

The HKIMR was established by the Hong Kong Monetary Authority (HKMA) in August 1999 to conduct and support research on issues in monetary policy, banking and finance that are of strategic importance to Hong Kong and the Asian region.

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Hong Kong Institute for Monetary Research – *Newsletter*

Twenty-Fourth Issue (August 2013)

Recent Activities

HKMA Symposium on Financial Stability

The HKIMR hosted the “HKMA Symposium on Financial Stability” on 30 May 2013. The Symposium marked the 20th anniversary of the HKMA.

This half-day symposium was divided into two sessions. The first session covered the interaction between micro and macro-prudential policy, focusing on the difference between the two, and the boundaries of macro-prudential policy and its interaction with micro-prudential policy. Mr Arthur Yuen (Deputy Chief Executive of HKMA) was the moderator of this session; the panellists included Mr Wayne Byres (Secretary-General, Basel Committee on Banking Supervision), Dr Malcolm Edey (Assistant Governor, Reserve Bank of Australia) and Dr Liu Mingkang (Former Chairman, China Banking Regulatory Commission).

The second session covered governance and financial stability. The panellists discussed the following three questions: i) What is the role of rules and discretion in financial stability policy making?, ii) Ideally, what are efficient and effective governance arrangements for financial stability policies? and iii) What are the pros and cons of different institutional arrangements? The session was chaired by Dr Dong He (Executive Director (Research) of the HKMA and Director of the HKIMR), and the panellists included Professor John Eatwell (Emeritus Professor, University of Cambridge), Mr Masamichi Kono (Vice Commissioner, Financial Services Agency, Japan), and Ms Teo Swee Lian (Deputy Managing Director, Monetary Authority of Singapore (MAS)).



Mr Norman TL Chan (Chief Executive of the HKMA) delivering the welcoming remarks



Mr Arthur Yuen (HKMA), Mr Wayne Byres (Basel Committee on Banking Supervision), Dr Malcolm Edey (Reserve Bank of Australia) and Dr Liu Mingkang (Formerly China Banking Regulatory Commission) (From left to right)



Ms Teo Swee Lian (MAS), Dr Dong He (HKMA and HKIMR), Professor John Eatwell (University of Cambridge) and Mr Masamichi Kono (Financial Services Agency, Japan) (From left to right)



Dr Dong He (HKMA and HKIMR) delivering the closing remarks



Over one hundred conference participants

HKMA 20th Anniversary Research Workshop

The HKIMR hosted the “HKMA 20th Anniversary Research Workshop” on 7 June 2013 to mark the 20th anniversary of the HKMA.



Dr Cho-Hoi Hui (HKMA) presenting his paper “Recent Performance of the Hong Kong Dollar Foreign Exchange Market and the Linked Exchange Rate System”

This one-day workshop was designed to feature research papers on the Hong Kong economy by HKMA staff. A total of seven papers were presented on a wide range of issues related to the Hong Kong economy. These were: “Recent Performance of the Hong Kong Dollar Foreign Exchange Market and the Linked Exchange Rate System” presented by Cho-Hoi Hui (HKMA), “Current Account Deterioration in Hong Kong: An Emerging Sign of Macroeconomic Vulnerability?” by Raymond Yuen (HKMA), “Transmitting Global Liquidity to East Asia: Dollar Credit in Mainland China and Hong Kong” by Dong He (HKMA), “Rising Mainland Exposure of Hong Kong Banks: Finding the Optimum Level and Assessing the Systemic Risk” by David Leung (HKMA), “Rental Adjustment and Housing Prices: Evidence from Hong Kong” by Honglin Wang (HKIMR), “The Demand for and Supply of Mortgage Loans in Hong Kong: The Role of Loan-to-Value Ratio Policy” by Eric Wong (HKMA), “The Development of the RMB Market in Hong Kong : Assessing Onshore-Offshore Market Integration” jointly presented by Changchun Hua (International Monetary Fund (IMF)) and Philip Ng (HKMA).

The workshop ended with a panel discussion session chaired by Dr Dong He (HKMA and HKIMR) entitled “The Implications of Capital Account Liberalisation in Mainland China for Hong Kong as an International Financial Centre”. The panellist included Julia Leung (Under Secretary, Financial Services and the Treasury Bureau), Andre Meier (Resident Representative, IMF, Hong Kong SAR), and Eddie Yue (Deputy Chief Executive, HKMA). The conference programme can be accessed by the following link:

http://www.hkimr.org/conferences_detail-id72



The panellists: Andre Meier (IMF), Eddie Yue (HKMA) and Julia Leung (Financial Services and the Treasury Bureau) (From left to right)

Seminar by Masaaki Shirakawa

The HKIMR held a seminar entitled “The Theory and Practice of Unconventional Monetary Policies - The Japanese Experience” by Mr Masaaki Shirakawa, former Governor of Bank of Japan, on 5 July 2013.

In this seminar, Mr Shirakawa shared his views on the Japanese unconventional monetary policies (UCMP). He thought there were four factors that affected the effectiveness of the UCMP in Japan: the degree of balance-sheet adjustment or de-leveraging of banks, the decline in the potential growth rate, whether there was simultaneous adoption of UCMP by other economies, and whether the country was a reserve currency country. He suggested that central banks should carefully weigh the possible costs and benefits of deploying UCMP, taking into account factors such as the flexibility of the economy and society, the nature of shocks, and whether or not the currency was a reserve currency.



Mr Masaaki Shirakawa
(Former Governor of Bank of Japan)

The Eleventh HKIMR Summer Workshop on Property Markets

The Institute co-organized its Eleventh HKIMR Summer Workshop with the Centre for Hospitality & Real Estate Research of The Chinese University of Hong Kong (CUHK) on 16 August 2013. The theme of the workshop was property markets.

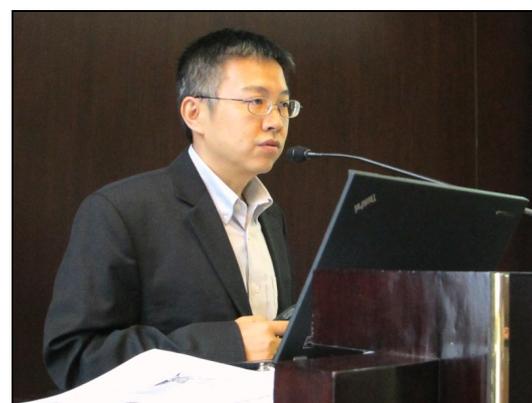
The objective of this series of workshops is to bring together scholars, central bankers and market practitioners to discuss current economic and financial issues. This year’s workshop focused on property markets. The issues discussed included the effect of monetary and macro-prudential policy on housing prices and credit, the rental rate under housing price uncertainty, and the potential effect of a transaction tax. Four papers were presented: “Taming the Real Estate Beast: The Effect of Monetary and Macroprudential Policies on Housing Prices and Credit” presented by Ilhyock Shim (Bank for International Settlements (BIS)) and discussed by Eric Wong (HKMA), “Rental Rate under Housing Price Uncertainty: A Real-Options Approach” presented by Honglin Wang (HKIMR) and Yinggang Zhou (CUHK), and discussed by Wenlan Qian (National University of Singapore (NUS)), “Speculative Investors and Tobin’s Tax” presented by Wenlan Qian (NUS) and discussed by Tin Cheuk Leung (CUHK), and “Bunching in the Hong Kong Housing Market Transactions” presented by Tin Cheuk Leung (CUHK) and discussed by Shiyuan Chen (BBVA). The conference programme, papers and presentation slides can be accessed on the HKIMR website by the following link: http://www.hkimr.org/conferences_detail-id76



Ilhyock Shim (BIS) presenting his paper



Workshop participants



HKIMR staff economist: Honglin Wang

The HKIMR/HKUST Joint Conference on Macroeconomics and International Finance

The HKIMR jointly organized a conference on macroeconomics and international finance with The Hong Kong University of Science & Technology (HKUST) on 2 and 3 July 2013.

This two-day conference was divided into four sessions. The first two sessions on the first day were held at the HKIMR and the last two sessions were held at the campus of HKUST in Clear Water Bay. The conference covered a wide range of economic issues such as trade invoicing and prices, the services and dynamics of female labor supply, Chinese capital account liberalization, housing bubbles and the US macroeconomy, stock market bubbles and business cycles, and China's economic policy.

The conference started with the opening remarks delivered by Mr Hongyi Chen (Senior Manager of the HKIMR). In the first session, Philippe Bacchetta (University of Lausanne) presented his paper "The Great Recession: A Self-Fulfilling Global Panic" and Cedric Tille (Graduate Institute for International and Development Studies) gave a presentation of his paper "A Bargaining Theory of Trade Invoicing and Prices". After a break, Joseph Kaboski (University of Notre Dame) delivered his paper "Services and the Dynamics of Female Labor Supply". In the second session, Paul Luk (HKIMR) presented his paper "A Model of Chinese Capital Account Liberalization" and Hui Tong (IMF) gave a presentation of his paper "Lemons with Naïveté". This session ended with a paper presented by Pengfei Wang (HKUST) entitled "Housing Bubbles and the U.S. Macroeconomy".

The third session on the second day began with the presentation of "Risky Investment with Limited Enforcement" by Vincenzo Quadrini (University of Southern California). After that, Shenghao Zhu (NUS) delivered a presentation on the topic "Bequest Motives, Estate Taxes, and Wealth Distributions in Becker-Tomes Models with Investment Risk" and Jianjun Miao (Boston University) discussed his paper entitled "A Bayesian DSGE Model of Stock Market Bubbles and Business Cycles". The last session included four papers entitled "Making Sense of China's Economic Policy" by Jim Riedel (Johns Hopkins University), "Eurosclerosis and International Business Cycles" by Jenny Xu (HKUST), "Capital Controls and Currency Wars" by Anton Korinek (Johns Hopkins University) and "Asset Allocation and Monetary Policy" by Harald Hau (University of Geneva).

The conference programme, part of the papers and presentation slides can be accessed on the HKIMR website by the following link: http://www.hkimr.org/conferences_detail-id73



Conference speakers and discussants



Mr Hongyi Chen (Senior Manager of the HKIMR) delivering the opening remarks of the conference



Philippe Bacchetta (University of Lausanne)



Paul Luk (HKIMR) presenting his paper "A Model of Chinese Capital Account Liberalization"

Visiting Fellow – Bang Nam Jeon

JEON, Bang Nam is Professor of Economics and International Business at the LeBow College of Business, Drexel University in Philadelphia, PA, USA. He holds a Ph.D. in Economics from Indiana University. He has held positions with Southwestern University of Finance and Economics (China) as a chair professor; Rose-Hulman Institute of Technology; and Hudson Institute as a consultant. His research interests include international finance and banking, financial economics, and regional economic integration among Asia-Pacific economies. He has published papers on various international economics and business issues in economics/international business journals, such as Brookings Papers on Economic Activity, Journal of International Money and Finance, Journal of Banking and Finance, Review of International Economics, Pacific-Basin Finance Journal, Transnational Corporations (United Nations), East Asia Law Review (University of Pennsylvania Law School), and Journal of the Japanese and International Economies. He is the President of the Korea-America Economic Association (www.kaea.org) for 2013. Contact: jeonbana@drexel.edu.



I visited the HKIMR as a research fellow for four weeks during January-February 2013. The HKIMR provided me with an excellent research environment and a wealth of very valuable learning experiences. On day one of my visit, after a warm welcome from Dr Dong He, the HKIMR Director, I was immediately able to begin my research work, thanks to the excellent support of the HKIMR staff team in a well-organized and most efficient way. During my stay at the HKIMR, I benefited greatly from attending seminars, workshops, invited talks, and conferences hosted by the HKIMR, and my numerous interactions with the HKIMR economists and researchers from the HK regional offices of the IMF and BIS, which are housed in the same building. I also enjoyed meeting and chatting with other research fellows visiting the HKIMR from all over the world (Australia, Switzerland, China, Hong Kong and the U.S.) on a variety of common research interests on global finance and banking during my visit.

“The HKIMR provided me with an excellent research environment and a wealth of very valuable learning experiences... I benefited greatly from attending seminars, workshops, invited talks, and conferences hosted by the HKIMR”

I conducted a couple of research projects during my time at the HKIMR on: (1) the role of foreign banks in monetary policy transmission in Asia, and (2) multinational banking and financial contagion in emerging economies. I found Hong Kong to be the most suitable place for me to conduct my research and scholarly activities, and the HKIMR made my research projects most productive, up-to-date, and thorough. Hong Kong has the highest degree of foreign bank penetration in domestic banking markets among Asian economies and had been experiencing a real estate market bubble and inflation until my visit, which were partly caused by the spillover effect of the global financial crisis of 2008-9 from abroad.

I had very valuable opportunities to share personal opinions and assessments about the varying experiences of Hong Kong and its neighboring economies with academic researchers in several globally-ranked Hong Kong universities as well as industry researchers from banking and financial institutions in Hong Kong. I was invited to participate, for example, in the Interim Seminar on Financial Regulatory Reforms in Asia hosted by the HKMA during my stay, where experts, academic researchers and policy makers from the ADB and all over the world discussed the issues of a macro-prudential supervisory system, and the legal and institutional arrangements to promote financial stability in emerging Asia. I was very excited to meet my fellow researchers and friends from Korea, ADB and Princeton University who also attended the Seminar as invited speakers. These research interactions, formal and informal, within and outside HKIMR instigated my research curiosity, and also helped me to solicit high quality papers for my book-editing project, “Global Banking, Financial Markets and Crises,” to be published by Emerald in November 2013.

The timing of my visit to the HKIMR was particularly interesting and unique since it was during the lunar calendar New Year’s Day (during the third week of my stay in Hong Kong). I vividly remember a magnificent scenery of fireworks in the Hong Kong sky which I watched with my colleagues and friends on the 55th floor of the IFC building in which the HKIMR is housed. Meeting people from the local area and abroad as well as traveling to various parts of Hong Kong were also valuable and enjoyable learning experiences of culture and commerce. Again, I appreciate greatly HKIMR’s Director, Senior Manager, fellow economists and staff members for their professionalism and hospitality rendered to me, making my visit to the HKIMR a comfortable, productive and most memorable time.

Visiting Fellow – Larry Dongxiao Qiu



Larry Dongxiao Qiu received his PhD degree in 1993 from University of British Columbia. He joined the Hong Kong University of Science and Technology in 1993 and moved to the University of Hong Kong (HKU) in 2008. He is currently a professor at HKU and Associate Dean (Research) of the Faculty of Business and Economics, HKU. His research interests cover international trade and policy, foreign direct investment, mergers and acquisitions, and industrial organization. He has published widely in international economic journals and books. He serves on the editorial board of the East-West Journal of Economics and Business, the Korean Journal of Trade, International Economics, and Frontiers of Economics in China, as a board member of Asia-Pacific Trade Seminars, as a vice president of Hong Kong Economic Association, and as the founding president of China Trade Research Group.

I was very fortunate to be given the opportunity to visit the HKIMR in June – September, 2013. Although I knew a lot about the HKIMR before my visit, I still feel extremely excited during my stay and benefited a lot.

There is no doubt that in terms of physical environment, HKIMR is one of the best places to work in. There is a spectacular view when you look outside. This helps us to relax and refresh our mind after every few hours of working. The internal organization is also very comfortable. You can easily meet everyone and get coffee and tea.

“HKIMR is like a research hub where you meet new friends and old friends. I met some visiting fellows and built new connections. I also met some former students and benefited from discussing mutual research interests... Like in academic circles, you see a lot of in-depth analysis.”

Of course, the most attractive thing is not the physical environment, but the research atmosphere. Everyone here has his/her own research projects to work on, but unlike in a usual academic department, research interests are closely related, mostly to do with macroeconomics and international finance. Many of the research topics are China related. As a result, it becomes much easier for people to talk and exchange ideas. By talking to individual researchers here, I have learnt what they are working on, why they work on those projects, and how they manage to solve research problems.

HKIMR is like a research hub where you can meet new friends and old friends. I met visiting fellows and built new connections. I also met former students and benefited from discussing mutual research interests with them. There are also many workshops and seminars on current global issues. Like in academic circles, you see a lot of in-depth analysis; unlike academics, you also see people actively discussing policy issues.

While visiting the HKIMR, I worked on a project related to data on multiproduct firms in China. Current research on international trade tries to understand individual firms' engagement in import and export markets and their implications. One subset of such research focuses on multiproduct firms. It is observed that most firms produce and export more than one product and they adjust their product scope (i.e., the number of products) in response to trade policy changes. Firms' product scope adjustment is another channel which affects within-firm resource reallocation and hence productivity. The preliminary empirical results from my project (joint with a professor at Peking University) show that Chinese firms, regardless of their productivity level, reduce their export product scope in response to both tariff reduction in China as well as tariff reduction in foreign countries. I am trying to find a new theory to explain this phenomenon.

Hong Kong's Approach to Financial Stability

Dr Dong He (Executive Director (Research) of the HKMA and Director of the HKIMR) recently published a paper in The International Journal of Central Banking (IJCB) entitled “Hong Kong's Approach to Financial Stability”. This article summarizes the characteristics of Hong Kong's approach to financial stability. If you are interested in reading the article, it can be downloaded from the IJCB website at the link: <http://www.ijcb.org/journal/ijcb13q1a12.htm>

Upcoming Activities

Call for Papers: Conference on Price Reforms and Factor Markets Liberalisation in the Chinese Economy

The HKIMR will hold its Fifth Annual International Conference on the Chinese Economy in Hong Kong on 16-17 January 2014.

The conference is intended to provide a forum for academics, policymakers and business economists to discuss important analytical and policy issues related to the Chinese economy. Past conferences in this series have attracted high-quality paper presentations and rigorous discussions, and have been attended by researchers and China watchers from central banks and other institutions across the globe.

The theme of the forthcoming conference is “Price reforms and factor markets liberalisation in the Chinese economy.”

Possible topics include (but not restricted to):

- Structure of factor markets and entry barriers
- Contestability of factor markets in China
- The role of factor market distortions in macroeconomic imbalances
- Factor price dynamics and employment
- Factor price dynamics and inflation
- Factor market distortions and income inequality
- Land market and housing price dynamics
- Labour market and wage dynamics
- Capital markets and interest rate liberalisation
- Capital account liberalisation, currency internationalisation, and exchange rate dynamics

Papers that do not fit into these categories, but that are related to the main theme of the conference, are also welcome.

Interested contributors should submit a draft paper (in a Word or PDF file) to the HKIMR by 7th October 2013 (e-mail to hkimr@hkma.gov.hk). Please use the contact author's name as the name of the file. The HKIMR will select the papers based on originality, analytical rigor, and policy relevance and will contact the authors whose papers have been selected by 15th November 2013.

Presenters will be reimbursed for reasonable travel expenses and accommodation. For further information, please email hkimr@hkma.gov.hk or visit the HKIMR website <http://www.hkimr.org>.

Call for Papers: Conference on Domestic and International Dimensions of Unconventional Monetary Policy

This conference will be jointly held by the HKMA and the Federal Reserve Bank of New York in Hong Kong on 20 – 21 March 2014. It will bring together economists from academia and policy institutions to review and assess theoretical and empirical aspects of unconventional monetary policies, such as asset purchases, quantitative and credit easing, forward guidance on the policy rate path, funding for lending schemes and related interventions.

The conference will last one day and a half, and will be divided into several sections with presentations of selected academic papers, as well as one policy panel.

Nobel Laureate Prof. **Chris Sims** of Princeton University has confirmed his participation at the conference.

Attendance at the conference will be by invitation only. Interested presenters should submit the full paper with an abstract by **November 1, 2013**. Please email all submissions to hkimr@hkma.gov.hk, using the authors' names as the filenames of the papers, and enter "Paper submission for HKMA-FRBNY joint conference" as the email subject line. The Organizing Committee will select up to eight papers for presentation at the conference and notify the authors by end-December, 2013. The conference organizers will reimburse travel and lodging expenses of the selected academic speakers.

Organizing Committee: Hongyi Chen (HKMA), Dong He (HKMA), Paolo Pesenti (FRBNY) and Argia Sbordone (FRBNY).

Upcoming Activities

The Eleventh HKIMR Conference on the Mainland Economy

In line with its effort to maintain dialogue with researchers and policy makers on Mainland economic issues, the Institute will hold the Eleventh HKIMR Conference on the Mainland Economy on 27 September 2013 in Hong Kong. The theme will be the offshore renminbi market.

This conference will cover a wide range of issues including the development of the CNH foreign exchange market, the money market and dim sum bond market, renminbi investment and wealth management products, renminbi settlement and payment systems, and renminbi banking services for cross-border trade and investment. It will be the eleventh conference in the HKIMR's conference series on the Mainland economy in *Putonghua*.

Conference on Financial Development and Cooperation in Asia and the Pacific

The HKIMR will host the Pacific Trade and Development (PAFTAD) Conference in Hong Kong on 19-21 November 2013. The theme of the conference will be "Financial Development and Cooperation in Asia and the Pacific". It will cover a number of issues affecting the Asia and Pacific region, including financial reform and liberalization, monetary policy frameworks in the region, capital market developments, financial developments in China and their implication for the global economy, and prudential regulation and supervision in the region.

This three-day conference will consist of eight sessions and one panel discussion session. Top scholars and policy advisers will make presentations at the conference such as Prof. Edward Chen (The University of Hong Kong), Prof. Wendy Dobson (University of Toronto), Prof. Barry Eichengreen (University of California, Berkeley), Prof. Justin Yifu Lin (Peking University), Dr Yongding Yu (Chinese Academy of Social Sciences) and Prof. Yung Chul Park (Seoul National University).

The conference will include a public forum on "Financial Development in China and Implications for the Global Economy" to be held at the Hong Kong Convention and Exhibition Centre.

Asian Financial Forum (AFF) 2014

The Fifth Annual International Conference on the Chinese Economy will be in the same week of the Asian Financial Forum (AFF) on 13-14 January 2014. The AFF is a high-level and important event in Hong Kong and will bring together some of the most influential members of the global financial and business community to discuss developments and trends in the dynamic markets of Asia. To know more about AFF, please visit its website:

www.asianfinancialforum.com/en/index.htm

Application for Visiting Research Fellow

The HKIMR accepts applications for positions as Visiting Research Fellow on an ongoing and highly competitive basis. The Council of Advisers reviews proposals four times a year. The deadline for the next round of applications is 30 September 2013.

Applicants should note that papers produced, partly or wholly under this visiting programme, are required to acknowledge the financial support of the HKIMR if the papers are submitted to any journals.

Please visit our website (<http://www.hkimr.org/content-id13>) if you are interested in this programme.

Visiting Fellows and Seminars

5 August – 30 August 2013
Chung-Hua Shen (National Taiwan University)

30 September - 25 October 2013
Jean Imbs (Paris School of Economics)

7 October - 1 November 2013
Pasquale Della Corte (Imperial College London)

7 – 20 January 2014
Heiwai Tang (Tufts University)

20 January – 14 February 2014
Peter Tillmann (Justus-Liebig University Giessen)

29 August 2013 *The Euro Area Crisis and Cross-Border Bank Lending to Emerging Markets* – Elod Takats, Banks for International Settlements

12 August 2013 *Are Financially Constrained Firms' Stock Prices More Affected by Monetary Policy Shocks? Cross-Sectional Identification through Impossible Trinity* – Ali K. Ozdagli, Federal Reserve Bank of Boston

8 August 2013 *Macro Factors and Sovereign Bond Spreads: A Quadratic No-Arbitrage Model* – Peter Hoerdahl, Bank for International Settlements

Correspondence

ADDRESS:
 55/F Two International Finance Centre,
 8 Finance Street,
 Central, Hong Kong

PHONE:
 (852) 2878-1978

FAX:
 (852) 2878-7006

E-MAIL:
hkimr@hkma.gov.hk

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Recent HKIMR Working Papers

No.01/2013 *"Rental Adjustment and Housing Prices: Evidence from Hong Kong's Residential Property Market"* by Honglin Wang, Chu Zhang and Weihang Dai

No.02/2013 *"China's Monetary Policy Communication: Money Markets not only Listen, They also Understand"* by Alicia Garcia-Herrero and Eric Girardin

No.03/2013 *"Carry Trades and the Performance of Currency Hedge Funds"* by Federico Nucera and Giorgio Valente

No.04/2013 *"The Role of Household Saving in the Economic Rise of China"* by Steven Lugauer and Nelson C. Mark

No.05/2013 *"Multinational Banking and Financial Contagion: Evidence from Foreign Bank Subsidiaries"* by Bang Nam Jeon, Maria Pía Olivero and Ji Wu

No.06/2013 *"Export Dynamics in Large Devaluations"* by George Alessandria, Sangeeta Pratap and Vivian Yue Zhanwei

No.07/2013 *"How have Labour Market Developments Affected Labour Costs in China?"* by Wenlang Zhang and Gaofeng Han

No.08/2013 *"The Coming Wave"* by G. Andrew Karolyi, David Ng and Eswar S. Prasad

No.09/2013 *"The Great Recession: A Self-Fulfilling Global Panic"* by Philippe Bacchetta and Eric van Wincoop

No.10/2013 *"Asset Price Bubbles and Monetary Policy"* by Abdullah Yavas

No.11/2013 *"Balanced-Budget Rules and Aggregate Instability: The Role of Consumption Taxes in a Monetary Economy"* by Jianpo Xue and Chong Kee Yip

No.12/2013 *"A Model of Chinese Capital Account Liberalisation"* by Dong He and Paul Luk

and more please visit our website.

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