

Research Statement

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My research interests span the topics of international trade and investment and international financial intermediation. More specifically, my current research agenda focuses on theory, evidence and implications of international and global banking.

Internationally active banks play a central role in the global economy. Being considerably larger than purely domestic banks, they hold the majority of bank assets in the world. They are the most important vehicle for international capital flows and account for a significant share of foreign direct investment. At the same time, they bring risks. Banks that operate across borders and span over multiple jurisdictions are often systemically important, but are hard to regulate and hard to handle in case of distress. Moreover, they can facilitate the transmission of macroeconomic shocks. Despite their apparent relevance for world wide economic activity, academic research is only beginning to understand the motives, the nature and the implications of international and global bank operations. In my research, I shed light on these issues.

In my job market paper “**Banking across Borders**”, I start from first principles to explore why banking across borders occurs. I develop a theoretical model where trade in banking services arises from differences in endowments and from differences in banking technology across countries. The model reveals that each of these two driving forces triggers a different activity. *International banking*, defined as the case where banks raise capital in the home market and lend it abroad, is driven by differences in rates of return to capital. In contrast, *global banking*, which denotes the case where banks intermediate capital locally in the foreign market, arises from differences in country-level bank efficiency. Both factors together determine the foreign asset and liability holdings of a banking sector. I find strong empirical evidence for key predictions of the model based on data on foreign bank assets and liabilities comprising a large sample of source and recipient countries. My research supports a trade perspective on banking across borders complementing the traditional portfolio view, where foreign bank activities result from a motive to diversify lending. While most of the recent research focus has been on the risks of international and global banking, my paper shows how the liberalization of banking across borders can foster the efficient allocation of capital and can increase aggregate banking sector efficiency.

In “**Bank Bail-outs, International Linkages and Cooperation**” co-authored with Tim Schmidt-Eisenlohr, I examine the challenges that financial globalization presents for policy cooperation. With financial institutions being increasingly linked internationally, financial crises and govern-

ment intervention have stronger effects beyond borders. We provide a model of international contagion allowing for bank bail-outs. We determine the allocation chosen by a social planner who trades off tax distortions, liquidation losses and intra- and inter-country income inequality and contrast it with the outcome of a non-cooperative game between governments. When cooperation is limited inefficiencies arise due to externalities, a lack of burden sharing and free-riding. We find that, in absence of cooperation, stronger interbank linkages make government interests diverge, whereas cross-border asset holdings tend to align them. In a final step, we analyze different forms of cooperation and their effects on global and national welfare.

In **“Banking across Borders with Heterogeneous Banks”**, which is work in progress, I build on my job market paper to explore the role of efficiency for the decision of banks to engage in banking across borders. Empirically, it is known that there are more banks that hold foreign assets than banks that establish foreign affiliates abroad. Introducing bank-level heterogeneity into a general equilibrium framework, I develop a model where only the most efficient banks raise liabilities in foreign markets and lend globally. Less efficient banks engage only in international banking, i.e. they hold foreign assets, but do not raise capital abroad. The model is able to explain two-directional trade in banking services and shows that this phenomenon only arises when differences in banking sector efficiency and in rates of return to capital between countries are not too large. In future research, I will use bank-level data to test these predictions.

My research so far has shed light on why banking across borders occurs. As a next project, I will explore how the driving forces of international and global banking are linked to the decision of banks to engage in FDI and to establish a subsidiary versus a branch abroad. This research will consider these issues both theoretically and empirically, for example by using German or Dutch datasets on FDI in the banking sector.

Moreover, I intend to investigate the relationship between bank-to-bank and bank-to-firm lending more closely. Theoretical considerations and empirical evidence presented in my job market paper indicate that these two forms of cross-border lending are substitutes. Instead of investing directly, banks can invest capital in other banks which intermediate funds on their behalf. Exploring which factors influence the decision of banks to “outsource” intermediation functions is another promising direction for further research.

I have also been working on a project about **“Deposit Insurance, Aggregate Investment and Household Heterogeneity”** with Charles Gottlieb. We study the desirability of deposit insurance in the presence of aggregate uncertainty and household heterogeneity. We provide a model that endogenizes the investment and monitoring choice of individuals that are heterogeneous with respect

to wealth. Rich individuals have an advantage in exerting market discipline and invest more in a risky, but high return technology. Deposit insurance is a means to increase investment by poor individuals. We show that well-designed deposit insurance, which limits the adverse effects on market discipline, increases aggregate welfare. Furthermore we evaluate the welfare effects of second-best deposit insurance versus narrow banking.