Call for Proposals
NBER-Sloan Project on the Global Financial Crisis

A research project to understand international aspects of the recent crisis

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The Sloan Foundation has generously funded a project organized by the NBER on global aspects of the recent financial crisis. The project seeks to motivate new thinking about the global financial crisis and to provide a forum for academic researchers to discuss these ideas. It will provide a new body of research to advance our understanding of the mechanisms that led to the most severe global crisis since the Great Depression. This research should provide the intellectual underpinnings for policies to better manage and hopefully to reduce the likelihood of future financial crises.

This project will pay a stipend for new research papers on topics answering questions such as: How did global imbalances contribute to the crisis? How was the crisis transmitted internationally? How has the global nature of the crisis affected macroeconomic policy responses, ranging from monetary and fiscal policy to banking regulation and the role of the dollar? Priority will be given to projects that are data intensive (involving the creation of new data or using existing data in new ways) and that have implications for policy. The research will be discussed at a series of conferences in Cambridge, MA, Washington, DC, and likely Bretton Woods, NH. The papers produced for the project will be considered for publication in a special symposium in the *Journal of International Economics.*

Project and Conference Details: About 12 proposals will be selected for inclusion in this project. Authors will receive an honorarium of $5000 per completed paper. Papers that involve the creation of new datasets or substantial new data-intensive work that is made publically available will also be eligible for an additional honorarium (up to $5000 per paper based on project characteristics). In addition to their research papers, authors will also be expected to prepare a short 1-3 page non-technical summary of their paper. All travel expenses related to the project will be covered, subject to the usual NBER guidelines.

The proposals and initial work on the papers will be discussed at a pre-conference in the afternoons of July 14-15 in Cambridge, MA in conjunction with the NBER Summer Institute. Completed research papers will be discussed at an academic conference, likely held on June 3-4, 2011 in Bretton Woods, NH. To distill these research insights for policymakers, summaries of selected papers will be presented at a short conference in Washington, DC before an audience of officials from central banks, finance ministries, international institutions and financial markets. This event will be held in September 2011 (in conjunction with the annual IMF-World Bank meetings).

Research papers from this project will be included in the NBER working paper series and distributed through the extensive NBER research distribution network, including highlights in the NBER Reporter and the NBER Digest. The research papers, non-technical summaries, and associated data will be available on the NBER web site. Authors are required to submit their papers to be considered for inclusion in the symposium in the *Journal of International Economics*, subject to the normal refereeing process.

Proposal Information and Topics: Proposals should be **submitted by April 19, 2010 to http://www.nber.org/confsubmit/backend/cfp?id=GFCs10**. Any questions should be sent to Kristin Forbes at kjforbes@mit.edu. Proposals should be at least 3-5 pages long and include: (1) the question that will be answered in the paper; (2) how this fits with existing academic literature; (3) what framework will be used to answer the questions; (4) a description of any data that will be used; (5) what implications the paper will have for policy; and (5) a brief timeline for completion of the paper. Any related work by the author(s) should also be referenced. Authors selected to participate in the project will be notified by mid-May of 2010.

The project will focus on a wide range of issues related to international aspects of the global financial crisis. When selecting which proposals are included in the project, preference will be given to studies that are empirical—especially those that involve the creation of new data sets and/or that introduce academics to new data that have not been widely used. Authors from academic institutions may find it useful to partner with researchers at institutions with access to or expertise in international data—such as the Federal Reserve, BIS, IMF, World Bank, etc. Preference will also be given to topics that address issues of relevance to policymakers. This does not mean that the papers should prescribe policies, but instead that they provide the frameworks, tools, and/or insights that are useful in the formulation of policy.

Suggestions for questions we hope to address are listed below, but we are also open to proposals on topics not included in this list as long as they are related to international aspects of the crisis.

A. Global Imbalances

- What was the role (if any) of global imbalances, especially foreign financing of the US current account deficit, the "global savings glut" and increased cross-border financial flows, in causing the crisis? Or were specific policies (such as low interest rates in the Unites States and China's exchange rate policy) more important?
- Why did net capital flows into the United States increase (not decrease) during the crisis? Does this change our assessment of the risk from the large US current account deficit? What have we learned about how imbalances can work themselves out?
- Did new financial innovations—especially in the United States—contribute to the global imbalances? Do the benefits of these innovations outweigh the risks?

- What was the role of the commodity cycle (especially the spike in the price of oil and other mineral and agricultural products in 2008) in global imbalances? Did Sovereign Wealth Funds play any role?
- What, if any, long-term affect will the crisis have on global imbalances? Now that the U.S. current account deficit has shrunk by almost half, are global imbalances no longer a concern? What are the implications for the global economy if policymakers attempt to reduce global imbalances?

B. The International Transmission of the Crisis

- What were the primary mechanisms by which this crisis spread internationally? Has this crisis changed our understanding of international financial contagion and the global propagation of shocks?
- Why were some emerging markets hit more strongly by the crisis (especially in Central and Eastern Europe) while others appeared to be more shielded than in the past? Did a change in the composition of capital inflows help reduce many emerging markets' vulnerability (the shift away from short-term, bank-intermediated, foreign-currency-denominated flows toward longer term flows such as locally denominated bonds and direct investment)? Did large reserve stockpiles reduce vulnerability?
- What is the role of international bank exposure in the current crisis? Why did banks in different countries have such different exposures to toxic assets (such as US housing securities) and to vulnerable countries (such as Eastern European assets)?
- How did home bias for different countries (including the U.S.) change during the crisis? Is this typical during crises or indicate a new mechanism by which crises spread?
- What is the role of new financial instruments, such as Mortgage-Backed Securities, in propagating the crisis? Did the originate-to-distribute securitization of home loans take diversification too far due to factors such as asymmetric information? Put differently, should German banks have been holding American mortgages—or was there a good reason for the earlier, higher levels of home bias?
- What was the role of the carry trade in the current crisis (borrowing in yen, dollars, euros and Swiss francs to lend in New Zealand dollars, Icelandic krona and Latvian lats)?
- As the worst phase of the crisis abated in mid-2009, why were some countries able to bounce back so quickly (such as China and other Asian exporters)? Is this evidence of decoupling and a reduced reliance on the United States?

C. Macroeconomic Policy Responses around the World

- What was the comparative experience with fiscal expansion across countries? For example, what lessons are there on the extent to which tax cuts are saved or fears of high future debt levels cause fiscal stimulus to have a small or negative effect (e.g., crowding out)?
- What is the impact of the simultaneous large fiscal expansion in many countries? Did stimulus packages have a protectionist or "beggar-thy-neighbor" flavor? Has there been an element of competitive depreciation (China, Switzerland…) reminiscent of the 1930s?
- What is the cross-country experience with quantitative easing and other untraditional forms of monetary policy? Have international linkages constrained or improved the effectiveness

of monetary policy (such as through the sharp contraction in global capital flows)? Does monetary policy coordination across countries improve or reduce its effectiveness (such as by reducing exchange rate effects)?

- What does academic research suggest about global dynamic macroeconomic adjustment paths in the wake of unprecedented monetary and fiscal easing and rapid increases in government debt? How did policy in previous crises affect the outcomes—and what does this predict for the impact of current policies? How might policies be coordinated internationally in the unwinding of the broader market support?
- Has the crisis led to a re-assessment of the benefits of inflation targeting? For example, does the crisis suggest monetary policy should place some emphasis on asset prices, exchange rates and/or commodity prices rather than focusing solely on the CPI? Did CPI targeting lead some central banks (e.g., in Europe) to keep monetary policy tight in response to high oil prices, and to pay a high price in foregone output?
- What is the future of the dollar as a reserve currency? What would be the impact of proposals to reduce the international role of the dollar (such as increased use of SDRs)?
- What will be the impact of the recent IMF reforms (less conditionality and more resources) on emerging market spreads, moral hazard, and monetary and fiscal policy discipline?
- Has the increased international scope of banks made it harder for governments to support domestic banking systems (e.g., the problems created by Iceland's inability to guarantee its foreign deposits)? What are the responsibilities of the national regulator versus regulators in countries where a bank has substantial exposure? How important is regulatory arbitrage across countries in limiting the ability of governments to regulate banks? What should we conclude from the problems of countries in which the financial sector is a very large share of GDP (such as Switzerland, Iceland, or the U.K.)?
- Does the crisis affect the analysis of the benefits of large accumulation of reserves by many countries (especially in Asia) that most previously assessed as excessive?
- Has the increase in international swap agreements helped alleviate currency pressures?
- Are the solutions to the current crisis setting the stage for the next crisis (such as through greater moral hazard, unprecedented monetary and fiscal easing, and increased debt)?