Supervisor: Sebastian Hienzsch, M.Sc.

The Global Role of the US Dollar

Fluctuations in the US dollar play an essential role in the international monetary system. With the explosive growth of global financial markets, the US currency has gained a predominant position in emerging market economies as well as advanced economies. Through which channels does the US dollar impact these economies? What are its implications for the dollar exchange rate?

Recommended reading:

- Miranda-Agrippino, S. and Rey, H. (2020) *US Monetary Policy and The Global Financial Cycle*. Review of Economic Studies, 87, 2754-2776.
- Obstfeld, M. and Zhou, H. (2022) *The Global Dollar Cycle*. In: BPEA Conference Drafts, September 8-9, 2022.

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Is the Fed the Global Lender of Last Resort?

During the global financial crisis, the Fed set up swap lines with other central banks around the world in an attempt to put a ceiling on private domestic lending rates, reduce financing risk and encourage investment. How effective were these swap lines in providing liquidity among global banks? Does such a *global lender of last resort* prevent liquidity crunches during financial stress episodes?

Recommended reading:

- Aldasoro et al. (2020): *Global banks' dollar funding needs and central bank swap lines.* BIS Bulletin No 27.
- Bahaj, S. and Reis, R (2021): *Central Bank Swap Lines: Evidence on the Effects of the Lender of Last Resort.* Review of Economic Studies, pp 1-40.
- McCauley, R. and Schenk, C. (2020): *Central bank swaps then and now: swaps and dollar liquidity in the 1960s.* BIS WP No 851.

Uncertainty and its effect on the economy

Uncertainty shocks are considered to be important drivers of business cycle fluctuations. How does one measure uncertainty? Is there a pattern in uncertainty over the business cycle? How do fluctuations in uncertainty affect economic behaviour?

Recommended reading:

- Bloom (2014): *Fluctuations in Uncertainty.* Journal of Economic Perspectives, vol. 28, no. 2 (pp. 153-76)
- Ruediger Bachmann, Steffen Elstner and Eric R. Sims (2013): *Uncertainty and Economic Activity: Evidence from Business Survey Data.* AEJ: Macro
- Caldara, D., Fuentes-Albero, C., Gilchrist, S., and Zakrajsek, E., (2016): *The macroeconomic impact of financial and uncertainty shocks.* European Economic Review, vol. 88(C), pages 185-207.

Beyond Rational Expectations: Diagnostic Expectations in finance and economics

Modeling expectations in a macroeconomic context can be puzzling. Evidence on credit cycles and credit market conditions seem to be hard to square with rational expectation models. This has raised the interest of researchers in a behavioral approach to model credit cycles. How do market participants form expectations? What implications does this have for policy making?

Recommended reading:

- Bordalo, Pedro, Nicola Gennaioli, and Andrei Shleifer. 2018. *Diagnostic Expectations and Credit Cycles.* Journal of Finance.
- Bordalo, Pedro, Nicola Gennaioli, Rafael LaPorta, and Andrei Shleifer. 2019. *Diagnostic Expectations and Stock Returns.* Journal of Finance 74 (6): 2839-2874.
- Bordalo, Pedro, Nicola Gennaioli, Yueran Ma, and Andrei Shleifer. 2020. *Overreaction in Macroeconomic Expectations.* American Economic Review, 110, 9, 2748-82.

Safe Asset Shortage

Safe assets play a significant role in the economy and have important implications for savings efficiency, financial stability, macroeconomic activity and monetary policy. In the last few decades, there has been a growing shortage in safe assets, as the supply of safe assets, concentrated mostly in advanced economies, has not kept up with global demand. What implications does this safe asset shortage/"Saving Glut" have for the macroeconomy and monetary policy?

Recommended reading:

- Caballero, Fahri and Gourinchas (2017): The Safe Assets Shortage Conundrum, Journal of Economic Perspectives, Volume 31, Number 3, Pages 29-46.
- Gorton (2016): The History and Economics of Safe Assets, NBER Working Paper 22210. (Published in Annual Review of Economics)

Identifying the Effects of Monetary Policy

Identifying the effects of monetary policy shocks in macroeconomics can be difficult. Researchers are faced with the endogeneity and feedback effects of monetary policy. Which approaches can applied econometricians use to model the effects of changes in monetary policies on other macroeconomic variables? Which economic theories are they based on?

Recommended reading:

- Nakamura, E., Steinsson, J. (2018) *Identification in Macroeconomics*. In: Journal of Economic Perspectives, Vol. 32(3), pp. 59-86.
- Ramey V.A. (2016) *Macroeconomic Shocks and Their Propagation*. In: Handbook of Macroeconomics, Ed. 2A, pp. 71-162.

Supervisor: Sebastian Hienzsch, M.Sc.

Financial Frictions in Macroeconomic Theory

The assumption of complete and frictionless financial markets has long been the starting point in macroeconomic theory. However, due to the growing importance of banking and finance in modern economies and especially following the GFC, it has become clear that the role of financial intermediates and the analysis of financial frictions on the real economy should be more predominant in macroeconomic analysis. What are empirical and theoretical approaches to include financial frictions in macroeoconomic models?

Recommended reading:

- Bernanke B.S. (2007) *The Financial Accelerator and the Credit Channel, Speech*. The Credit Channel of Monetary Policy in the Twenty-First Century Conference, Federal Reserve Bank of Atlanta, Atlanta, GA, June 15, 2007.
- Quadrini, V. (2011) *Financial Frictions in Macroeconomic Fluctuations* In: Economic Quarterly, 97(3), 209-254.

Quantitative Easing and the Yield Curve

The unconventional monetary policy called quantitative easing refers to the large-scale asset purchase programs of central banks. The aim is to provide additional monetary stimulus to the real economy by trying to lower interest rates on the longer end of the yield curve. What are the theoretical transmission channels of QE? And what is the empirical evidence on its effectiveness in reducing long-term rates?

Recommended reading:

- Kuttner, K. (2018) *Outside the Box: Unconventional Monetary Policy in the Great Recession and Beyond*. In: Journal of Economic Perspectives, Volume 32, Number 4, Pages 121-146.
- Borio, C and Zabai, A. (2016) *Unconventional monetary policies: a re-appraisal*. In: BIS Working Papers, No 570.
- Gagnon, J.E., Raskin, M., Remache, J., Sack, B., (2011) *The financial market effects of the federal reserve's large-scale asset purchases. International Journal of Central Banking.* 7, 3-43.

Alternative Monetary Policy Frameworks

Most modern central banks follow an inflation-targeting regime by setting short-term interest rate(s). After the global financial crisis many central banks reached the effective lower bound (ELB) on short-term interest rates and started to adopt unconventional monetary policy. Therefore, central banks, like the Fed and the ECB, are currently re-assessing their monetary policy framework. What are possible alternative monetary policy frameworks that would help mitigate the problem of the ELB?

Recommended reading:

- Bernanke, Ben (2017) *Monetary Policy in a New Era*. Presented at the Rethinking Macroeconomic Policy Peterson Institute conference, Washington, DC.
- Mertens, T. and Williams, J. (2019) *Monetary Policy Frameworks and the Effective Lower Bound on Interest Rates*. AEA Papers and Proceedings 2019, 109: 427-432.
- Gali, J. and Gertler, M. (2007) *Macroeconomic Modeling for Monetary Policy Evaluation*. Journal of Economic Perspectives. Vol.21, No.4.