Master-Seminar:

Macroeconomic Imbalances in the Euro Area

(Modul: Macroeconomics and Growth)

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Outline

Course Description: This seminar deals with macroeconomic imbalances in the euro area. The topic is of high relevance in particular for the ongoing crisis in the euro area and possible policy measures to deal with the crisis. Currently, macroeconomic performance differs largely throughout the euro area. Some countries like Germany show solid growth and a low unemployment rate, while others, like for example Spain and Greece, struggle with high unemployment rates and high stocks of sovereign debt. This situation is highly problematic for policy makers. In a currency area, monetary policy can hardly address different macroeconomic situations in different member countries. With respect to fiscal policy, countries with a weak macroeconomic performance struggle with high indebtedness so that fiscal stimulus is hardly an option to increase output and lower unemployment. In this seminar we deal with a variety of topics related to macroeconomic imbalances in currency areas. We study causes of financial crises, economic policies to deal with crises – ranging from structural reforms to unconventional monetary policy measures –, the European Commission’s macroeconomic imbalance procedure and trade imbalances in the euro area. A list of possible topics can be found below. Students can also propose their own topic (get in contact with Stefan Kooths or Maik Wolters).

Time and place:

Introductory Session: Thursday, 26.03.2015, 16:00-17:00 in the lecture hall at the Kiel Institute for the World Economy (Kiellinie 66, ground floor, room A-032).

Block seminar: (preliminary plan) Friday/Saturday, 5.6.2015 and 6.6.2015, 9:00-18:00 in the lecture hall at the Kiel Institute for the World Economy.

Lecturers: The seminar is organized by Prof. Wolters (maik.wolters@ifw-kiel.de) and Prof. Kooths (stefan.kooths@ifw-kiel.de). In addition, seminar papers will be supervised by PhD students of Maik Wolters and Economists of the Forecasting Center of the Kiel Institute for the World Economy.

Prerequisites: A good knowledge of empirical and theoretical Macroeconomics on the Master level is required. This seminar will deal with scientific papers on a high level that might not be easy to understand.
Admittance and distribution of topics: Please send an e-mail including your name and matriculation number and a list of three preferred topics (rank 1 to 3) to Birthe Scholz, scholz@economics.uni-kiel.de, to register for the seminar. The deadline for registration will be March 20, 2014. The number of participants is limited. Participants will be chosen on a first come first serve basis and will be informed via email. To participate you will need to attend our preliminary meeting.

Course requirements: Requirements include attending the preliminary meeting, writing a term paper (maximum of 15 pages (1.5 space, 11 point font size, margins 2.5cm) + references, tables and graphs), a presentation of the paper and active participation in the seminar. The term paper should give an overview about the topic alongside the papers listed for each topic. Of course, you can (and should) check other related literature. The term paper should be clearly structured and have a clear format. The term paper and the presentation should answer the following questions:

- Why is the topic important?
- How do the different papers deal with the topic?
- Which questions are answered in the papers?
- What is the connection between the different papers?
- Which methods are used and why are these methods suitable for this topic?
- What are the main results? What is the rationale for these results (main mechanism of theoretical model or how does the empirical methodology lead to these results?)
- What is the policy relevance of the results?
- Do you have any suggestions on future research topics that could extend the work of these papers?

The term paper should be understandable for other Master students who have not directly worked on this topic and have not read the papers. So, make sure that you develop some intuition! Make also sure that your term paper is clearly organized, includes page numbers a clear numbering of sections and no typos. Make sure that you always include a reference when you cite the work of others. The references should be clearly organized (Hint: Take a look at the reference list at the end of the papers from your topic.). Figures and tables should be numbered and have a caption. Equations should also be numbered. Term papers with many typos/mistakes will be graded with 5.0 regardless of the quality of the content (Hint: Work together to proofread each other’s term papers. The presentation should be clear and I suggest practicing it in advance with your classmates!).

Grading: The grade for the course will depend on the term paper (60%), presentation (30%) and participation (10%).

Handing-in of essay: The term paper needs to be handed in twice. Please send a pdf version via Email to Ms. Scholz, scholz@economics.uni-kiel.de, and hand in a printed version to Ms. Scholz at WSP 1, room 411 (notice that the office is not open all day and not open on all days) on Friday, May 29, 2015 at the latest. There will be no exceptions! If you send in your term paper late or hand in the printed version late you will get a grade of 5.0.

Academic integrity: Make sure that your work does not violate anyone else’s rights. In particular, copying contents without listing the source is not acceptable. All submissions will be scanned for plagiarism!
Topics

1. Origins of the euro area crisis (supervision by Maik Wolters)

2. Predicting crisis events: the signal approach (supervision by Tim Schwarzmüller)
   - Prognosezentrum-Gutachten (IfW). Das europäische Verfahren zur Vermeidung und Korrektur Makroökonomischer Ungleichgewichte – Auswertung der bisherigen Erfahrung und mögliche Reformansätze. Kapitel 4 (this source is available in German only from the Kiel Institute’s forecasting center)

3. Predicting crisis events: probit and logit models (supervision by Tim Schwarzmüller)

4. The European Imbalances procedure: description and assessment of its institutional design (supervision by Klaus-Jürgen Gern)
   - Prognosezentrum-Gutachten (IfW). Das europäische Verfahren zur Vermeidung und Korrektur Makroökonomischer Ungleichgewichte – Auswertung der bisherigen Erfahrung und mögliche Reformansätze. Kapitel 2, 5 und 6 (this source is available in German only from the Kiel Institute’s forecasting center)
5. Imbalances vs. Disequilibria – A critical assessment of the theoretical foundations of the European Macroeconomic Imbalance Procedure (supervision by Stefan Kooths)
   - Prognosezentrum-Gutachten (IfW). Das europäische Verfahren zur Vermeidung und Korrektur Makroökonomischer Ungleichgewichte – Auswertung der bisherigen Erfahrung und mögliche Reformansätze. Kapitel 3 und 7 (this source is available in German only from the Kiel Institute’s forecasting center)

6. Default risk contagion in the Eurozone and how to deal with it (supervision by Gerret Halberstadt)

7. The Target 2 Dispute (supervision by Maik Wolters)

8. External imbalances in the euro area (supervision by Galina Potjagailo)
   - Lane, P.R., B. Pels (2014). Current Account Imbalances in Europe, Moneda y Credito, 234.

9. Fiscal policy and trade balances (supervision by Magnus Reif)

10. Effects of structural reforms within a currency union (supervision by Magnus Reif)
11. Asymmetric transmission of a common monetary policy (supervision by Galina Potjagailo)


12. Financial stability and monetary policy (supervision by Gerret Halberstadt)


13. Monetary policy and financial stability in low interest rate environments (supervision by Nils Jannsen)


14. Monetary Policy in the Aftermath of Banking Crises (supervision by Nils Jannsen)

15. Unconventional monetary policy and its macroeconomic effects (supervision by Maik Wolters)

16. Macroeconomic Effects of Forward Guidance (supervision by Danvee Floro)
   • International Monetary Fund (2013). Unconventional monetary policies: recent experiences and prospects (focus here on the part on forward guidance)

17. Quantitative easing in the Eurozone (supervision by Danvee Floro)

18. Deflation and depression: Is there an empirical link? (supervision by Dominik Groll)