



Shanghai Forum 2018 Perspective Highlights

New Finance, New Economy, New Era

ROUNDTABLE 02 Session One

13:30-17:00, May 26

Chair:

Sun Lijian Director, Financial Research Center, Fudan Development Institute

Wang Yongqin Professor, School of Economics, Fudan University

Randall Wright
University of
Wisconsin-Madison
Professor

Costly Credit and Sticky Prices

1. We construct a model where money and credit are alternative payment instruments, use it to analyze sluggish nominal prices, and confront the data.
2. Equilibria entail price dispersion, where sellers set nominal terms that they may keep fixed when aggregate conditions change. Buyers use cash and credit, with the former (latter) subject to inflation (transaction costs).
3. Calibrated versions match price-change data well, with realistic durations, large average changes, many small and negative changes, a negative hazard, and behavior that changes with inflation, while staying consistent with macro and micro data on money and credit.

Jonathan Chiu
Bank of Canada
Senior Research
Advisor

The Economics of Cryptocurrencies: Bitcoin and Beyond

1. We study the optimal design of cryptocurrencies and assess quantitatively how well such currencies can support bilateral trade.
2. The challenge for cryptocurrencies is to overcome double-spending by relying on competition to update the blockchain (costly mining) and by delaying settlement. We estimate that the current Bitcoin scheme generates a large welfare loss of 1.4% of consumption. This welfare loss can be lowered substantially to 0.08% by adopting an optimal design that reduces mining and relies exclusively on money growth rather than transaction fees to finance mining rewards.
3. Cryptocurrencies can potentially challenge retail payment systems provided scaling limitations can be addressed.

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Tri Vi Dang
Columbia
University in the
City of New York
Professor

Chinese Shadow Banking

1. We use three unique datasets to analyze commercial banks' responses to an illegal fundraising scandal in Anyang, a city in China.
2. Consistent with our theory of collateralized lending and costly screening, we document that banks increase interest rates and collateral requirements and shorten the maturities of loans for firms in industries with higher (constructed) scandal index.
3. The adverse spillover effects are mitigated for stronger banks, larger firms and closer geographic distance between lender and borrower. The fundraising scandal lasts for five quarters and thereafter bank loans characteristics revert to the pre-scandal level.

Julan Du
The Chinese
University of Hong
Kong
Professor

China's 8/11 Exchange Rate Reform: A Crisis of Misinterpretation and Reverse Spillover

1. This study assesses the global market reactions to China's RMB exchange rate formation mechanism reform on August 11, 2015 (the 8/11 currency reform), which is a significant policy shock event characterized by the ambiguous policy intentions giving rise to heterogeneous interpretations amid the worldwide concern over Chinese economic growth slowdown.
2. It is also an event of the emergence of reverse spillover of financial market volatility from emerging market policy news shock to developed markets.
3. This study demonstrates the importance of major emerging economies' growth prospects, policy transparency and frequent communications with the market in achieving global financial market stability.

Ye Li
The Ohio State
University
Professor

Tokenomics: Adoption, Valuation, and Initial Offering

1. We provide a dynamic asset-pricing model of (crypto-) tokens on (blockchain-based) platforms.
2. Tokens intermediate peer-to-peer transactions, and their trading creates inter-temporal complementarity among users and generates a feedback loop between token valuation and adoption.
3. Consequently, tokens capitalize future platform growth, accelerate adoption, and reduce user-base volatility.

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DISCUSSION

The five academic reports on different themes analyzed the impact of the new credit constraints, the digital currency and blockchain technology, the shadow banking system, and the exchange rate transfer mechanism, on the financial and economic aspects of the new era.

(Editor: Jiemeng Yang Xiaoman Zhang)