



INVITATION

Prof. Dr. Jörn Kleinert

On the topic:

“The instability of the market for government bonds in the EMU”

Since 2010, the European Monetary Union (EMU) is confronted with very unstable markets for government bonds. Based on a parsimonious model of the government bond segment of financial market, I argue, that this results from the introduction of the common currency which has homogenized government bonds. With differentiation along currencies gone in the EMU, risk and return of the bonds are left to decide about the investment. Returns are determined in the market through trade between seller and buyer of the bonds. Yet, on markets for government bonds, several easily substitutable bonds are traded at the same time. With heterogeneity in risk assessment and risk aversion, price differences can vanish because less risk-sensitive investors would buy a risky government bond that more risk-sensitive investors would not buy at a particular price. This self-selection creates the basis of instability in crisis times. Investors' risk perception depends on the investors expectations about the future price of the bond which must necessarily include expectations about the risk assessment and the risk-aversion of other investors. This dependency yields an instability which has increased vastly with increased competition among EMU' government bonds that came with the introduction of the Euro. While the first decade of the Euro was characterized by price convergence and sorting, the second was characterized by instability.

Date: 8th March 2022

Starting time: 5.15 p.m.

Location: HS 111.21

All professors, lecturers, assistants and students are cordially invited to this lecture!