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## JOINT VIENNA MACROECONOMICS SEMINAR

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**September 29, 2011, 5 pm**

**Institute for Advanced Studies  
1060 Vienna, Stumpergasse 56  
HS II (lecture room II)**

### **Burkhard Drees**

International Monetary Fund and Joint Vienna Institute

### **Cheap Money and Risk Taking: Opacity versus Fundamental Risk**

We explore the link between interest rates and risk taking and find that the direction of the effect depends on the type of risk involved. In a Bayesian setting, investments can be risky either because they are opaque – i.e., their payoff-relevant signals are noisy – or because they are fundamentally risky – i.e., the variance of the prior is high. While both types of risk contribute symmetrically to the overall riskiness of an investment project, we show that changes in interest rates affect risk taking in these two types of risk very differently: when interest rates are high, investors choose transparent projects that are fundamentally risky; when interest rates are low, they choose opaque projects that are fundamentally safe. This makes the net effect of interest rates on risk taking necessarily ambiguous and dependent on the sources of risk.

with Bernhard Eckwert (Bielefeld University) and Felix Várdy (Haas School of Business, UC Berkeley, and IMF)

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**Walter H. Fisher** (Institute for Advanced Studies),  
**Eduard Hochreiter** (Joint Vienna Institute) and **Jaromir Hurnik** (Joint Vienna Institute)

**Venue:** Institute for Advanced Studies, 1060 Vienna, Stumpergasse 56

### Schedule Fall/Winter 2011/2012

UNIT	DATE	ROOM	SEMINAR
1	Thu, <b>Sept 29</b> 5:00 pm	HS II	<b>Burkhard Drees</b> , International Monetary Fund and Joint Vienna Institute <i>"Cheap Money and Risk Taking: Opacity versus Fundamental Risk"</i>
2	Thu, <b>Oct 13</b> 5:00 pm	HS II	<b>Gilles Saint-Paul</b> , Toulouse School of Economics
3	Thu, <b>Oct 27</b> 5:00 pm	HS II	<b>Robert J. Hill</b> , University of Graz
4	Thu, <b>Nov 10</b> 5:00 pm	HS II	<b>Raffaella Giacomini</b> , University College London

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DOWNLOAD SITE FOR PAPERS (IF AVAILABLE) AND SEMINAR SCHEDULE: <http://economics.ihs.ac.at/seminars>  
 NOTE: Participation of advanced students in this seminar is highly recommended.