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AWI This Week

Monday, 18.6.12

17.15-18.45

AWI 00.010

Departmental Seminar

Michael Lamla, ETH Zürich

"Updating Inflation Expectations"

Tuesday, 19.6.12

14.15-15.15

AWI 02.036

Economics & Politics Seminar

Stefanie Walter, University of Heidelberg

"Distributional Politics in Times of Crisis. Eastern European Policy Responses to the 2008-10 Global Economic Crisis"

Wednesday, 20.6.12

17.15-18.45

AWI 00.010

Departmental Workshop

Jörg Rieger, University of Heidelberg

"Speculation and the Integration of Financial Markets"

Jour Fix

The AWI JOUR FIXE takes place at the Lounge on a weekly basis on Mondays from 16:30 till 17:15 (i.e., just before the departmental seminar). There you will have the opportunity to meet the speaker, enjoy a coffee, and exchange news and discuss research with other members of the AWI.

Departmental Seminar

Michael Lamla

"Updating Inflation Expectations"

This paper investigates how inflation expectations evolve. In particular, we analyze the time-varying nature of the propensity to update expectations and its potential determinants. For this purpose we set up a flexible econometric model that tracks the formation of inflation expectations of consumers at each moment in time. We show that the propensity to update inflation expectations changes substantially over time and is related to the quantity and the quality of news.

Economics & Politics Seminar

Stefanie Walter

"Distributional Politics in Times of Crisis.

Eastern European Policy Responses to the 2008-10 Global Economic Crisis"

In response to the global economic crisis of 2008-10, several Eastern European democracies successfully implemented internal adjustment strategies and suffered from wage depression, widespread job losses, and a contracting economy in the process. The choice of this policy path is puzzling, because existing research argues that the high costs of internal adjustment makes it politically infeasible. Democratic governments faced with severe balance-of-payments problems can therefore only choose external adjustment, i.e. a devaluation of the currency. This paper argues that the spread of foreign currency borrowing has generated significant opposition to this latter policy option among voters, because it has greatly increased voters' vulnerability to devaluation. As a result, exchange-rate policy decisions have become more politicized and are no longer an "easy solution" to balance-of-payments problems whereas internal adjustment has become a viable policy option when voters' vulnerability to external adjustment is very high. The paper uses a mix of cross-national survey data evidence from 25 transition countries and descriptive evidence at the country level to test this argument. The results suggest that individuals are well aware of the distributional consequences of macroeconomic policy adjustment for their personal financial situation and evaluate their governments accordingly. The macro-level analysis shows that during the recent economic crisis, transition country governments in countries exhibiting high levels of foreign currency debt were more likely to adjust internally rather than letting the exchange rate depreciate. In contrast, those countries in which such financial concerns were less relevant pursued the traditional path of devaluing rather than imposing the pain of a contracting domestic economy on voters.

Departmental Workshop

Jörg Rieger

"Speculation and the Integration of Financial Markets"

In this paper we study the effects of financial integration on risk-sharing. Conventional macroeconomic theory suggests that the integration of financial markets improves welfare. In contrast to the literature we assume that households have heterogeneous beliefs. Because of the differences in beliefs, households are not only sharing the risk but are also speculating. We show that with speculation, financial integration can increase the risk in the economy. In addition, we apply our model to study the effects of a reduced home-bias puzzle in the G7 countries. We find that the gains which could be made by risk-sharing are affected by speculation and that a full integration of the financial markets is not desirable.

Talks and Research Visits

Johannes Diederich gave a talk on "Willingness to Pay for Individual Greenhouse Gas Emissions Reductions: Evidence from a Large Field Experiment" on the annual meeting of the Association of Environmental and Resource Economists in Asheville, North Carolina, June 5.

Daniel Heyen presented his paper "Information acquisition under Ambiguity - Why the Precautionary Principle may keep us uninformed" (with Timo Goeschl and Boris Wiesenfarth) at the Summer Conference of the Association of Environmental and Resource Economists (AERE) in Asheville, North Carolina, June 5.

Switgard Feuerstein gave a talk on "Multilateral Trade Liberalization and Regionalism in the Time of Economic Crisis" at the conference on "Europe in the World Economy Beyond the Sovereign Debt Crisis" at the Warsaw School of Economics, May 31.

Switgard Feuerstein presented the paper "Price convergence after the Eastern EU enlargement? Evidence from European Retail Food Prices" (joint work with Andreas Lindenblatt) at the "Jahrestagung des Außenwirtschaftsausschusses des Vereins für Socialpolitik" in Kiel, May 19.

New Working Papers

Christian Becker, Dieter Ewringmann, Malte Faber, Thomas Petersen, Angelika Zahrnt: *Endangering the natural basis of life is unjust. On the status and future of the sustainability discourse*, AWI Discussion Paper Series, 527, June 2012.

**Editorial deadline for issue 15/2012 of the newsletter:
Wednesday, June 20, 2012, 12 o'clock
newsletter@awi.uni-heidelberg.de**

If you would like to receive the newsletter by email,
please contact the address above.