierdzioch, C., Rülke, J. and Stadtmann, G. 2009. Do Professional Economists' Forecasts Reflect Okun's Law? – Some Evidence for the G7 Countries. *Applied Economics*, pp. 1466-1483.

### 4.2 Articles Accepted for Publication in Refereed Journals

Fendel, R., Lis, E. and Rülke, J. Do Professional Forecasters Believe in the Philipps Curve? – Evidence from the G7 Countries. Forthcoming *Journal of Forecasting*.



Fendel, R., Frenkel, M. and Rülke, J. Real-time data does not make a difference! – Evidence from the expectation formation process. Forthcoming ***Empirical Economic Letters***.

Pierdzioch, C., Rülke, J. and Stadtmann, G. Housing Starts in Canada, Japan and the United States: Do Forecasters Herd? Forthcoming ***Journal of Real Estate Finance and Economics***.

Pierdzioch, C., Rülke, J. and Stadtmann, G. New Evidence of Anti-Herding of Oil-Price Forecasters. Forthcoming ***Energy Economics***.

Reitz, S., Rülke, J. and Stadtmann, G. Are oil-price forecasters finally right? – Regressive expectations towards more fundamental values of the oil price. Forthcoming ***Jahrbücher für Nationalökonomie und Statistik***.

### 4.3 Other Publications

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Frenkel, M. 2010. Der Mikrostrukturansatz in der Wechselkurs­theorie. ***Wirtschaftswissenschaftliches Studium (WiSt)***, Vol. 39, pp. 284-288.

Frenkel, M. 2010. Griechenland – Ein Lehrbuchbeispiel zu den Folgen einer Währungsunion. ***Wirtschaftswissenschaftliches Studium (WiSt)***, Vol. 39, p. 169.

Horstmann, R., Rülke, J. and Stadtmann, G. 2010. Der Konflikt zwischen Prinzipal und Agent am Beispiel der Vorstandsvergütung. ***Wirtschaftsstudium*** (2), pp. 204-205.

Kühl, M. and Rülke, J. 2009. Wahlentscheidungen und die Tiebout-Hypothese. ***Wirtschaftsstudium*** (10), pp. 1306-1307.

Rülke, J. 2010. Book Review. Purchasing Power Parity (edt. Meher Manzur). ***Jahrbücher für Nationalökonomie und Statistik***.

Rülke, J. and Stadtmann, G. 2010. Kooperation und Nash Gleichgewicht. ***Wirtschaftsstudium*** (10).

Rülke, J. and Stadtmann, G. 2010. Dynamische Spiele und Rückwärtsinduktion. ***Wirtschaftsstudium*** (4), pp. 512-513.

### 4.4 Summer Schools

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Tudyka, A. July 2010. ***Summer School in Applied Macroeconomics***, University of Salento, Lecce (course taught by Ulrich Woitek).

Tudyka, A. July 2010. Amsterdam School of Economics, ***Solving and Estimating DSGE Models***, Tinbergen Institute at the University of Amsterdam (course taught by Wouter Den Haan).

Rülke, J. September 2010. EABCN Training School, ***Monetary and Fiscal Interaction***, University of Amsterdam (course taught by Eric M. Leeper).

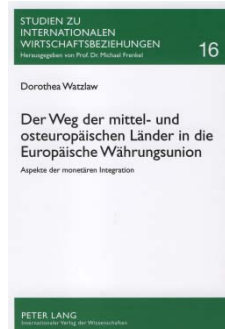
## 4.5 Referee and Editorial Activities

Michael Frenkel serves on the editorial board of the following journals:

- Global Finance Journal,
- International Journal of Business,
- Zeitschrift für Nationalökonomie und Statistik.

Furthermore, Michael Frenkel is editor of the series “Studien zu internationalen Wirtschaftsbeziehungen” published by P. Lang Publisher. The following book was published during the academic year 2009/2010.

- Der Weg der mittel- und osteuropäischen Länder in die Europäische Währungsunion (Dorothea Watzlaw)



Michael Frenkel also serves on the editorial board of the “Deutsche Bank Research Papers”. During the academic year 2009/2010 the following papers were published in this series:

- Wachstumsperspektiven im Strukturwandel: Neue Branchencluster entstehen
- Do speculators drive crude oil prices? Dispersion in beliefs as a price determinant
- EU ETS und der Lieberman-Warner Climate Security Act – Effizienzunterschiede und Linkage-Möglichkeiten
- Treiben Spekulanten den Rohölmarkt? Markteinschätzungen als Determinante des Rohölpreises

## Die Auswirkungen der Einführung einer Leverage Ratio als zusätzliche aufsichtsrechtliche Beschränkung der Geschäftstätigkeiten von Banken

“The Impact of an Introduction of Leverage Ratios as an Additional Regulatory Constraint for the Business Operations of Banks.”

The Association of German Banks commissioned Michael Frenkel and Markus Rudolf to investigate the possible effects an introduction of capital adequacy ratios in the form of an internationally binding leverage ratio might have on the financial sector and on macroeconomic variables.

This study deals with macroeconomic as well as financial implications following the introduction of a capital adequacy ratio as a regulatory tool. The leverage ratio is a risk-unweighted key figure for the determination of the equity capitalization of banks. It is meant to supplement the Basel II Accord, which allows for risk when determining of the required capital base. The study reaches the following conclusions: First, leverage ratios induce undesired incentives patterns. Specifically, banks are encouraged to process balance sheet items through the capital market and to liquidate derivative hedging positions resulting in a reduction of the credit supply. Second, the introduction of a leverage ratio would penalize German banks more heavily than other European banks or Anglo-Saxon banks. Third, the resulting macroeconomic effects are significant. In particular, the introduction may result in a reduction of aggregate credit supply followed by a slowdown of economic activity. Nevertheless, the authors expect the leverage ratio to be implemented as an additional regulatory instrument. However, this study argues for the provision of a considerable transition period in order to allow banks to reach the necessary capital ratio through a slow increase in equity. This would also help to minimize macroeconomic costs.

### 4.6 Presentations in Research Seminars

Rülke, J. June 2010. “Recent Developments in Macroeconomics”. 2nd ZEW Workshop, Mannheim.

Rülke, J. February 2010. “Are forecasters (still) have faith in macroeconomic building blocks?”. 12th Göttinger Workshop – Internationale Wirtschaftsbeziehungen, Göttingen.

Rülke, J. January 2010. “Expectations in the Housing Market – Evidence from Survey Data”. ECB Workshop – Challenges for fiscal sustainability in the EU, Frankfurt.

Rülke, J. November 2009. “Financial market’s credibility on the Stability and Growth Pact”. IFO Conference on Survey Data in Economics, Munich.

## 4.7 Other Presentations

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Frenkel, M. April 2010. "Soziales Engagement: Das Besondere einer privaten Hochschule". 44. Jahrestagung Öffentlichkeitsarbeit des Gemeinschaftswerk der Evangelischen Pulizistik, WHU – Otto Beisheim School of Management, Vallendar.

Frenkel, M. January 2010. Moderator of the workshop "Demographic changes / Demography challenges". EFMD Meeting for Deans and Directors General, Vienna.

Frenkel, M. October 2009. Moderator of the workshop "Risk Assessment: Korruption und ihre betriebswirtschaftlichen, steuerrechtlichen und strafrechtlichen Folgen". Afrika-Verein der deutschen Wirtschaft, Berlin.

Frenkel, M. October 2009. "The financial and economic crisis: What will be the consequences". Kellogg-WHU Regional Autumn Event, E.ON, Düsseldorf.

## 5 Contributions to the Leadership of the WHU



Professor Michael Frenkel serves in different functions contributing to the leadership of the WHU – Otto Beisheim School of Management. He

- is Dean of the WHU – Otto Beisheim School of Management and, in this role, chairs a number of committees and represents WHU in several national and international institutions;
- serves as Director of the Center for European Studies, Director International Relations, Director Special University Programs and Member of all Appointment Committees of the WHU – Otto Beisheim School of Management;
- participates in the Board of Directors of the gGmbH of the Bucerius/WHU-Program “Master of Law and Business” and in the Advisory Board of the gGmbH of the Bucerius/WHU-Program “Master of Law and Business”;
- chairs the WHU Alumni Board.

## 6 Connections to the Business Community and to Institutions



During the period covered by this report, several activities with cooperations and institutions were continued. Seven activities were of particular importance:

- Association for the Support of Research on Development Economics**  
 The cooperation with the association includes the organizing of an annual seminar that brings together academics and practitioners in order to discuss recent developments in development economics. The seminar was held in Erfurt in January 2010. The presented papers and the discussions focused on recent issues of economic development.
- Kreditanstalt für Wiederaufbau (KfW)**  
 The Chair of Macroeconomics and International Economics continued its close cooperation with KfW, the German development bank. This cooperation comprised supervising the WHU students during this internship and advising the KfW on future activities of economic studies.


- Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)**  
 The cooperation on internships and internship theses began in 2002.


- World Economic Forum (WEF), Geneva, Switzerland**  
 The cooperation between Professor Michael Frenkel and the WEF began in 2002 and has focused on supporting the WEF in its work on the annually published World Competitiveness Report. This report currently ranks about 85 countries with respect to their current and their growth competitiveness. It is based on officially published data and the results of a survey among business leaders. The chair provides input into collecting data and conducting the survey among German businesses. This cooperation has also led to several publications on the methodology of the World Competitiveness Report, on the performance of Germany compared to other industrial countries, and on the changes in competitiveness of individual European countries.



- **European Quality Improvement System (EQUIS)**

Professor Michael Frenkel served on the Awarding Body of the efmd ("European Foundation of Management Development") for the EQUIS quality label for business schools until the end of 2008. In this function, he participated in several meetings of the Awarding Body in Brussels and also in different peer review visits of EQUIS to business schools. He also participated in several Peer Review Visits in the context of the EQUIS accreditation process.



- **Ausschuss für Außenwirtschaftstheorie und –politik**

Since summer 2007 Professor Michael Frenkel has been the chairman of the "Ausschuss für Außenwirtschaftstheorie und –politik". This committee represents a high-profile group of academics in international economics and discusses most recent research developments in the area of international economics during its annual meeting. In 2010, Professor Michael Frenkel organized the annual meeting in Aachen.



- **Erweiterter Vorstand des Vereins für Socialpolitik**

Professor Michael Frenkel served as board member of the "Verein für Socialpolitik". The members met in 2009 and 2010 and discussed economic policy as well as academic related issues. The board members also organize the next annual meetings of the "Verein für Socialpolitik".

- **Academic Advisory Board of the Federal Ministry of Economic Cooperation and Development**

Professor Michael Frenkel continues to serve as a member of this advisory board. During the meetings of the advisory board, topics with a clear relevance to the work of the ministry are discussed. The advisory board prepares studies the staff of the ministry can draw on. In a number of cases, these studies are based on specific requests of the staff.

- **Freie Theologische Hochschule Gießen**

Professor Michael Frenkel is a member of the Academic Board ("Hochschulrat") of the "Freie Theologische Hochschule" in Gießen, Germany.

## 7 Center for European Studies (CEUS)



### 7.1 CEUS Workshop 2010

The Center for European Studies (CEUS), which is run by Prof. Dr. Michael Frenkel, organized its fifth annual workshop from June 23rd to 25th. Thirty participants from various universities, national central banks, the European Bank for Reconstruction and Development (EBRD) and the European Central Bank (ECB) gathered together at WHU to present and discuss the results of their research at the workshop entitled “Twenty Years of Economic Reforms in Central and Eastern Europe”.

The highlight of the workshop was a keynote speech by Rasmus Ruffer (ECB), entitled “Ten Years of EMU – The Past, the Present and the Future“. This year’s CEUS Workshop once again more than lived up to expectations and gave academics from various European institutions and universities the chance to engage in an informal exchange of ideas on a very high academic level.

The following papers were presented and discussed during the workshop:

- **Karsten Staehr** (Tallinn University of Technology and Bank of Estonia)  
“Economic and democratic reforms in the post-communist countries. The Copenhagen Criteria and the impact of EU membership”
- **Achim Schmillen** (University of Regensburg, Institute for Eastern European Studies and IAB), **Richard Frensch** (University of Regensburg and Institute for Eastern European Studies)  
“Comparative prices and transition – The New EU Member States in international perspective”
- **Roswitha M. King** (Østfold University College), **Trond-Arne Borgersen** (Østfold University College)  
“When Balassa-Samuelson comes to Maastricht”
- **Filip Novotný** (Czech National Bank)  
“Exchange rate adjustment mechanism in a globalized economy”



- **Danica Unevsk**a (National Bank of the Republic of Macedonia), Branimir Jovanovic (National Bank of the Republic of Macedonia)  
“Sustainability of the Macedonian current account”
- **Emilia Penkova** (Bulgarian National Bank), Nick Horsewood (University of Birmingham), Vesperoni Esteban (IMF)  
“Trade, convergence and exchange rate regime: Evidence from Bulgaria and Romania”
- **Richard Frensch** (University of Regensburg and Institute for Eastern European Studies)  
“European trade in parts and components: Searching (for a trade model for searching) for offshoring evidence”
- **Paul J. J. Welfens** (University of Wuppertal and European Institute for International Economic Relations (EIIW)) and **Mevlud Islami** (Schumpeter School for Business and Economics/University of Wuppertal and EIIW)  
“Financial market integration, stock markets and exchange rate dynamics in Eastern Europe”
- **Alexander Lehmann** (European Bank for Reconstruction and Development (EBRD))  
“Global financial reform and regional integration in emerging Europe”
- **Adalbert Winkler** (Frankfurt School of Finance and Management), Ursula Vogel (Frankfurt School of Finance and Management)  
“Cross-border flows and domestic credit growth: The role of foreign banks in the global financial crisis”
- **Christian Pierdzioch** (Saarland University)  
“The financial crisis and the stock markets of the CEE countries”