Klaus Liebscher Award

Klaus Liebscher Award for Scientific Work on European Monetary Union and Integration Issues by Young Economists

On the occasion of the 65th birthday of Governor Klaus Liebscher and in recognition of his commitment to Austria's participation in the European Monetary Union and to the cause of European integration, the Oesterreichische Nationalbank (OeNB), in 2005, established the *Klaus Liebscher Award*. This award is the highest scientific distinction, the OeNB offers every year for two excellent papers on European monetary union and European integration issues written by young economists (up to 35 years). The award is worth EUR 10,000 per paper. The papers are refereed by a panel of highly qualified reviewers. The Klaus Liebscher Award is granted this year for the fourth time. The winners of the *Klaus Liebscher Award* 2008 are *Tarek Alexander Hassan* (Harvard University) and *Anton Korinek* (University of Maryland). The papers of the laureates are available as OeNB Working Papers 154 and 155.

In the first paper *Country Size, Currency Unions and International Asset Returns* Tarek Alexander Hassan, studies the dependence between country size and asset returns. Using a theoretical asset pricing model he derives the result that countries with a larger size have lower asset returns, because they have better insurance properties in a portfolio of international investors. This theoretical prediction turns out to hold also empirically for a sample of OECD countries. Small countries therefore have to face a disadvantage when issuing securities. Even if they have the same credit quality and the same liquidity as a comparable large country they have to pay higher returns.

In the second paper *Systemic Risk: Amplification Effects, Externalities and Policy Responses,* Anton Korinek, University of Maryland analyzes the economic mechanisms, behind the current financial crises. Korinek identifies a structural problem in the risk allocation through financial markets: The interaction of liquidity constraints and security trading leads to a situation where asset prices do not adequately reflect the risks of these assets. Price signals lead market participants to take more systemic risk than socially optimal and to undervalue the social benefits of liquidity. From this theoretical analysis Korinek derives principles for the reform of capital adequacy and for crises management.