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Welcoming Remarks

by

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Chairman

Board of Governors of the Federal Reserve System

at the

Conference on Financial Markets and Monetary Policy

Sponsored by the Federal Reserve Board and the *Journal of Money, Credit, and Banking*

Washington, D.C.

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Distinguished guests, I would like to welcome you to this conference on Financial Markets and Monetary Policy, which is jointly sponsored by the Federal Reserve Board and the *Journal of Money, Credit, and Banking*.<sup>1</sup> This is the third in a series of biannual conferences that was initiated in 2005. Each of these conferences provides a venue for the presentation and discussion of research papers on topics that are highly relevant for the design and conduct of monetary policy. In addition, the proceedings of these conferences are subsequently published in special issues of the journal that help disseminate this analysis to researchers at central banks and academic institutions worldwide. I am particularly grateful to Professor Ken West, the editor of the journal, for the key role that he's played in co-organizing these conferences and in overseeing the editorial process for each of the conference volumes.

As you know, I have been a longstanding proponent of research aimed at elucidating the linkages between financial markets and institutions and the evolution of the broader economy. The rationale for such research has certainly been underscored by the financial crisis that began in August 2007 and the powerful adverse effects of the crisis on economic activity around the globe.

Although the existing research literature has been invaluable in providing analytical and empirical tools for interpreting recent developments and for setting the course of policy, these developments have also highlighted how much additional research is needed on this topic. The nine papers at this conference make a variety of significant contributions to the literature on financial markets and monetary policy. Several papers formulate empirically realistic macroeconomic models in which credit market frictions

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<sup>1</sup> More information about this conference, held at the Board of Governors of the Federal Reserve System, Washington, June 4-5, 2009, is available on the Board's website at [www.federalreserve.gov/events/conferences/fmmp2009/default.htm](http://www.federalreserve.gov/events/conferences/fmmp2009/default.htm).

play a prominent role in the transmission of monetary policy to economic activity and inflation.<sup>2</sup> Two other papers analyze the extent to which these transmission channels are affected by international linkages among financial markets and institutions.<sup>3</sup> Another pair of papers investigate the behavior of risk premiums that compensate investors for uncertainty about the real economy and inflation outcomes.<sup>4</sup> Finally, two papers analyze the implications of credit market frictions for the optimal design of monetary policy.<sup>5</sup>

Of course, the discussants' remarks, the general discussions, and the policy panel will surely be very helpful in identifying fruitful directions for further research. I welcome you once again to the Federal Reserve and wish you a very stimulating and productive conference.

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<sup>2</sup> See Lawrence Christiano, Roberto Motto, and Massimo Rostagno (2009), "Financial Factors in Economic Fluctuations," May 31, [www.federalreserve.gov/events/conferences/fmmp2009/papers/Christiano-Motto-Rostagno.pdf](http://www.federalreserve.gov/events/conferences/fmmp2009/papers/Christiano-Motto-Rostagno.pdf); Andrea Gerali, Stefano Neri, Luca Sessa, and Federico Signoretti (2009), "Credit and Banking in a DSGE Model of the Euro Area," May 11, [www.federalreserve.gov/events/conferences/fmmp2009/papers/Gerali-Neri-Sessa-Signoretti.pdf](http://www.federalreserve.gov/events/conferences/fmmp2009/papers/Gerali-Neri-Sessa-Signoretti.pdf); and Simon Gilchrist, Alberto Ortiz, and Egon Zakrajsek (2009), "Credit Risk and the Macroeconomy: Evidence from an Estimated DSGE Model," May 31, [www.federalreserve.gov/events/conferences/fmmp2009/papers/Gilchrist-Ortiz-Zakrajsek.pdf](http://www.federalreserve.gov/events/conferences/fmmp2009/papers/Gilchrist-Ortiz-Zakrajsek.pdf).

<sup>3</sup> See John Ammer, Clara Vega, and Jon Wongswan (2009), "Do Fundamentals Explain the International Impact of U.S. Interest Rates? Evidence at the Firm Level," January 16, [www.federalreserve.gov/events/conferences/fmmp2009/papers/Ammer-Vega-Wongswan.pdf](http://www.federalreserve.gov/events/conferences/fmmp2009/papers/Ammer-Vega-Wongswan.pdf); and Michael B. Devereux and James Yetman (2009), "Financial Deleveraging and the International Transmission of Shocks," May 28, [www.federalreserve.gov/events/conferences/fmmp2009/papers/Devereux-Yetman.pdf](http://www.federalreserve.gov/events/conferences/fmmp2009/papers/Devereux-Yetman.pdf).

<sup>4</sup> See Jens H. E. Christensen, Jose A. Lopez, and Glenn D. Rudebusch (2008), "Inflation Expectations and Risk Premiums in an Arbitrage-Free Model of Nominal and Real Bond Yields," December 8, [www.federalreserve.gov/events/conferences/fmmp2009/papers/Rudebusch-Lopez-Christensen.pdf](http://www.federalreserve.gov/events/conferences/fmmp2009/papers/Rudebusch-Lopez-Christensen.pdf); and Christopher Gust and David Lopez-Salido (2008), "Monetary Policy and the Equity Premium," December, [www.federalreserve.gov/events/conferences/fmmp2009/papers/Gust\\_Lopez\\_Salido.pdf](http://www.federalreserve.gov/events/conferences/fmmp2009/papers/Gust_Lopez_Salido.pdf).

<sup>5</sup> See Vasco Curdia and Michael Woodford (2009), "Credit Spreads and Monetary Policy," May 28, [www.federalreserve.gov/events/conferences/fmmp2009/papers/Woodford-Curdia.pdf](http://www.federalreserve.gov/events/conferences/fmmp2009/papers/Woodford-Curdia.pdf); and Charles T. Carlstrom, Timothy S. Fuerst, and Matthias Paustian (2009), "Optimal Monetary Policy in a Model with Agency Costs," May 4, [www.federalreserve.gov/events/conferences/fmmp2009/papers/Carlstrom-Fuerst-Paustian.pdf](http://www.federalreserve.gov/events/conferences/fmmp2009/papers/Carlstrom-Fuerst-Paustian.pdf).