

NEWS

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Newsletter Extract



THE DEUTSCHE BANK PRIZE IN FINANCIAL ECONOMICS 2007

Michael Woodford to receive Deutsche Bank Prize in Financial Economics 2007



Michael Woodford

Michael Woodford, the John Bates Clark Professor of Political Economy at Columbia University in New York, is to be awarded the Deutsche Bank

Prize in Financial Economics 2007. This prize, presented by the Center for Financial Studies (CFS) in cooperation with the University of Frankfurt, carries an endowment of 50.000 Euro and is sponsored by the Deutsche Bank Donation Fund.

Michael Woodford is one of the internationally most highly acclaimed researchers in the field of monetary economics. Woodford is to be awarded the Deutsche Bank Prize in Financial Economics 2007 for his fundamental contributions to the theory and practical analysis of monetary policy.

Woodford advocates that central banks adhere to systematic and transparent rules in the design of monetary policy. The effects of monetary policy depend critically upon what market participants expect about future policy and the course of the economy. Thus, interest rates should be set according to systematic rules and central banks need to communicate information about how they intend to conduct policy in the future. The best way for central banks to communicate the future course of policy, according to Woodford, is to be explicit about the rules that guide policymaking decisions. Good rules require explicitly stated targets for policy, such as inflation, and clear



Volker Wieland (Chairman of the jury 2007):

“Michael Woodford has developed a theory of monetary macroeconomics that holds widespread appeal to academic researchers owing to its rigorous microeconomic foundations. Woodford has proved the immense practical value of his theory by analyzing the central role played by expectations and communication in the implementation of monetary policy.”

Woodford’s work, summarized in his influential monograph “Interest and Prices: Foundations of a Theory of Monetary Policy”, has quickly become the standard reference for monetary theory and analysis among academic economists and their colleagues at central banks.”

explanations stating how an interest rate level consistent with the policy target is to be achieved. Woodford argues in favor of direct inflation targeting rather than using intermediate targets or reference values for money and credit aggregates.

Michael Woodford studied at the University of Chicago as well as Yale Law School, and wrote his thesis at the Massachusetts Institute of Technology (MIT). His first appointment to a professorship was in 1984 at Columbia University in New York. After further teaching and research positions at the University of Chicago and Princeton University, he returned to Columbia

University in 2004 to take up a Chair in Political Economy. During the course of his academic career, Woodford has taken on numerous visiting professorships and consultancy briefs. Thus, for example, he has been an advisor to the central bank of Brazil and the U.S. Federal Reserve as well as the European Central Bank.

The recipient of the Deutsche Bank Prize in Financial Economics 2007 has been selected by an international jury of leading economic researchers and practitioners from the world of finance. This time the jury comprises **Günter Franke** (University of Constance), **Michael Haliassos** (CFS Program Director and

Frankfurt University), **Otmar Issing** (President of CFS), **Jan P. Krahen** (CFS Director and Frankfurt University), **Patrick Lane** (The Economist), **Lucrezia Reichlin** (Director General of Research at the ECB), **Reinhard H. Schmidt** (Frankfurt University), **Lars E.O. Svensson** (Princeton University), **Norbert Walter** (Managing Director of Deutsche Bank Research and Chief Economist of Deutsche Bank Group), and **Volker Wieland** (Chairman of the jury, CFS Director and Frankfurt University).

The Deutsche Bank Prize in Financial Economics is awarded to honor internationally renowned economists, whose



Lars E.O. Svensson (Princeton University):

“The ideal DB Prize recipient is a person who has made outstanding scientific contributions in the area of finance, money, and macroeconomics that are of great relevance and importance for policy or market practice. Nobody fulfils these criteria better than Michael Woodford. He has made a series of outstanding scientific contributions. For many years he has worked on improving the microfoundations for monetary macroeconomics and during this work developed and refined the theory of the so-called New Keynesian model and provide the first empirical estimates of its parameters. His work is summarized in his monumental monograph, Interest and Prices: Foundations of a Theory of Monetary Policy, which is already immensely influential and will be of lasting value. Furthermore, his research is of great practical importance for policymakers. It has provided the foundations for the latest

generation of empirical dynamic stochastic general equilibrium models that are now being developed by the most advanced central banks for policy simulations and forecasting. It has also provided central bankers with a practical framework of how to think about policy and the transmission mechanism of monetary policy, in particular the fundamental role of expectations and transparency in implementing monetary policy. His research is now influencing the conduct of monetary policy in many different ways all over the world.”



Patrick Lane (The Economist):

“Michael Woodford is a worthy winner of this year’s Deutsche Bank Prize in Financial Economics. His work on monetary policy has become highly influential. The emphasis he lays on the importance of expectations to the conduct of policy is especially notable. The same is true of his work on central banks’ transparency and communication—a topic of increasing interest not only to central banks themselves but also to those who watch them in financial markets and the media.”

work has both decisively influenced research in the fields of finance and money and macroeconomics and delivered important results for economic policy and practice. The prize is awarded on a two yearly basis. The first prize winner was Eugene F. Fama, Professor

of Finance at the University of Chicago, who in 2005 was honored for his theory of efficient markets.

This year the prize will be presented to Michael Woodford by Josef Ackermann, Chairman of the Management Board

and the Group Executive Committee of Deutsche Bank AG, at an award ceremony taking place in Frankfurt on **4 October, 2007**. The award ceremony will be preceded by a scientific symposium on **“The Theory and Practice of Monetary Policy Today”**.



Norbert Walter (Deutsche Bank Group):

“Michael Woodford combines theory and practice in a very particular way: Not only are his excellent results of research important for science – they are also of concrete use in monetary policy around the globe. I know no other person in this field of research, whose findings were more crucial for discussions on monetary policy in the past decade. Many central banks are keen on winning him for cooperations to improve their analyses in monetary policy. In addition, his findings also have the potential to be adapted to other political fields. The Deutsche Bank Prize in Financial Economics will provide an important contribution towards making Michael Woodford more popular – even beyond the circle of experts.”

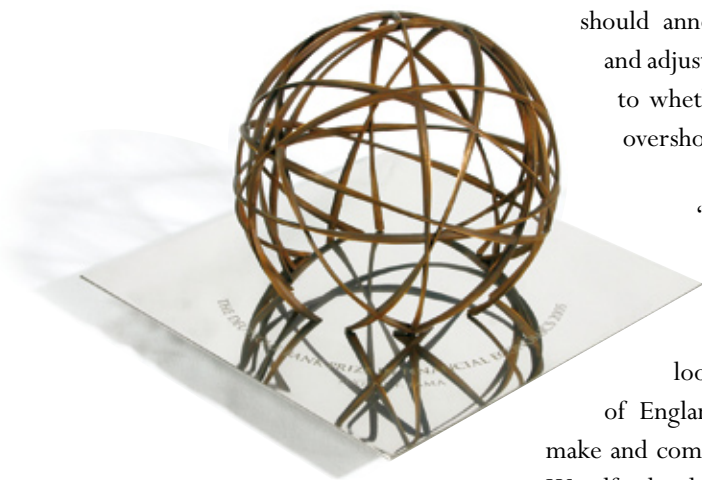


MANY NEWSPAPERS HAVE REPORTED ON THE NOMINATION OF MICHAEL WOODFORD AS PRIZE WINNER OF THIS YEAR’S AWARD. IN JANUARY, THE GERMAN NEWSPAPER *HANDELSBLATT* PUBLISHED AN INTERESTING ARTICLE ABOUT THE IDEAS THAT WOODFORD REPRESENTS AND THE MOTIVATION BEHIND THE CHOICE OF THE JURY TO SELECT HIM AS PRIZE WINNER. THE ARTICLE ON PAGE 24 IS BASED ON AN INTERVIEW BY NORBERT HÄRING WITH MICHAEL WOODFORD AND VOLKER WIELAND.

At this occasion, the jury would like to thank the nominators for their immense support during the nomination procedure. More than 2,700 university teachers and researchers from 24 countries had the opportunity to submit a suggestion for the nomination.

Michael Woodford awarded generously endowed Deutsche Bank Prize in Financial Economics (*)

by Norbert Häring (*Handelsblatt*)



A prominent critic of the monetary policy strategy of the ECB, the U.S. economist Michael Woodford, has been awarded the € 50,000 Deutsche Bank Prize in Financial Economics. Since 2005, the prize has been awarded jointly every two years by the Frankfurt-based Center for Financial Studies (CFS) and the Deutsche bank Donation Fund.

In explaining the motivation behind the choice of prize winner, CFS Director Volker Wieland mentioned in particular that Woodford has developed a theory of the monetary policy transmission mechanism that is consistently derived from the decision processes of individual households and businesses.

An important implication of Woodford's work is the significant impact of expectations on monetary policy. From this he infers that central banks should do everything in their power to allow the public to be able to accurately assess the central bank's reaction to specific situations in the economy. For this reason Woodford is a proponent of the strategy of inflation targeting, which in essence rests on the notion that the central bank

should announce an inflation target and adjust its interest rate according to whether there is a shortfall or overshooting of this target.

“I would recommend that both the ECB and the US Federal Reserve take a close look at how the central banks of England, Sweden and Norway make and communicate their decisions”, Woodford told the *Handelsblatt*. These central banks currently represent the vanguard with respect to clear communication and predictability of policy. The Norwegian and Swedish central banks nowadays even forecast publicly what decisions regarding their interest rate targets they are likely to take in the future, given today's information.

The European central bank pursues a strategy similar to that of inflation targeting. However it makes a point of not naming it as such. Under its two-pillar policy strategy, the ECB observes not only inflation but also the money supply and credit aggregates and accords these indicators greater significance.

Very open

Woodford, who advises the ECB as well as other central banks, makes no bones about the fact that he strongly disapproves of the degree of importance given to the money supply. In his opinion, a rational justification for this no longer exists. Rather, this approach requires an unnecessary use of resources and makes it difficult for the ECB to explain its decisions in a coherent fashion.

In November 2006, at the invitation of the ECB, Woodford presented his theories to an academic forum and was greeted with widespread approval from the top-level audience. “I was impressed by the openness with which the ECB faces its critics”, Woodford commented.

This openness was also apparent in the award to Woodford. The jury includes Otmar Issing, who is the father of the two-pillar strategy so heavily criticized by Woodford, and who was until recently the chief economist of the ECB.

What Woodford represents

Top researcher

Together with Lars Svensson and the Chairman of the US Federal Reserve, Ben Bernanke, Woodford is currently regarded as one of the world's three leading monetary policy theorists.

New-Keynesianism

His treatise “Interest and Prices: Foundations of a Theory of Monetary Policy” is akin to a bible for monetary economists of a new-Keynesian orientation. This currently dominant direction of research assumes that interest-rate policy has a short-term effect on production and employment. Neoclassical economists such as Edward Prescott have disagreed with this proposition.

Career

Woodford currently teaches at Columbia University. Previously he has held positions at the most important elite universities. He was born in Massachusetts in 1955.