

RESEARCH AND STUDY GRANTS

- 10/07 – 08/10 **3-Year Research Funding, Swiss National Science Foundation**
University: Graduate Institute of International Studies Geneva
- 10/04 – 08/06 **Scholarship for Graduates, German Academic Exchange Service**
University: Graduate Institute of International Studies Geneva
- 02/03 – 12/03 **Scholarship for Undergraduates, German Academic Exchange Service**
University: University of Cape Town, South Africa

PAPERS AND CONFERENCES

- Limits of Floats: The Role of Foreign Currency Debt and Import Structure* (joint with Pascal Towbin), mimeo
- Swiss Monetary Policy during the Financial Crisis*, (joint with P. Towbin, S. Dell'Erba and S. Meier), background paper for forthcoming OECD Economic Survey of Switzerland 2009
- Exchange Rates during the Crisis* (joint with Charles Wyplosz), World Bank Policy Research Working Paper, No. 5059, 2009
- Should Larger Reserve Holdings Be More Diversified?*, (joint with R. Beck), forthcoming in ECB Working Papers
- Labor Market Rigidities and the Business Cycle: Price vs. Quantity Restricting Institutions*, (joint with Mirko Abbritti) HEI Working Paper Series, No. 01/2008.
- Labor Market Structures, Trade and their Effect on Unemployment: A Theoretical Analysis and Empirical Investigation*, HEI Working Paper Series, No. 22/2006.
- Invited Speaker at the Annual Meeting of the Swiss Society for Economics and Statistics 2007, 2008 and 2009, Annual Meeting of the European Economic Association 2008, 2009

REFeree ACTIVITY

Journal of Economic Dynamics and Control

COMPUTER SKILLS

MatLab, Stata, Eviews,
MS Office, Latex, VBA

LANGUAGE SKILLS

English (fluent), German (fluent),
French (very good), Italian (good)

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RESEARCH INTEREST

International Economics and Finance, Monetary Policy, Labor and, Development.

Limits of Floats: The Role of Foreign Currency Debt and Import Structure
(with Pascal Towbin)

The traditional argument in favor of flexible exchange rates emphasizes the expenditure switching effect and the stabilization of relative prices. The recent theoretical literature finds this argument weakened with high foreign currency debt or low exchange rate pass through to import prices. This article provides a simple closed form IS-LM-BP model that allows for the presence of foreign currency debt and balance sheet effects and for limited pass-through to imports. The model is used to demonstrate the effects of pass-through and foreign currency debt for the buffer properties of different monetary policy rules in response to external shocks. We consider three different monetary policy rules: a peg, an exchange rate rule and a flexible exchange rate. While the float and the exchange rate rule buffer output and investment better for low debt levels and high pass-through, we show that investment and output react increasingly stronger to a shock as pass-through falls and foreign currency debt increases.

Using a broad sample of more than 100 countries we test the predictions. We estimate a Panel VAR and analyse the transmission of real external shocks to the domestic economy under fixed and flexible exchange rate regimes and let the responses vary with foreign currency indebtedness and a measure of pass-through. We find that the ability of flexible exchange rates to insulate output and investment better from external shocks is particular high if the country imports mainly high pass-through goods and has low foreign debt. Under high foreign currency debt the response of output and investment for the float can be even stronger than the response under a peg stressing the empirical relevance of balance sheet effects.

Labor Market Institutions and the Business Cycle: Unemployment Rigidities versus Real Wage Rigidities (with Mirko Abbritti)

In this paper we analyse the role of different types of labor market rigidities for the dynamic properties of inflation and unemployment and draw policy implications for the effectiveness of monetary policy. Using the New Keynesian framework we first show that it is crucial to divide labor market institutions into institutions that cause Unemployment Rigidities (UR), limiting the flows in and out of employment, and those which cause Real Wage Rigidities (RWR), constraining the responsiveness of real wages to economic activity. Distinguishing the two types of rigidities is important since they have opposite dynamic effects. Second, we show that the interaction between the two types of institutions is crucial for the dynamics of inflation and unemployment. Countries that have a rigid labor market along both dimensions may have a similar response of unemployment and inflation to shocks as countries, which have a flexible labor market along both dimensions. Finally we show that once we account for the two different types of labor market institutions the effects of differing LMI are quantitatively relevant for unemployment and inflation. We support these claims drawing on the evidence from a sample of OECD countries. Using a panel estimation we find evidence of the opposite effects of the two types of institutions for the volatility of unemployment

and inflation. We further estimate a panel VAR that controls for the impact of different labor market institutions and show that there is a profound difference in the responses of unemployment and inflation to shocks under different constellations of the labor market. Our findings carry strong policy implications, both with respect to the conduct of monetary policy and with respect to the effects of labor market reforms: while more flexibility of wage makes monetary policy relatively easier more flexibility in the adjustment of labor may cause monetary policy to be less effective.

Should Large Reserve Holdings Be More Diversified? (with Roland Beck)

The notable increase in international reserve holdings over the past decade and their use during the global financial crisis of 2008/2009 has sparked renewed interest in the analysis of the optimal level of reserve holdings, in particular in countries, which are subject to sudden stops. Less attention has been given to the optimal composition of reserves and even less to the joint determination of level and composition. In this paper we show that despite the common belief that higher reserve levels should go along with higher diversification to minimize the opportunity costs from holding reserves, the opposite may even be true. Using a simple model for the joint determination of the level and composition of reserves, we show that it depends on the factors that stand behind the increase in reserves whether increased diversification is optimal or not. We estimate for a panel of 20 countries the determinants of the currency composition of reserves and show how it is affected by the different motives of reserve accumulation. In line with the recent literature on reserve levels we find that reserve accumulation is primarily driven by precautionary motives, which in turn underpins the allocation of reserves to safe assets. While we find primarily evidence of the allocation being a function of precautionary motives, we also find some weak evidence for reserve accumulation to lead to more diversified portfolios if reserve accumulation is driven by other factors than precautionary motives.