Call for Proposals

Normalizing Central Bank Practice in Light of the Credit Turmoil

November 2010

The **Carnegie-Rochester Conference on Public Policy** is now soliciting papers for a conference on "Normalizing Central Banking Practice in Light of the Credit Turmoil." This conference will be held in Pittsburgh, at the Tepper School of Business, Carnegie Mellon University, on November 12-13, 2010. The papers and comments are slated for publication in a special issue of the **Journal of Monetary Economics** in July 2011.

The November 2010 Carnegie-Rochester conference seeks to reconsider aspects of central banking theory and practice in the aftermath of the credit turmoil of 2007-9. The unprecedented reliance on monetary, credit, and interest on reserves policies in the credit turmoil raises a number of questions. In retrospect, by what theory and evidence are these expansive policies thought to have been effective? How should the withdrawal of these policies be sequenced and coordinated to guide the economy back to a non-inflationary balanced-growth path? How, if at all, do financial and macroeconomic theory, and experience in the credit turmoil suggest that normal, steady-state central banking operations and practices should be modified? Is there a case for a "new normal" in this regard?

More specifically, the following are among possible topics of interest:

On the steady-state role of reserves in monetary policy: Should central banks satiate the market for bank reserves on a permanent basis and utilize the "interest on reserves floor" as a policy instrument? Eliminating the tax on reserves should improve social welfare. Yet doing so would depart from conventional practice in which central banks have maintained a "scarcity" of reserves and a below market interest rate on reserves. What do theory and evidence from the "optimum quantity of money" literature say about this question? Could "reserve tax avoidance" be expected to destabilize conventional practice going forward? Do theory or recent experience suggest

that expanding and contracting bank reserves beyond satiation might serve a useful policy purpose, holding interest on reserves fixed?

On the exit strategy: There is need of a quantitative, theoretical model of the demand for excess reserves suitable for managing monetary policy in the exit from the zero bound. Could such a model suggest a limit to the volume of excess reserves that can be immobilized at the interest on reserves floor? Would the use of close substitutes to absorb reserves (reverse repurchase agreements and term deposit facilities) destabilize the demand for reserves and complicate, perhaps beyond repair, conventional monetary policy implementation?

On the structure and regulation of the interbank market: What might search theory say about the structure of the interbank credit market? How might one expect the interbank credit market to work if the market for bank reserves were satiated as described above? Why do "central bank deposit rates" work well to put a floor under interbank rates in some countries but not in others? What is the best way for regulations to secure the deposit rate floor? In the case of the United States, should GSEs be excluded from the federal funds market, or should GSEs be allowed to earn interest on their balances at the Federal Reserve? What does the micro-structure of the interbank market imply about the case for or against the satiation of the reserves market and the use of interest on reserves as the interbank rate floor?"

On central bank last resort lending and regulation of the depository and shadow banking systems: What do theory and evidence say is an efficient role for regulation and central bank credit policy taken together in relation to the shadow banking system? Is the growth of shadow banking relative to depository banking largely a consequence of the regulation of depositories, or largely the efficient result of financial deepening? What do theory and recent experience suggest is the best way to design rules to govern central bank last resort lending to depositories and the shadow banking system? Can these rules be enforced credibly? If not, how should one design and think about a discretionary last resort lending equilibrium?

The editors invite detailed abstracts of no more than two pages describing the proposed research paper. (If a preliminary version of the paper is available, authors may include it with their abstract.) Proposals should be submitted electronically to Sue North, Editorial Assistant for the **Journal of**

Monetary Economics, no later than April 12, 2010, at north@simon.rochester.edu The editors, in collaboration with the Carnegie-Rochester Advisory Board, will make the final selection of papers to be included in the Conference. Authors will be notified by May 12, 2008 if their paper has been selected. Authors will receive an honorarium of $2500 and be expected to present their paper at the Conference. The papers should represent original research not presented or published elsewhere. Since the papers are intended for publication, authors will not be able to publish or reprint the work elsewhere without the permission of the editors and publisher. Please note that the editors will contact authors only if their paper is accepted.