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.

Supervisor: Sebastian Hienzsch, M.Sc.

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.

Safe Assets and the Convenience Yield

Safe assets play a significant role in the global economy. The US is the central supplier of these safe assets and earns a convenience yield for issuing safe dollar assets. What implications does this have for the dollar exchange rate and US monetary policy?

Recommended reading:

- Krishnamurthy A. and Lustig, H. (2019) *Mind the Gap in Sovereign Debt Markets: The U.S. Treasury basis and the Dollar Risk Factor.* 2019 Jackson Hole Economic Symposium.
- Engel, C. and Wu, S. P. Y. (2023): *Liquidity and Exchange Rates: An Empirical Investigation.* The Review of Economic Studies, Volume 90, Issue 5, Pages 2395-2438.

On Phillips Curves and Inflation

What causes inflation in modern economies? The New-Keynesian Phillips curve posits that inflation is driven by expected inflation, slack in the economy, and supply shocks, e.g. cost-push shocks. What is the state of the empirical evidence for such a Phillips curve? Is the Phillips curve dead or has the slope of the Phillips curve flattened? These issues are of first-order importance for central bankers that need to achieve their price stability mandates.

Recommended reading:

- Stock, J. and Watson, M. (2018, June). *Slack and cyclically sensitive inflation.* In ECB Forum on Central Banking, Sintra, Portugal.
- Hazell, J. and Herreno, J. and Nakamura, E. and Steinsson, J. (2022): *The Slope of the Phillips Curve: Evidence from U.S. States*. The Quarterly Journal of Economics, Volume 137, Issue 3, Pages 1299-1344.

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.

Hysteresis: Scarring Effects of Transitory Shocks

Can massive temporary shocks inflict permanent damage on economies? This is a key concern for policy makers. However, typical characterizations of the business cycle assume that cyclical shocks have temporary effects and do not cause long-term damage to an economy. This textbook notion has come under pressure again in the last decade as the global economy was struggling with a very slow recovery to the great financial crisis (GFC). Especially, the economies of the euro zone have been hit hard with the double-dip recession when the GFC was followed up by the euro crisis.

Recommended reading:

- Eo, Y. and Morley, J. (2022): *Why has the US Economy stagnated since the Great Recession?* The Review of Economics and Statistics, 104, 246-258.
- Cerra, V., Fatas, A. and Saxena, S. (2023): *Hysteresis and Business Cycles.* Journal of Economic Literature, 61, 181-225.

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:

- Ramey V.A. (2016) *Macroeconomic Shocks and Their Propagation*. In: Handbook of Macroeconomics, Ed. 2A, pp. 71-162.
- Bauer, M. D. and Swanson, E. T. (2023): *A Reassessment of Monetary Policy Surprises and High-Frequency Identification.* NBER Macroeconomics Annual, volume 37, pp. 87-155.

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. and Sack, B., (2011) *The financial market effects of the federal reserve's large-scale asset purchases. International Journal of Central Banking.* 7, 3-43.