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**Eighth Issue  
(March 2006)**

The Institute 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.

**Highlights of this issue:**

Recent Activities.

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# Hong Kong Institute for Monetary Research -- *Newsletter*

## Recent Activities

### Joint BIS/HKIMR Conference

The Institute co-organised a conference entitled “*Monetary Policy Approaches and Implementation in Asia*” with the Asian Office of the Bank for International Settlements on 21 and 22 November 2005. The objective of the conference was to review the strategies adopted by the central banks in Asia with respect to the changes in the international and regional environment and new developments in the theory and practice of central banking. Ten central banks in the region were represented by their senior research staff, and papers were presented by monetary policy experts from the IMF, BIS and the region’s academic community. The program and papers are available on the Institute’s website.



*Peter Pang (right) delivered introductory remarks*

### Joint BIS/HKIMR Meeting

On 5 October 2005, the Institute co-organised a roundtable meeting on *monetary cooperation and integration in East Asia* with the Asian office of the BIS to discuss the long-term prospect for regional monetary cooperation in Asia in light of the recent changes in the Renminbi and Ringgit exchange rate regimes. The meeting was introduced by Joseph Yam, the Chairman of the Board of Directors of the Institute, and chaired by Peter Kenen, Senior Fellow of the Council on Foreign Relations of the United States. The meeting was well attended by regional central bankers.



*Joseph Yam and Peter Kenen*

### Summer Workshop in 2005

The Third HKIMR Summer Workshop was held on 14 September 2005. Four speakers: Volker Nitsch (Free University Berlin), Catherine Schenk (Glasgow University), Paul Mizen (University of Nottingham) and Xiangrong Jin (HKMA) presented papers on different topics, which are available on the Institute’s website.



*Xiangrong Jin (right) and the discussant of her paper, Joseph Fung*

## Visiting Fellow – Catherine Schenk



*Catherine Schenk is Professor of International Economic History at Glasgow University. She visited the Institute from September to December 2005, working on a research project to study the competitiveness and responsiveness to external shocks in the Hong Kong Banking System.*

I first visited the HKIMR in December 2004 to give a paper on Hong Kong's exchange rate policy in the 1960s and 1970s, and was thrilled to find myself a year later happily ensconced as a visiting research fellow at the Institute. The fellowship offered me an opportunity to spend a more prolonged period of research in Hong Kong than I had been able to before. Family commitments had kept my visits over the past ten years relatively short, but I was able to bring my family with me this time and had a very productive three months of research in the comfortable surroundings of the 84<sup>th</sup> floor.

I must admit that I arrived full of enthusiasm to embark on my project studying the competitiveness of Hong Kong's banks with the mis-guided idea that there would be considerable data within the HKMA on which I could draw. It soon became clear that reconstructing Hong Kong's banking data for the 1950s to the 1970s would occupy the first part of my research. Once I had pieced together the data from various sources (and after several visits to the Public Record Office in Kwun Tong) I had the material to test my ideas about whether the anti-competitive regulations imposed in 1965 and retained until 2001 had been justified or not. I then went on to explore the implications of these

regulations during the 1970s and 1980s using material collected in Hong Kong along with archive data I brought with me from the HSBC Group Archive in London.

I was especially happy to discover that my family loved Hong Kong as much as I do. They spent long days discovering beaches, visiting museums and islands, and playing in the many wonderful parks near to where we were staying. We all became adept at chopsticks and came home slightly rounder than we were when we arrived.

During my visit I took the opportunity to give a paper at Hong Kong University and was also invited to Tokyo to present my work to the Japanese Economic and Social History Society. Along with giving three papers at the HKIMR during my stay, these events provided me with the opportunity to hone my work in progress. In addition, the excellent seminar programme at the HKIMR, and the series of visiting academics passing through the offices, offered welcome relief from my own research and widened my perspectives on contemporary issues in the region. Adjusting back to the harassed life of an academic in Glasgow has left me pining for the sunshine in Hong Kong and the relative tranquillity of the Institute.

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## Workshop: Financial Markets, Financial Stability, and Financial Fragility

The Institute co-organised a four-day workshop on “**Financial Markets, Financial Stability, and Financial Fragility**” with the Centre for Central Banking Studies (CCBS) of the Bank of England from 29 November to 1 December 2005.

This was the third workshop in the Institute co-organised with the Centre for Central Banking Studies (CCBS) of the Bank of England. In contrast to the two previous workshops in econometrics modelling, this workshop focused on some recent specialised topics in advanced financial modelling.

The workshop discussed the relationship between financial markets, financial stability, and financial sector fragility. In particular, it discussed: 1) sources of financial instability; 2)

empirical methods to detect instability from the perspective of a user of a financial service; 3) sources of financial sector fragility; and 4) recent developments in financial markets to enhance financial stability.

The workshop was conducted by Kevin James and Lea Zicchino from the CCBS. On the last day of the workshop, the participants enjoyed a seafood lunch at Sai Kung Town, which is a mecca for seafood lovers, locals and tourists alike.



Workshop participants



Hans, Kevin and Lea



Seafood lunch

## Upcoming Activities

### Workshop on WinSolve

The Institute is hosting a workshop entitled “Building and Solving Macroeconometric Models using WinSolve” on 11 and 12 April 2006. The workshop will be conducted by Richard Pierse from the University of Surrey, UK and is designed particularly for central bank staff involved with macroeconomic modelling for forecasting and policy analysis.

The workshop will focus on building and using macroeconomic models with the computer programme WinSolve, a powerful and very user-friendly Windows package written by Richard. It includes topics like building models in WinSolve, solving models involving forward-looking rational expectations, forecasting, model simulation, and stochastic simulation.

### HKIMR Conference on International Finance and Economics

The Institute is organising a two-day conference on “International Financial Markets and the Macroeconomy” where topical issues in international finance and economics will be discussed. It will also be sponsored by the International Journal of Finance and Economics.

The conference will take place on 13 and 14 July 2006 in the Institute and it will host presentations from established overseas and local academics. More information on the event will be posted soon on the Institute's website (<http://www.hkimr.org>).

## Visiting Fellows in the First Half of 2006

1 August 2005 – 31 July 2006  
**Joseph Fung** (Hong Kong Baptist University)

1 October 2005 – 31 March 2006  
**Leo Goodstadt** (University of Dublin)

15 October 2005 – 31 March 2006  
**Giorgio Valente** (Chinese University of Hong Kong)

20 March – 14 April  
**Pierre Siklos** (Wilfrid Laurier University)

10 – 14 April  
**Andrew Rose** (University of California, Berkeley)

24 April – 13 May  
**Tony Latter** (The University of Hong Kong)

22 May – 20 July  
**Ramkishem Rajan** (George Mason University)

### Recent and Upcoming Seminars:

**28 March 2006** *Turbulent Episodes of the Indonesian Bond Market in 2005: What Happen?*, Rifki Ismal (Bank Indonesia)

**11 April 2006** *Offshore Financial Centers: Parasites or Symbionts?*, Andrew Rose (UC Berkeley)

**13 April 2006** *The Euro after Seven Years*, Lars Jonung (European Commission)

**24 April 2006** *China's Exchange Rate Appreciation in the Light of the Earlier Japanese Experience*, Ronald McKinnon (Stanford University)

## 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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## Recently Published HKIMR Working Papers

**No.5/2006** *"Terms-of-Trade Changes, Real GDP, and Real Value Added in the Open Economy: Reassessing Hong Kong's Growth Performance"* by Ulrich Kohli

**No.4/2006** *"A Reappraisal of the Border Effect on Relative Price Volatility"* by Yin-wong Cheung and Kon S. Lai

**No.3/2006** *"The Value of Information in Growth and Development"* by Charles I. Jones

**No.2/2006** *"Monetary and Exchange Rate Policy Coordination in ASEAN+1"* by William H. Branson and Conor N. Healy

**No.1/2006** *"Renminbi Revaluation, Euro Appreciation and Chinese Markets: What Can We Learn From Data?"* by Paul D. McNelis and Salih N. Neftçi

**No.22/2005** *"Do Investors Really Care About Corporate Governance? Evidence from the Hong Kong Market"* by Stephen Yan-leung Cheung, J. Thomas Connelly, Piman Limpaphayom and Lynda Zhou

**No.21/2005** *"The Information Content of Option Implied Volatility Surrounding the 1997 Hong Kong Stock Market Crash"* by Joseph Fung

**No.20/2005** *"Output Gaps and Inflation in Mainland China"* by Stefan Gerlach and Wensheng Peng

**No.19/2005** *"Cross-Country Relative Price Volatility: Effects of Market Structure"* by Yin-wong Cheung and Eiji Fujii

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