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Editors

Monetary Policy, Financial Crises, and the Macroeconomy

Festschrift for Gerhard Illing

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Preface

This volume contains invited contributions by (former) students, colleagues, and friends of Gerhard Illing, whose 60th birthday served as an occasion for collecting these articles. Nearly all contributions were presented in a special birthday symposium.

Gerhard Illing's research focuses on the relation between monetary policy, financial crises, and the macroeconomy. He has often argued that financial and macroeconomic instabilities are a key issue for our societies, an important research topic, and a challenge for macroeconomic policy. He encouraged students and colleagues alike to take the issues of financial crisis prevention and resolution seriously, even at a time when most macroeconomists believed that the great moderation had made crises in mature economies a thing of the past. His pioneering approach combines strong theory to explain causal relationships with a clear view on data and general macroeconomic developments. His proficiency with game theoretic and microeconomic methods has helped him (and others) to advance macroeconomics in novel and very fruitful directions. In particular, he contributed to making mechanism design an important tool for macroeconomic policy analysis. The editors owe Gerhard many thanks for his inspiring views. His open, curious, and analytical mind often pointed us to upcoming research topics, policy debates, and methodological innovations.

Many chapters in this volume follow the approach of applying microeconomic and game theoretic methods to monetary policy and financial crises. They also contain interesting empirical results, reflecting Gerhard's view that evidence antecedes any application of models. They discuss recently suggested measures for central banks' responses to liquidity shortages and to the liquidity trap. They develop methods for assessing the potential of contagion via the interbank network and for capturing the interaction between micro- and macroprudential regulation. In addition, they contain empirical analyses of macroeconomic effects of German unification and current developments in the German housing market.

A wider audience might be especially interested in the chapters that point to avenues for re-conceptualizing and renovating macroeconomics. One potential starting point for such renovation is the application of new microeconomic methods to macro problems. This is reflected in an insurance-based approach to evaluate proposals for solving the sovereign debt problem in the Euro Area. It is also clearly visible in a new explanation for rising income inequality that is based on contract theory and advances in IT technology. Re-conceptualization, however, will also require a more fundamental, transdisciplinary critique of the current state of macroeconomics. Such critique is provided in a detailed analysis of the dogmatic superstructure of the process of financialization, which many believe has been an important driver of the developments in recent decades.

The symposium on which this volume is based took place at Ludwig-Maximilians-University (LMU) in Munich from March 4 to 5, 2016. The conference was characterized by an extremely lively exchange between academics and practitioners, very much in the spirit of Gerhard's approach to economics. We would like to thank all participants for their participation in the conference and their contributions to this volume.

The atmosphere, depth, and policy relevance of the symposium greatly benefited from two policy panels. The panelists (Peter Bofinger, Charles Goodhart, Hans-Helmut Kotz, Bernhard Scholz, and Hans-Werner Sinn) have done a great job in translating research results into policy advice and to enliven the discussions during sessions and afterward. We thank them for their presence and their inputs.

One secret of a successful conference is a generous host providing the necessary infrastructure and a committed team doing the background work. Many thanks go to the Ludwig-Maximilians-University (LMU) for its support and hospitality. It allowed all participants, many of who had spent an important part of their career at LMU, to feel very much at home and at ease. Our special thanks go to Mrs. Agnes Bierprigl and to the other team members at the Seminar for Macroeconomics. Their dedication and effort were crucial to make this event happen and to ensure its success.

We also express our thanks to Mr. Alen Bosankic, Ms. Jasmina Ude, and Mr. Moritz Hütten for reading proofs and preparing chapter drafts. The team at Springer Publishing has not only been very patient but also very forthcoming with support and assistance.

Finally, it is our pleasant duty to acknowledge financial support from Deutsche Pfandbriefbank and Cesifo.

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