



Activity Report

Chair of Monetary Economics

September 1, 2011 – August 31, 2012

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1 Preface



The chair of monetary economics was established in September 2007. During the first 16 months of its existence it was a reduced professorship since Professor Dr. Ralf Fendel additionally held a position at another private business school. On January 1, 2009 the professorship was transformed into a full appointment and with Professor Fendel only holding the WHU professorship. The team is completed by Niklas Gadatsch who acts as a research assistant at the chair of monetary economics.

Parallel to its integration into the WHU teaching program in economics, the main focus of the professorship is on research activities. The areas of research are monetary theory and policy as well as international monetary economics and applied macroeconomics.



Chairholder

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2 Teaching



2.1 Courses, Fall Term 2011

Bachelor of Science

Grundlagen der Marktwirtschaft (Principles of the Market Economy)
Professor Ralf Fendel and Professor Michael Frenkel

The course introduced participants to principles of economics and demonstrated the basic functioning of a market economy. The material covered both microeconomic and macroeconomic topics.

2 SWS – 3.0 ECTS

Macroeconomics II
Professor Ralf Fendel

The course built on the course “Macroeconomics I” and provided participants with a broader view on economic issues. Through the in-depth analysis and discussions, participants gained a better understanding of contemporary macroeconomic events. They also learned how to present economic concepts through reasoning, through graphical expositions and through formal analyses.

2 SWS – 3.0 ECTS

Introduction to International Economics
Professor Ralf Fendel

The course explained the basic concepts of monetary and trade linkages between economies. It began with a part on trade theory and trade policy, within which the main theories of international trade as well as the effects of protectionism were discussed. The second part was devoted to the balance of payments and its dependence on exchange rate movements. In the final part the reasons for the exchange rate movements themselves were analyzed.

2 SWS – 3.0 ECTS

Mathematics I Niklas Gadatsch

This course provided students with the basic techniques and methods of calculus which find application in economics and related areas. It covered - on a more advanced level - topics from high school and optimization problems with more than one choice variable. Thus, one aim of the course was to assure that all students - being equipped with very different mathematical backgrounds ex ante - have similar mathematical background afterwards.

1 SWS – 1.5 ECTS

Master of Science

Developing Economies in Global Economic Affairs Professor Ralf Fendel

The course is concerned about economic development. It provided key understanding of the mechanisms and obstacles to the development of economies. Next to the theoretical concepts, the course also provided the students with the main empirical facts on the process of development and growth by looking at worldwide data as well as by dealing with individual country cases. A much stronger focus was put on the role international and macroeconomic problems and policies for economic development (as opposed to domestic issues). In doing so, the course focused on international trade, international capital flows as well as on international arrangements and organizations such as the World Trade Organization and the International Monetary Fund.

2 SWS – 3.0 ECTS

2.2 Courses, Spring Term 2012

Bachelor of Science

Macroeconomics II Professor Ralf Fendel

The course built on the course “Macroeconomics I” and provided participants with a broader view on economic issues. Through the in-depth analysis and discussions, participants gained a better understanding of contemporary macroeconomic events. They also learned how to present economic concepts through reasoning, through graphical expositions and through formal analyses.

2 SWS – 3.0 ECTS

Introduction to International Economics Professor Ralf Fendel

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2 SWS – 3.0 ECTS

Master of Science

Macroeconomics of Financial Markets Professor Ralf Fendel

The course deepened students' understanding of financial markets and its paramount role within market economies. It, therefore, explicitly related the financial market to the macroeconomic environment. It first reviewed the key economic issues of financial markets, its institutions and its links to the real economy. It then examined the behavior of central banks and the design of monetary policy. Furthermore, the issue of financial stability and how it can be safeguarded to avoid financial crises both on a national and an international level was discussed.

2 SWS – 3.0 ECTS

2.3 Dissertations

2.3.1 "Trade Determinants and Current Account Forecasts" by Lilli Zimmermann (Prof. Fendel acted as second reader)

The purpose of the thesis is to make a contribution to research analyses on the key determinants of international trade on the one hand and the performance of macroeconomic forecasts on the other. To shed more light on international trade determinants the thesis focuses on German merchandise exports. To assess the relative importance of the export determinants, the multivariate estimation technique of Johansen (1988, 1992) is employed. In contrast to the two-step residual based methodology developed by Engle and Granger (1987) the Johansen procedure allows to test for more than just one cointegration vector in a multivariate setting and is based on a simultaneous estimation of the long-run relationship and the short-run adjustment process of the variables under consideration. The thesis also examines the contribution of different determinants to the development of German exports over the period 2000-2010.

While econometric analyses on the key determinants of international trade entail crucial information for policymakers, trade forecasts are also essential in order to

decide on the future course of action. Therefore, the thesis also analyzes data from the Consensus Economics Forecast Poll and explores the characteristics of more than 60.000 forecasts of key macroeconomic variables. In a first step, it concentrates on current account forecasts and studies the rationality, heterogeneity, and accuracy of these forecasts. In addition to the test of traditional unbiasedness and orthogonality criteria for forecast rationality, it sheds some light on questions about the herding behavior of current account forecasters.

In a second step, the thesis explores the strategic behavior of private sector forecasters with respect to forecasts published by international organizations, such as the IMF and the OECD. In particular, it analyzes whether private sector forecasters herd towards the projections published by these international organizations. The results of this analysis do not only provide insights on how forecasters form their expectations, but also have important macroeconomic implications.

2.3.2 “Economic Aspects of European Union Trade Policy” by Marco Semmelmann

(Prof. Fendel acted as second reader)

The European Union is the largest destination and origin of trade flows in the world, ahead of the United States and China. This makes the EU a major player in international trade and provides it with substantial negotiating power. The aim of this dissertation is to provide economic insight to two empirical issues of the EU trade policies: the EU’s anti-dumping actions and its preferential trade agreements. In addition, the dissertation briefly analyses EU trade policy vis-à-vis developing countries.

One chapter investigates, whether the recent European Union preferential trade agreements increased trade with the contractual partners by looking at a panel data set covering the years 1994 to 2007. Overall, preferential trade agreements augmented trade between the European Union countries and their contractual partners. Another chapter investigates the negative or positive effect on trade caused by the imposition of EU anti-dumping measures. In fact, the imports of EU-15 countries from those countries named in the anti-dumping investigation decrease significantly. Consequently, the anti-dumping measures reach their goal. Within the dissertation it is also answered which economic factors actually influence the decision whether the EU imposes an anti-dumping measure or not. If the named country is an industrial country, if the country had concluded a preferential trade agreement with the EU or the trade volume in the concerned product section is relatively high, anti-dumping measures are less likely to be imposed than in other cases. Factors like the size of the GDP or if China is one of the countries named in the investigation, only play a subordinated role.

The dissertation concludes that EU external trade policy has had an impact on trade flows and the effect has been substantial, both in terms of free trade agreements and other preferential trade agreements, as well as with regard to the use of anti-dumping actions.

2.4 Bachelor Theses

“Economic Problems of Aging Societies” by Florian Holzmayer

“China’s Aging Society: Economic Implications and Challenges” by Manfred Yuan

“Reforming the International Monetary System” by Julia Hartmann

“Fiscal Rules and Their Implementation in the EMU” by Julian Grimm

“Fiscal Sustainability” by Marius Zorn

“Globalization and Its Implications for Developing Countries” by Katharina Wagner

“An Analysis of the ECB’s Monetary Policy During the Euro-Crisis” by Niklas Plath

“An Analysis of the Federal Reserve’s Monetary Policy After the Subprime Crisis” by Felicia Hommel and Julia Weiper

“Measuring Development” by Trutz Brachvogel

2.5 Master Thesis

“The Impact of Increased Capital Adequacy Ratio Requirements on Macroeconomics Dynamics – A VAR Approach” by Jan-Peter Schmütsch

2.6 Research Seminar in Economics (FORSEM)



In close cooperation with all members of the Economics Group at the WHU a research seminar with the following presentations was organized.

2.6.1 Fall Semester 2011

- **Dr. Max Peter Menzel** (University of Hamburg)
“Cluster Life Cycle”
- **Dr. Julia Schmidt** (WZB, Berlin)
“Hindsight Bias and Delegation”
- **Professor André Schmidt** (University Witten/Herdecke)
“Industry versus Services: Why Is There No Service Gap in Germany”
- **Dr. Thomas Gall** (University of Bonn)
“College Admission and High School Integration”
- **Professor Udo Kreickemeier** (University of Tübingen)
“Two-Way Migration between Similar Countries”
- **Dr. Kathrin Müller** (ZEW)
“The Construction of a Low Cost Airline Network”

2.6.2 Spring Semester 2012

- **Professor Lukas Menkhoff** (University of Hannover)
“Exchange Rate Expectations of Chartists and Fundamentalists”
- **Professor Monika Schnitzer** (University of Munich)
“The Use of Tax Haven in Exemption Regimes”
- **Dr. Georg Licht** (ZEW)
“Do German Courts Like German Patents More Than European Patents?
The Role of Application Routes in Patent Infringement Cases”
- **Dr. Gregor Zöttl** (University of Munich)
“Information Disclosure in Dynamic Buyer-Determined Procurement
Auctions”
- **Dr. Fabian Herweg** (University of Munich)
“Price Discrimination in Input Markets: Quantity Discounts and Private
Information”
- **Professor Volker Nocke** (University Mannheim)
“Merger Policy with Merger Choice”

2.7 MLB Program

International Trade and Investment
Professor Ralf Fendel

This course introduced the main international aspects which are relevant for firms involved in international business transactions and discussed 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.

3 Research Activities: Publications, Cooperation and Presentations



In its research activities the professorship analyzes theoretical and empirical aspects of monetary economics, macroeconomics and international economics with relevance to economic policy. During the period covered by this report, the research activities resulted in 8 working papers that are currently in the referee process. The following papers have been published or have been accepted in the academic year under consideration in this report.

3.1 Publications in Refereed Journals

Bleich, D., Fendel, R. and Ruelke, J.C., "Inflation Targeting Makes the Difference: Novel Evidence on Inflation Stabilization", **Journal of International Money and Finance**, vol. 31 (2012), 1092-1105.

Fendel, R. and Ruelke, J.-C., "Are Heterogeneous FOMC Forecasts Consistent with the Fed's Monetary Policy?", **Economics Letters**, vol. 116 (2012), 5-7.

Fendel, R. and Ruelke, J.-C., "Some International Evidence on the Lucas Supply Function", **Economics Letters**, vol. 114 (2012), 157-160.

Bleich, D., Fendel, R. and Ruelke, J.-C., "Monetary Policy and Oil Price Expectations", **Applied Economics Letters**, vol. 19 (issue 10) (2012), 969-973.

3.2 Articles Accepted for Publication in Refereed Journals

Fendel, R. and Bleich, D., "Monetary Policy Conditions in Spain before and after the Changeover to the Euro: A Taylor Rule Based Assessment", forthcoming, **Review of Applied Economics**.

3.3 Other Publications

Fendel, R., "Wachsende Inflationsängste" in "BUGA Koblenz: Ein Stück Zukunft", Garwin Verlag, 81-84.

3.4 Referee Activities

Throughout the academic year Professor Ralf Fendel served as a referee for the journals

- Journal of Economics and Statistics,
- Journal of Macroeconomics,
- Applied Economics Quarterly,
- Economic Modelling,
- Review of World Economics.

3.5 Presentations

"Wachsende Inflationsängste" ("Increasing Inflation Fears"), Bundesgartenschau, Koblenz, September 2011.

"Die Revision des Human Development Index" ("The Revision of the Human Development Index"), Montabaur, January 2012.

"Inflation Targeting and the Role of Exchange Rates", Annual Meeting of *Ausschuss für Außenwirtschaftstheorie und -politik des Vereins für Sozialpolitik*, Kiel, May 2012.

3.6 Research Activities

Project with Deutsche Bundesbank (Niklas Gadatsch)

Niklas Gadatsch joined the Deutsche Bundesbank from January 2012 until March 2012. He became part of a research project whose aim is to quantify the effects of fiscal policy during and after the crisis within an estimated DSGE model for Germany and Europe.

Summer School Visits (Niklas Gadatsch)

Jul 23 - Jul 27, 2012: "Applied Macroeconomics - Programming in MATLAB"
Taught by Ulrich Woitek at the University of Salento, Lecce, Italy

- Jun 20 - Jun 22, 2012: "The Science and Art of DSGE Modelling: A Course on Model Construction, Calibration, Estimation and Policy Analysis" (9th NIPE Summer School)
Taught by Paul Levine and Bo Yang at the University of Minho, Braga, Portugal
- Mar 26 - Mar 30, 2012: "Bayesian Methods for Macroeconomics" (Budapest School for Central Bank Studies)
Taught by Fabio Canova at the Hungarian Central Bank
- Mar 21 - Mar 23, 2012: "Fiscal Policy in Closed and Open Economies" (Budapest School for Central Bank Studies)
Taught by Evi Pappa at the Hungarian Central Bank

4 Contributions to the Leadership of the WHU



Throughout the academic year covered by this report Professor Ralf Fendel served in different functions contributing to the leadership of the WHU – Otto Beisheim School of Management. He

- was member of the WHU senate;
- was speaker of the economics group;
- acted as WHU liaison professor for the „Studienstiftung des deutschen Volkes“;
- was member of an ad-hoc committee at WHU on data bank acquisition;
- was member of hiring committee for professorship in finance;
- participated in the bachelor students selection process;
- was coordinator of the econometrics program of the PhD studies.

5 Connections to the Business Community and to Institutions



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

- **World Economic Forum (WEF), Geneva, Switzerland**

The cooperation between Professor Ralf Fendel 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 140 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.



- **Verein für entwicklungsökonomische Forschungsförderung**

Professor Ralf Fendel took over the chairman position of the “Verein für entwicklungsökonomische Forschungsförderung” which regularly brings together researchers and practitioners from the field of development economics. In doing so, Professor Fendel continued his close cooperation with the Kreditanstalt für Wiederaufbau (KfW), the German development bank. In 2012 Professor Fendel also organized the annual seminar in Montabaur on “Future of Development Policy”.

