

MICHAL KOWALIK

October 2009

Office

Federal Reserve Bank of Kansas City
Research Department
1 Memorial Drive
Kansas City, MO 64198, USA

Contact

michal.kowalik@kc.frb.org
+1 816 881 2963

Education

Ph.D., Center for Doctoral Studies in Economics, University of Mannheim, 2009
Visiting Ph.D. student, CEMFI, Madrid, 2006-07
Diploma in economics, University of Mannheim and Warsaw School of Economics, 2004

Professional Experience:

Federal Reserve Bank of Kansas City, Economist, 2009-present

Research Papers

"How To Make The Banks Reveal Their Risk: The Case of Basel II"

The paper studies implementation of risk-based capital requirements when the bank's risk and actions are private information. Hereby, the impact of commonly used measures (i.e. recapitalization, downsizing, closure and fines) on risk revelation is studied. The paper provides several policy implications: (i) optimal contract implementing risk-based capital requirements consists of recapitalization and fine, (ii) if fines are not feasible, measures implementing risk-based capital requirements should depend on the level of the cost of equity capital, (iii) supervisors should encourage recapitalization instead of downsizing to boost capital ratios, and (iv) they should guarantee high quality of inspection of banks' risk exposure. The paper points out that eliminating risk misreporting and reducing pro-cyclicality of Basel II may not be feasible at the same time.

"The Creditworthiness of the Poor. A Model of the Grameen Bank" (with David Martinez-Miera)

This paper analyzes the role of expected income in entrepreneurial borrowing. We claim that poorer individuals are safer borrowers because they value more the relationship with the bank. We study the dynamics of a monopolistic bank granting loans and taking deposits from overlapping generations of entrepreneurs with different levels of expected income. Matching the evidence of the Grameen Bank we show that the banker will prefer to grant loans to individuals with low expected income, and will not disburse dividends until it reaches all the potential borrowers. We find empirical support for our theoretical results using data from a household survey from Bangladesh. We show that various measures of expected income are positively and significantly correlated with default probabilities.

"Endogenizing the Scope of the Stigma of Failure" (with Kerstin Gerling and Heiner Schumacher)

In this paper, we analyze the conditions under which credit markets are efficient in providing loans for both new entrepreneurs and restarters. Entrepreneurs with different unknown skills need credit for a project that they can run at different risk levels. The probability of success depends both on the chosen level of risk and skills. Two equilibria may arise: in a conservative equilibrium, banks lend only to new entrepreneurs, who choose low risk; in an experimental equilibrium, entrepreneurs choose high risk and banks lend even after repeated failures. In a perfect information setting, only the welfare-maximizing equilibrium is subgame perfect. However, as soon as entrepreneurs' former risk choices become unobservable, multiple equilibria arise. This considerably hampers policy's impact on the nature of the equilibrium.

Presentations

"How To Make The Banks Reveal Their Risk: The Case of Basel II"

2006: University of Frankfurt and CFS; 2007: Max Planck Institute for Research on Collective Goods in Bonn, Econometric Society Australasian Meeting, Warsaw International Economic Meeting, 2008: Erice Conference on Corporate Governance, Finlawmetrics "Missing risks: challenges for regulation and supervision" (Milan), EEA Conference (Milan), World Bank/IMF Conference on Risk Analysis (Washington), Toulouse School of Economics, 2009: University of Navarra, Riksbank, CERGE, Federal Reserve Bank of Kansas City, Manchester Business School, Carlos III University

"The Creditworthiness of the Poor. A Model of the Grameen Bank"

2008: ENTER (Madrid), Warsaw International Economic Meeting

"Endogenizing the Scope of the Stigma of Failure"

2008: ECGTN Summer School (Santander), SFB/TR15 Corporate Governance Workshop (Munich), 2009: Warsaw International Economic Meeting (plenary session), EEA Conference (Barcelona)

Honors and Scholarships

Best Paper Prize for Young Economists at Warsaw International Economic Meeting 2007
European Corporate Governance Training Network scholarship, 2006-07

Teaching Experience: Microeconomics (Bachelor), Introduction to Economics (Bachelor)

Language Skills: Polish (native speaker), English, German (fluent), Spanish (intermediate)

References

Prof. Ernst-Ludwig von Thadden

Chair of Economic Theory
University of Mannheim
L7, 3-5, 68131 Mannheim, Germany
Tel.: +49 621 181 1916
Email: vthadden@pool.uni-mannheim.de

Prof. Rafael Repullo

CEMFI
Casado del Alisal 5
28014 Madrid, Spain
Tel.: +34 914 290 551
Email: repullo@cemfi.es

Prof. Javier Suarez

CEMFI
Casado del Alisal 5
28014 Madrid, Spain
Tel.: +34 914 290 551
Email: suarez@cemfi.es