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AWI This Week

Monday, 26.1.15

Departmental Seminar

17.15-18.45

AWI 00.010

Christoph Winter, University of Zurich

"Public versus Private Provision of Liquidity:
Is There a Trade-Off?"

Wednesday, 28.1.15

Internal Seminar

12.15-13.15

AWI 00.010

Sandra Schmidt

"Pure Money for a Sound Economy"

Departmental Seminar

Christoph Winter

"Public versus Private Provision of Liquidity: Is There a Trade-Off?"*

To what extent is public debt private liquidity? Much policy advice given in the aftermath of the financial crisis rests on the assumption that increasing public debt relaxes borrowing constraints of private households. This is the case for ad-hoc debt limits, which are exogenous to public policy. Instead, if debt limits are fully endogenous, as e.g. in the case of the natural borrowing limit, public debt has no impact. We assume that borrowing limits arise because of limited contract enforceability and are therefore determined as equilibrium outcomes. Using an incomplete markets economy in which households are subject to uninsurable earnings shocks, we show that public debt provides some liquidity, but less so than it would if constraints were imposed ad-hoc. We show that generating borrowing constraints as an equilibrium outcome substantially alters the answers to other important questions, such as for the welfare effects of government debt or its impact on real economic activity.

*with Sigrid Röhrs

Internal Seminar

Sandra Schmidt

"Pure Money for a Sound Economy"

At present, the world-economy is exceedingly fragile. Debt levels of nations peak. Monetary assets increase, too, and concentrate in the hands of few. In this paper, I show that a mechanism at the root of today's monetary system entails an inherently fragile economy. I simulate the consequences of this mechanism within a macroeconomic model. I motivate a new monetary system that gives money the role it should have: to facilitate complex interactions in a stable environment.

Miscellaneous

Sara Elisa Kettner, Ph.D. student at the AWI, has successfully defended her doctoral thesis, supervised by Christiane Schwieler, on "Essays on Social Preferences in Economic Experiments", University of Heidelberg, January 22.

**Editorial deadline for issue 4/2015 of the newsletter:
Wednesday, January 28, 2015, 12 o'clock
newsletter@awi.uni-heidelberg.de**

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please contact the address above.