

POLICY IN PRACTICE



Academic	4	Interview with Valerie Meunier <i>by Niklas Rotter and Tamara Radovanovic</i>	23	Land Value Capture: Innovative way of funding infrastructure <i>by Louis Gourgue</i>
	7	Daniel Cohen memoir: Interview with Karine Van der Straeten <i>by Célia Gaudin</i>	26	How did a US government decision contribute to the global recession of 2008 ? The collapse of Lehman Brothers <i>by Guillaume Yatibingui</i>
Spotlight	11	DMA, DSA, AI Act - What do the EU's new regulatory tools mean for you? <i>by Niklas Rotter</i>	28	Food and Drinks in Toulouse <i>curated by Peter Kamal. (Originally published in Issue 31, September 2022)</i>
	14	Beyond Numbers: Understanding the Dynamics of Banxico's Monetary Policies <i>by César Manuel Martínez Soto</i>	32	M2 Choice Report <i>curated by Rito Chakraborty</i>
	17	Do opposite policies always lead to conflict? The South American case <i>by Martin Mondelli</i>	33	Getting Started on LinkedIn: Your Step-by-Step Guide <i>by Laila Echerfaoui</i>
	20	Through the costs to society or by physical flows: Which approach to the ecological transition? <i>by Remy Molinie</i>	34	Crossword Puzzle

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**New year, new challenges.**

Rito Chakraborty
Editor-in-Chief

Dear readers,

This is the thirty-fifth issue of the TSEconomist magazine. When discussing the theme for this issue, our team came up with several interesting ideas. From new era of competition policies to economic crises. And from war-time debt financing to ecological debates. The core of these ideas revolved around putting policy to action, hence the name of the issue.

The issue starts with an interview from an alumnus of TSE, and her work in the field of competition policy, how she translates between classroom learnings and real-life problems. The issue also pays a homage to esteemed economist, thinker and visionary Daniel Cohen. Karine Van der Straeten from TSE talks about her memories of Cohen as a profound person in an interview.

We then continue with five articles on the 'Policy in Practice'. These articles range from topics of Land Value Capture, opposing policies of South American countries. And from the hotly discussed DMA DSA Acts to the Mexican central bank's monopolistic practices. All the articles give a good taste of the present policy debates and the dilemmas of executing them in modern economies. Also featured in this section is an article on the Gollier-Jancovici debate that took place at TSE, and the general discussion surrounding the same.

In the No Economics section, we feature an article on the collapse of Lehman brothers and the learnings from the bubble burst, 13 years on.

Lastly, we end with a small M2 choice report by a student of the Global Risk master, the much sought after new master.

While we go to print for this issue, we cannot help but address the unrest the world is at, at the moment. One can only wish for the wars to stop, and the undue effect be addressed, especially that inflicted on children. Hoping that the new year albeit full of new challenges will be a time for meaningful resolutions.

We wish you a good read!

Remark:

All the writings in this issue remain the strict responsibility of their authors and in no way represent the opinions of TSE and its members.

Article references are available upon request.

Interview with Valerie Meunier

by Niklas Rotter and Tamara Radovanovic



We talked to Valerie Meunier after her Business Talk at TSE on 5th October. She is an alumnus of TSE and the Senior Vice President of Compass Lexecon. In her talk, she gave a quick overview of Compass Lexecon and of the types of cases in which consultants and experts are involved. Excerpts below

At what point in your life did you know you wanted to study economics?

If I am sincere, I studied economics by eliminating everything else. I had only a vague idea of what economics was at that time. I grew up in Pau, and in principle was supposed to attend a university in the Bordeaux administrative region but somehow, we had heard about the good reputation of Toulouse University in economics. This is how I chose to study economics in Toulouse, and I did not know what to expect. At that time, we started by studying microeconomics throughout the whole year and it just so happened that I liked it. Overall, it was a very good fit.

So, you started from studying here to being an academic?

Yes. I stayed in Toulouse from the first year of my Bachelor's to the completion of my PhD. After a postdoc, I went into the job market and got a position as an assistant professor in Aarhus, Denmark. After a few years, because I did not want to stay in Denmark (as I felt a bit isolated personally and professionally) I decided to leave academia. At that point, I felt I had spent all my life in school and academia and had very little idea of what was out there in terms of non-academic jobs. Given my background studying, teaching, and doing research in the field of industrial organisation, I was interested in competition policy. Through the academic network in Toulouse, I learned that the French

competition authority had just appointed its first chief economist (Philippe Choné) and that he was looking for economists to hire. I applied and I was hired. This was the creation of the economic service at the French competition authority. I liked working there, it was great because it was the application of IO concepts to actual cases and decisions. I also got to learn a lot about competition law and policy. After a few years, I wanted to approach all those issues from a different perspective and to give a go at being a consultant. Compass Lexecon approached me, there was a good fit and that is how I joined the company. I have been working for Compass Lexecon for eleven years now.



To summarise, how would you compare all your different experiences?

Academia vs Non-academia

They are quite different. Outside of academia, you apply concepts and findings of economic theory or empirical work to structure the analysis of issues raised in a particular situation. There is little room to develop your theories, although sometimes there is an opportunity to set up a model in support of a case. It is important to keep a relationship with academia, to read research papers related to our work and to discuss with academics who might find an interest in issues arising from competition cases and resolve some questions not yet addressed by economic theory or empirical results.

Economist in a competition authority vs consultancy

There are many commonalities. In both worlds, we look at companies' conduct and need to form a view as to the effects of their behaviour on markets, competitors, customers, etc. There is rarely a clear-cut conclusion. As an example, if you observe the same evolution of prices for products set by competing companies, what does it mean? It could be the result of healthy competition, but it could also be the result of collusion. One thus needs to differentiate between these two scenarios. You need to dig deeper to find the differentiating facts and data that are relevant to form an opinion as to whether what you observe is anti-competitive or not, or even pro-competitive. In principle, as economists, we are supposed to have the same knowledge and tools, but we nevertheless often get to different conclusions, because for instance we might not weigh the evidence the same way or might not have the same expectations about future developments. One of the differences economists can encounter when working for a consultancy or a competition authority is the audience they are addressing. In a competition authority, your audience is mostly made of case handlers and ultimately decision makers. In the private sector, your audience is broader and includes, among others, your clients and their legal counsels, competition authorities or other regulators, and judges from various courts (specialised commercial tribunals, arbitration courts, administrative courts, etc.). Your work relies on the same tools and economic principles wherever you work but I think consultants make additional efforts to make all of these intelligible to an audience who has not studied economics for five years. The pace of work also is different. Most clients and lawyers expect that you are available, we must be reactive and we can end up working long hours. This also means that you never get bored. There can be much more diversity in the work of a consultant, in terms of the markets and companies' conducts we analyse, than in academia.

What would you suggest to students who are looking towards a career in economic consulting?

“In principle, as economists, we are supposed to have the same knowledge and tools, but we nevertheless often get to different conclusions, because for instance we might not weigh the evidence the same way or might not have the same expectations about future developments.”

Students with a background in IO and microeconomics, and skills in data analysis and econometrics, would fit well in our industry. But these profiles are not the only ones we are interested in. Smart and curious students who have studied other fields of economics, can acquire our IO and empirical toolboxes and become great consultants. Important qualities are to be thorough when reviewing and analysing the available evidence (documents and data), to make sure the questions that need answers are clear, and to pay great attention to details. For instance, recent recruits can be asked to work with big datasets or be asked to provide us with relevant information about a specific industry we are going to work on in a new case. In this case, the objective is to look for information and data on the industry, its size, the main products or services on offer, the main competitors and their shares, the main factors affecting supply and demand, whether there are specific regulations, whether there are issues relating to vertical

integration, findings from competition authorities' precedents, etc. They need to be able to think ahead about what information will be useful to the case manager. Once they have found all this information, an important task is to organise it well, give sense to it and present it helpfully. For all of this, one needs to have skills in researching relevant information without losing focus, understanding this information, and making sure that there are no inconsistencies.

What would you suggest to students who are looking towards a career in Compass Lexecon?

I would suggest students apply for an internship at the end of the Master's, maybe for an Analyst position if they already have interned somewhere. An internship is a good opportunity to learn about what we do, and how we work, and to get a glimpse at our culture. Once on the job, one of my first pieces of advice is to make sure you have a clear understanding of what is asked of you. Write things down, it is always better than just counting on your memory. If something is not clear, ask for clarification! Always. Try to learn as much as possible. Be curious. Communicate a lot. Work. Dedicate some time to learn new things. Point out issues and try to find solutions.

There are a lot of new regulations (DMA, DSA and forthcoming AI Act). How do you think this will affect the future of working as an economic consultant?

I have thoughts mostly on the DMA, I have not spent a lot of time reflecting on the other two sets of regulations. I don't think these regulations will fundamentally change our work as economic consultants. They might generate new opportunities, imply new types of tasks, and raise new questions, in addition to the work we are already carrying out in cases related to digital markets, in merger or antitrust investigations or in the context of litigation. There are still quite some uncertainties about the way the implementation of these regulations will unfold and the way companies (gatekeepers or third parties) will adjust to them. I think the implications of these regulations are complex and it is not very clear to me yet how and to what extent economists can or will be involved. At the moment, gatekeepers are preparing their submissions aimed at demonstrating their compliance with the obligations imposed on them by the DMA. I am not personally involved in any of these compliance reports, hence I can't say how much economists can contribute at this stage.

More generally, I can say that digital markets have created opportunities to work on some new challenges in the way a competitive assessment is carried out and to analyse larger datasets. For instance, the exercise of defining relevant product or service markets when multi-sided platforms provide these raises new challenges (e.g. the application of traditional tools such as the

“Further challenges will arise, as a result of the multiplication of regulations being designed and imposed, at the European level but also national level in several countries in and outside Europe.”

SSNIP test needs to be adjusted to take account of the fact that products or services are provided for free); the conducts under scrutiny can also be more complex, can lead to possibly opposing effects on different sides of the platform, etc.

The complexity of this type of analysis partly explains why the European Commission introduced the DMA, an ex-ante regulation because ex-post enforcement of competition law seemed to

take too long, to be too complex and the outcome too uncertain. We now have to see how the implementation of these regulations



unfolds, how companies respond to them, and how the regulatory framework will adjust to changes in the markets concerned. Further challenges will arise, as a result of the multiplication of regulations being designed and imposed, at the European level but also national level in several countries in and outside Europe. Combined with public and private enforcement possibilities, the addition of the regulations will certainly generate a lot of work and headaches.

How would you describe what the main responsibilities of Compass Lexecon are and why are they important for society?

We provide the best support, based on sound economic principles and analyses, so that the decisions taken are the right ones, ones that are positive in terms of effective and dynamic competition, consumer surplus, and innovation. This is where we see our value.

What are the opportunities for TSE students at Compass Lexecon?

It is nice to start with an internship because it gives us, as employers, the opportunity to get to know the person. This is also important for students who, just coming out of university, may not have a very clear idea of what this job is. The period of the internship is, therefore, a win-win. We also pay our interns well. You can always go to our website and check the openings. There are many TSE alumni in our company!

What do you do when you do not do economics?

I like to read, listen to interesting radio programmes and podcasts, and watch TV series (probably too much)! I recently watched “The Bear” and “Painkillers“. I recommend these. I also like good food and wine, I enjoy eating out and cooking. I also like walking, preferably in the south-west of France when I have a chance, and spending time with family and friends. ■



Daniel Cohen Memoir: Interview with Karine Van der Straeten

by Célia Gaudin

Due to the recent passing of French economist Daniel Cohen, TSEconomist found that writing an article in his memory was sensible. Indeed, Daniel Cohen was renowned in the economic field because of all his accomplishments and his continuous involvement in multiple spheres: his works on economic evolutions and post-industrial societies, his place at the Lazard Bank, his advice around the issue of national indebtedness, his membership in the CAE and his position in CEPREMAP can be mentioned. His multiple roles are probably what would strike anyone immediately: he appeared to be present and essential to cover some of the most important economic, but also historical and sociological issues.

Therefore, to know better about Daniel Cohen's personality, his career and his commitments, TSEconomist asked to interview TSE researcher Karine Van der Straeten.

How were you introduced to Daniel Cohen?

I first met Daniel Cohen when I was a M1 student at Polytechnique (in Paris). I chose a specialization in applied mathematics and economics, and Daniel Cohen was my teacher in an advanced macro course. He had a very broad perspective on things, and I remember his course borrowing heavily from history and anthropology. It was fascinating! Then I did my PhD in a research center named Delta, which preceded the Paris School of Economics (PSE). I remember some great PhD seminars with him, during which the discussions were really challenging because his mind was very fast and perpetually moving. He always had very interesting ideas. Later on, I interacted again with Daniel when I joined PSE as a CNRS researcher. Finally, I also worked more closely with him when I became involved in the CEPREMAP, a program centred on inequalities and public

policy. CEPREMAP, Centre pour la recherche économique et ses applications, is an agency whose mission is to ensure an interface between the academic world and the economic administrations; it was directed by Daniel Cohen at that time.

How do you remember him as the director of CEPREMAP and as an economics teacher at ENS Ulm?

I was not a student at ENS Ulm myself, so I don't have first-hand information to answer the latter question. What I know is that he was key in building an economics department at ENS Ulm and attracting many talented students. From what I have heard from his former students there, he was always extremely involved and supportive, never trying to push them in one direction, but really helping them understand what they really wanted to do. When some students expressed some frustration about the courses in economics being sometimes too abstract or disconnected from the real world, he offered to meet with them once a week, to talk about any topic and economic question they wanted, and see how economic thinking could help conceptualize, understand or solve the problem. Actually, there was a commemoration at PSE organized in September in his honour, and the most moving

“I was struck by his capacity to build bridges between economists and decision-makers. He had a unique ability to transform their problems into economics questions, and to explain in simple and intuitive terms complex economic mechanisms.

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testimonies were from his former students, many of whom are now renowned economists. When I had the chance to work with Daniel Cohen at CEPREMAP, I was struck by his capacity to build bridges between economists and decision-makers. He had a unique ability to transform their problems into economics questions, and to explain in simple and intuitive terms complex economic mechanisms.

You worked under his direction on “16 nouvelles questions d’économie contemporaine”. How was the overall experience?

Indeed, I wrote a chapter called *Crise de la représentation en France: comment réconcilier le peuple et ses élus ?* in a book that covered three main issues: the financial crisis, the ills of French society, and the welfare State. Daniel Cohen and Philippe Askenazy asked me to write a paper on trust in a representative government and on the crisis of democracy, which at that time started to be crucial. Our discussions were really engaging and challenging, Daniel was very honest and could totally tell you if he found that something was wrong or didn’t make sense. He would do that with himself too, sometimes contradicting his own first impressions to make sure he would deliver a rational speech and not stay blocked in a stance that would not make sense anymore. What I already saw from Daniel Cohen at that point was, I think, that he was very worried but still optimistic about the world we live in. If you look at what he wrote in many of his books, he was quite worried about the way he was perceiving some transitions, for example, social links becoming weaker or poverty not disappearing. But at the same time, there was some optimism in the idea that economists, and social scientists in general, had a role to play.

In the wake of such a publication, we noticed that Daniel Cohen worked on numerous publications around historical, sociological, and political issues. In your opinion, how important is the interdisciplinary approach in social sciences?

“Daniel was very honest and could totally tell you if he found that something was wrong or didn’t make sense. He would do that with himself too, sometimes contradicting his own first impressions to make sure he would deliver a rational speech and not stay blocked in a stance that would not make sense anymore.”

He was very interested in interdisciplinary approaches. Yet I don’t think that he was in favour of interdisciplinarity just for the sake of it. I think it was a very pragmatic approach in the sense that he was interested in trying to understand things and solve problems. This view makes sense for many issues: financial crises, poverty or happiness at work. If you want to tackle those issues, you have to have a broad perspective. Of course, economics is very useful, but it can be only one part of the story. At TSE, we are very fortunate to have quite diverse fields in economics, mathematics, and a new social and behavioural sciences department. I see more interdisciplinarity here at TSE than when I was at PSE, and this is something I love about TSE. Nevertheless, it doesn’t mean that everybody should do interdisciplinary research. I think it’s perfectly fine and completely useful to have economists doing only economics and mathematicians doing only mathematics. But I

think that we also need some places where people can discuss, dialogue, and confront their perspectives and views from different disciplines. It takes quite some time just to understand the perspective of other people, but it can be of high value.

Daniel Cohen appeared to be a notable person in both theoretical and practical economics, working both in the academic field and in economic decision support. How important is this balance of academics and active economic advisory?

Again, he was really good at making bridges: between academia and decision makers, between academia and students, and between academia and the general audience. A couple of years ago he created the FDL, Finance for Development Laboratory, which is a think tank whose aim is to put forward proposals for a fairer and more efficient financing of developing countries, with a special interest in sovereign debt issues - which was his initial topic of research. He was also working at the Lazard Bank or the World Bank. During his career, he gave advice to French politicians and foreign leaders, such as Rafael Correa who is a former president of Ecuador. I think that for him, science had to be useful and create some social value.

According to you, what will transcend Daniel Cohen’s passing?

First, I think about the institutions he built. He was instrumental in building institutions such as the Department of Economics at ENS and PSE. He set very high standards and people took that very seriously. And maybe the second thing would be all the books he wrote for a general audience, and his efforts to develop a

“In Homo Numericus, one of his last books, he said that “Humans don’t think alone, but with others, in conversation with them. It is in discussions with others when we are solicited by the words of our interlocutor, that we feel awake.””

broad economic culture through interventions in radio programs and in newspapers. He was very active in France culture and in Le Monde. Again, as we discussed earlier, he was very good at making economics travel across the border of academia. I want to underline that he was also a humanist and was always pushing us to challenge our own thoughts, and not to take anything for granted. In Homo Numericus, one of his last books, he said that “Humans don’t think alone, but with others, in conversation with them. It is in discussions with others when we are solicited by the words of our interlocutor, that we feel awake.” Daniel Cohen had an incredible talent for making us “feel awake”. ■

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SPOTLIGHT



DMA, DSA, AI Act: What do the EU's new regulatory tools mean for you?

Niklas Rotter

In recent months and years, the European Parliament and the European Commission have introduced the Digital Markets Act (DMA) and the Digital Services Act (DSA). Negotiations are also well advanced on the Artificial Intelligence Act, which is expected to come into force by the end of this year.

What are DMA, DSA and AI Act exactly?

First of all, what is the purpose of these laws? Today, digital platforms such as Amazon, Google or Facebook are ubiquitous in our society. Life without the help of search engines or communication platforms like WhatsApp seems very distant to our generation. Apart from these obvious benefits that such platforms offer to us, the consumers, there are also some potential problems that such large digital

platforms pose. The nature of a platform with network effects leads to the growth of huge entities that are in an economically dominant position with greater advantages over competitors and potential entrants. These advantages may be economic, but may also go beyond that. The European Parliament sees a relevant impact of these platforms on democracy, fundamental rights and societies. To limit potential negative effects, the European

Parliament and the European Commission introduced the DMA and the DSA.

The DMA's goal aims to "ensure a level playing field for all digital companies". To ensure this, the DMA sets out new rules for large platforms, defines criteria to determine whether a platform qualifies as a gatekeeper, and gives the European Commission new sanctioning powers to

enforce the new rules.

The DSA aims to create a safer digital space for Europeans by setting new rules that give people more information about how their private data is tracked and used. It also prohibits certain sensitive data from being used for profiling or targeted advertising. These include sexual orientation, religion and ethnicity.

The DSA also creates new content moderation rules. These rules aim to improve the removal of illegal content, hate speech and disinformation on platforms while protecting content creators from the abusive behaviour of excessive reporting leading to unfounded takedowns.

Finally, the DSA gives consumers more control over what they see by providing an opt-out of content curation.

The proposed AI Act comes at a time of rapid progress in AI technology. It aims to create a regulatory framework for AI that

can be applied to a variety of AI applications, depending on the risk they pose to users. Parliament's priority is to ensure "safe, transparent, traceable, non-discriminatory and environmentally friendly" AI systems, without limiting the potentially

"The DSA aims to create a safer digital space for Europeans by setting new rules that give people more information about how their private data is tracked and used."

huge benefits that AI can offer. To ensure that innovation is not limited by overly intrusive regulation, the rules are based on the potential risk category of the AI system. High-risk applications, such as AI for biometric identification, critical infrastructure management, education, etc., will be severely restricted, while potentially less harmful and less risky applications will be subject to minimal requirements.

What do the critics say?

Alongside the monumental aims of these three pieces of legislation and their proposed benefits, they have also attracted

much criticism. Some criticism can be categorised as a general distrust of the efficacy of ex-ante regulation and the excesses of enforcement agencies, but other criticisms are more specific to the enforceability and potential side effects of certain parts of the three Acts. In the following, I will summarise the main controversial points of the three Acts. I would like to emphasise that some of these points do not necessarily reflect my personal views and the consensus in the literature.

The main criticism of the DMA is that ex-ante regulation moves away from effect-based economic analysis, which takes efficiency into account. Proponents of this criticism argue that the abandonment of this approach may ultimately lead to consumer harm. A second popular criticism is that the DMA leads to over-regulation, which may lead to reduced incentives to innovate, especially for the designated gatekeepers. Other critics question the general relevance of the DMA, arguing that digital markets cannot even be properly defined and that there are no fundamental differences between digital markets and traditional two-sided markets.



Finally, some hardcore critics accuse the European Commission and the European Parliament of creating the DMA to harm US-based digital platforms by engaging in protectionism, favouring EU-based digital platforms, and even favouring Chinese companies over their US counterparts, thereby creating a threat to democracy itself.

The most common criticism of the DSA is that it threatens freedom of expression, with fears that the new rules will lead to excessive abuse of flagging and reporting and potential overreach by enforcement authorities. In addition, some legal scholars have criticised the unclear scope of the DSA and potential problems of interaction with other EU legislation.

The AI Act is undoubtedly the most

controversial piece of legislation. Although almost all critics agree that some form of regulation of AI is necessary, its implementation is highly controversial. A major problem is that AI systems have developed dramatically in the past year alone, and we can expect further developments. So the question is, how do you create a regulation that works in such a fast-moving environment? A major criticism of the proposed AI Act is the classification of risks for AI systems that do not have a specific use but are rather basic models with a wide range of future applications. The question is, who is best placed to assess the potential risks of such systems? The proposed AI Act requires companies to assess the risk of their products. One criticism is that this may lead to an excessive burden on companies, stifling innovation and consolidating the market power of existing larger companies with better due diligence capabilities. The challenge is how to balance the burden on smaller companies with the fact that small companies can still create similarly harmful AI systems as larger, more regulated companies. Organisations

such as Amnesty International are also concerned that the proposed self-regulation of big tech companies in terms of risk assessment may create loopholes, leading to an incentive to underestimate the risks of their products to avoid stricter obligations. Finally, there is still the question of who should enforce the new laws and how enforcement should work, as national data protection authorities have already started to open cases involving AI systems under pre-existing laws. In addition, there are still uncertainties regarding copyright. How will data scraping be possible and legal in the future?

How will the future look like with the new regulations?

Finally, how will these three laws affect us

as students, researchers and people living in the EU? As you can already guess, there is no clear answer to this question as there are many controversial and contradictory predictions and the AI Act is still not finalised. However, we can say that all three laws are monumental and will affect us as we will all have to interact with digital platforms and AI-driven systems in the future. Regardless of the specifics, the implementation of these acts is a sign from the European Commission and Parliament that they are concerned

“The challenge is how to balance the burden on smaller companies with the fact that small companies can still create similarly harmful AI systems as larger, more regulated companies.”

about current and future developments in these areas. Furthermore, all three laws are groundbreaking and will be a prototype for future legislation in the EU and around the world. I strongly believe that listening to the latest research in all fields should be a key driver not only in the creation of new legislation but also in the revision of old legislation. So I look forward to future research that can quantify the impact of this legislation. ■

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Digital Markets Act

What is the Digital Markets Act (DMA)?

It is a new set of EU rules that will ensure **fair competition** on digital platforms.



← 1 dot = 1 SME online platform

Today, over **10 000** high-growth SME online platforms operate in the EU's digital economy.

Just a **small number of large** online platforms, known as the 'gatekeepers', have the biggest share of the market.

Gatekeepers are digital platforms:

1. with over **45 million** active end users each month



2. with a turnover of **€7.5 billion** or more in the last three financial years



Gatekeepers will not be allowed to:

- over-promote their own products
- limit payment possibilities to their own payment method
- re-use personal data collected during one service for the purposes of another service
- impose unfair conditions on business-users
- pre-install certain software applications
- restrict business users of platforms
- use certain bundling practices

— selling different items as a package

Companies that do not comply with the new obligations may risk fines of up to 10% of their worldwide turnover or up to 20% in case of repeat offence.



Implementing the Digital Markets Act will:

- Create fairer competition for digital businesses
- Generate increased innovation
- Provide consumer protection

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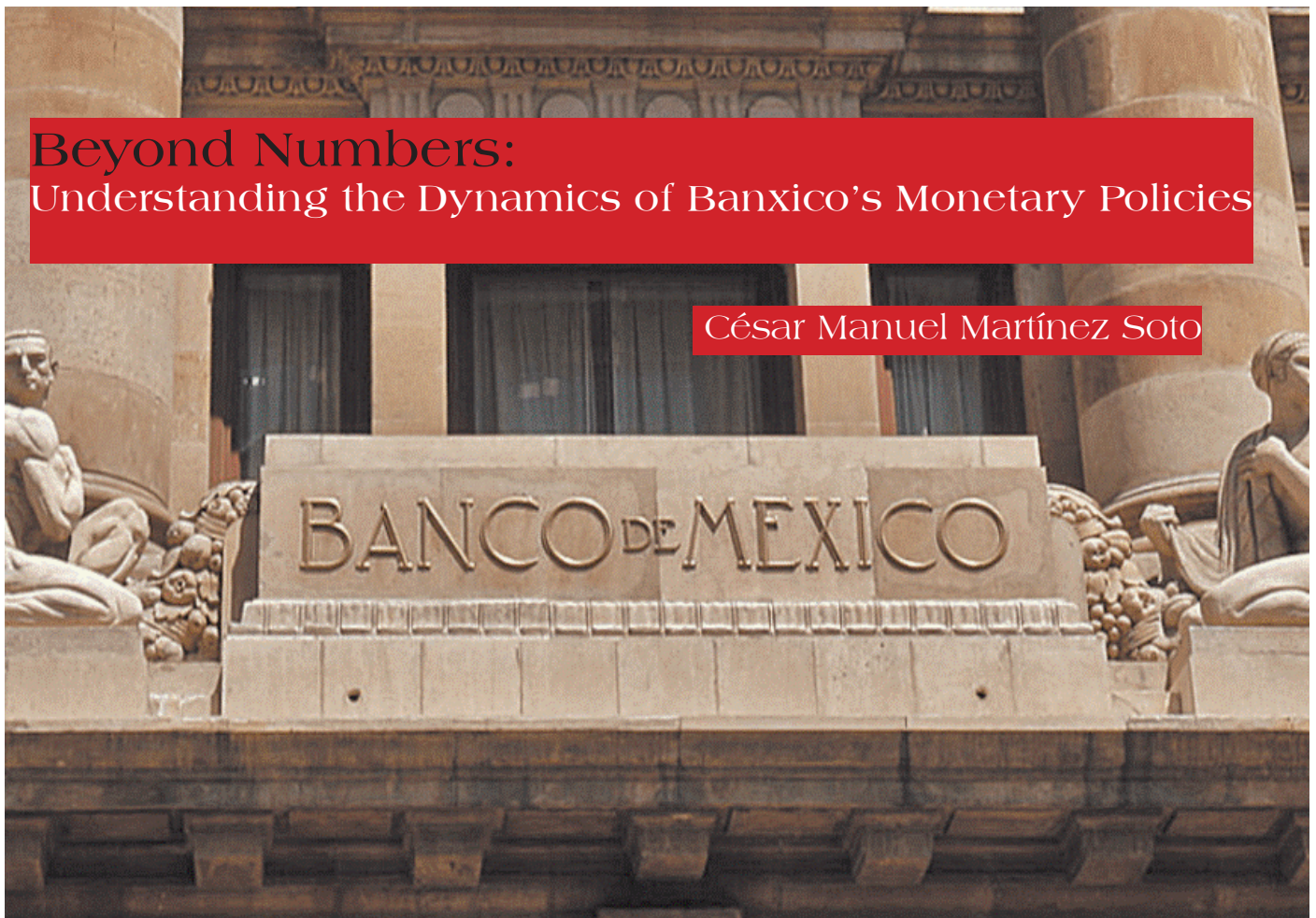
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Beyond Numbers:

Understanding the Dynamics of Banxico's Monetary Policies

César Manuel Martínez Soto

Banking in Mexico has a rich history intertwined with economic evolution and financial progress. The first early establishments of foreign, European banks first on Mexican soil during the 19th Century, marked the commencement of Mexico's progress towards financial and economic modernity. However, it wouldn't be until 1925 under President Calles' mandate that the Bank of Mexico (Banco de México, also referred to as Banxico) would be conceived as a much-necessitated central banking institution to stabilise the nation's economy. Banxico's inception was not merely a historical event but a response to intricate political and financial factors. Over the years, Banxico has played a paramount role in Mexico's economic stability, influencing various aspects of monetary policy to safeguard the nation's financial health.

Beyond its historical significance, Banxico's autonomous nature (like most other central banks worldwide) is a crucial element of its modus operandi. Since 1994, the institution has operated without direct government intervention under the direction of apolitical, Economics specialists constituting Banxico's Governing Board —Starting in January 2022 and until December 2027, Victoria Rodríguez

Ceja is the current Banxico's Governor after being ratified by multiple public federal authorities—. As the country's central bank, it is the sole entity in the Mexican State with the legal approval to formulate monetary policies and instruments to maintain the national economy at stable levels. Naturally, the significance of this role cannot be overstated considering the multiple domestic and international economic challenges that are involved within their decision-making frameworks, making the effective execution of Banxico's responsibilities vital for Mexico's economic well-being. Considering such premises, it is then of ample relevance to delve into the intricacies of Banxico's monetary instruments and policies, exploring the circumstances it addresses and discerning its true impact on the Mexican economy.

Monetary Instruments and Policies

Understanding the complexities of Mexico's economic stability requires a grasp of the monetary instruments and policies wielded by Banxico. While numerous tools exist, this article will focus on some of the most prominent ones, shedding light on their impact and significance within the broader context of Mexico's economy.

Reference Rate

At the heart of Banxico's monetary policy lies the reference rate, a fundamental tool that influences various economic facets including money supply, inflation levels, borrowing costs and interest rates

“Overall, Banxico's continuous adjustment of its reference rate looks to ensure stability amidst a dynamic economic landscape in the global arena.”

for commercial banks and individuals throughout the nation—it is, essentially, a national benchmark for financial institutions to place an interest rate for borrowing money—. This rate is intricately tied to factors of diverse natures. Endogenous factors, in the first instance, are rooted within the nations' domestic circumstances, among which domestic inflation rates and economic growth projections are the most relevant ones. On the other

hand, exogenous factors stem from the international arena and encompass global economic trends, geopolitical developments and other worldwide circumstances. Following high inflationist trends from 2022 from war and post-COVID related phenomena, Banxico's current reference rate (as of November 2023) currently stands at an atypically high 11.25% as a monetary strategy to control volatile commodity prices within the national markets. Overall, Banxico's continuous adjustment of its reference rate looks to ensure stability amidst a dynamic economic landscape in the global arena.

Open Market Operations

Banxico employs open market operations (OMO) as a core instrument to manage short-term liquidity, either injecting or withdrawing funds from the national economic environment. These operations, conducted through auctions or direct securities transactions, are pivotal in maintaining balanced accounts for commercial banks. To illustrate the actual mechanics of such operations, let us consider an example provided by Banxico itself from February 4th, 2009. Near the closing time of the national financial markets, Mexico's central bank estimated the need for a liquidity injection of 11,326 million Mexican pesos (MXN) to balance commercial bank accounts' surpluses and deficits. To compensate for poten-

“It is not merely about aligning with the Fed's decisions but understanding the unique economic challenges faced by Mexico.”

tial forecasting errors, a reserve of 600 million pesos is to be withheld, yielding an overall liquidity injection of 10,726 million pesos later distributed that day through interactive auctions where funds are allocated based on bidding rates and the participation order of the bidders in question. It should be noted that OMOs are not isolated incidents; by adjusting liquidity levels, Banxico can influence interest rates, thereby regulating borrowing and spending patterns, a vital tool for monetary policy.

Reserve Requirements

In line with international banking practices, Banxico imposes reserve requirements on commercial banks. This requirement,

also known as the fractional reserve coefficient, mandates that Mexican banks maintain at least 8% of their deposits as readily available reserves to ensure that financial institutions can meet withdrawal demands and support their financial operations. Additionally, Banxico is responsible for guaranteeing the existence of the country's international reserves, an immediate safeguard against economic uncertainties most commonly denominated in key global currencies including the U.S. dollar, the Japanese Yen, and the European Euro. As of October 27th, 2023, Mexico's international reserves stood at 204,220 million dollars.

Banxico's Role in Times of Crisis

In the annals of Mexico's economic history, two significant crises stand out: the 1994 crisis and the more recent COVID-19 pandemic. Both events posed immense challenges to the nation's financial stability, testing Banxico's ability to wield monetary instruments effectively.

The December 1994 Crisis

The December 1994 crisis (the “Tequila Crisis”) was sparked by a lack of international reserves and was later exacerbated by the sudden devaluation of the Mexican peso. Unemployment soared above 4%, the peso lost 50% of its purchasing power against the U.S. dollar, and the general population grappled with the burden of skyrocketing debts. In the face of this turmoil, Banxico swiftly intervened by establishing a strict limit of 10,000 million MXN to a potential internal net credit augmentation, leveraging its monetary instruments to stabilise the economy. The institution also adopted new debt-payment policies that penalised commercial banks which didn't cover their monetary responsibilities, among other measures preventing further economic degradation and fostering an eventual recovery by the end of the 1990s decade.

COVID-19 Pandemic: An Unprecedented Challenge

While it was primarily a health crisis, the 2020 COVID-19 pandemic unleashed unprecedented economic problems globally. In Mexico, nearly 12.1 million work positions were lost between March and April 2020, more than 44% of the occupied population faced salary reductions, and an additional 10.6 million people entered the poverty demographic by March 2021. The impact was undeniable and a pervasive sense of economic stoppage and uncertainty gripped the nation. In this

dire situation, Banxico lowered the reference rate from its original 7% in March 2020 to 4% exactly 12 months later as a way to incentivise economic activity after the initial sanitary threats were appeased. In that same logic, several debt payment due dates were generously postponed by commercial banks to prevent a sudden streak of bankruptcies from small and medium businesses throughout the country that could then endanger the overall national financial system in the long term. By employing both these and other similar measures, Banxico started creating a path towards gradual economic recovery which is planned to be undergoing even posterior to the time of this article's writing process.

External Influences over Banxico's Decisions

Given the interdependent nature of international finance, decisions made by central banks effectively reverberate across borders and Banxico is no exception. The question of whether Banxico mirrors the Federal Reserve's (Fed) decisions regarding its reference rates has been a topic of discussion for several years. Sub-Governor Galia Borja emphatically dispelled the notion that Banxico mechanically replicates the Fed's policy moves. During her participation in the ‘Mercados de Capital de México’ forum

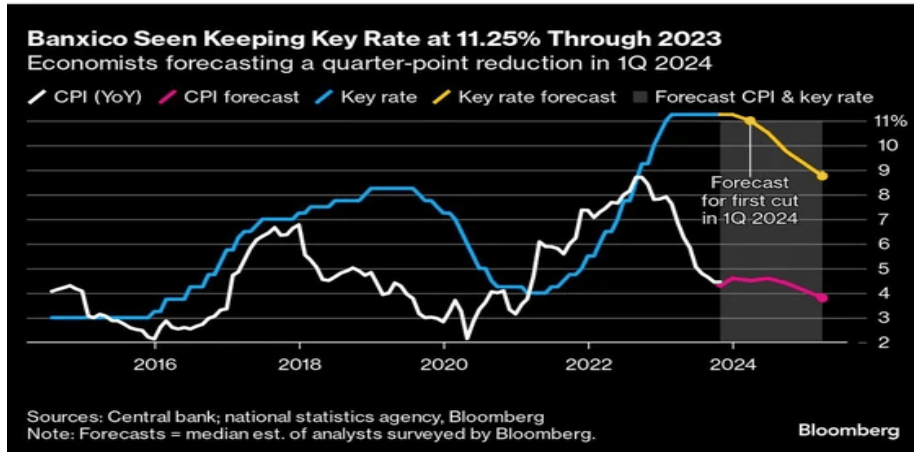


in 2022, Borja highlighted the conditional nature of the synchronisation between Mexico and the United States. While the Fed's monetary posture undoubtedly influences Mexico's monetary policy, the decisions are far from just replicated. Instead, they are tailored to the cyclical conditions of the Mexican economy. Borja emphasised as well that the alignment between the monetary cycles of Mexico and the United States is contingent upon the nature of the shocks faced by the Mexican economy and is not an objective in itself. This nuanced approach reflects the complexity of the global financial landscape. It is not merely about aligning with the Fed's

decisions but understanding the unique economic challenges faced by Mexico. As the international economic landscape

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evolves, Banxico continues to navigate these complexities with a strategic approach, ensuring the nation's financial stability as its primary priority.

Final Thoughts

Within Mexico's economic landscape, Banxico stands as the main economic entity looking for national stability through its monetary instruments. Challenges like the 1994 crisis and the COVID-19 pandemic showed Banxico's adept use of such policies as necessary guidelines to mitigate the adverse economic shocks and lay the foundation for eventual recovery. While the future continues to be marked by geopolitical shifts and economic uncertainties, Banxico's monetary policies must remain grounded in rigorous analysis and adaptability. Lastly, as Mexico embarks into new economic endeavours, Banxico will have to stand firmly as an institution that drives the nation toward resilience, stability, and economic vitality. ■

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Do opposite policies always lead to conflict? The South American case

Martin Mondelli

South America is home to twelve independent nations most of which share the same official language and have many cultural similarities. However, throughout the years they have adopted different perspectives when it comes to public policies.

Health and social welfare policies

During the last decades, most of the developed nations legalised abortion. In this sense, most South American countries,

have adopted a position where it is allowed to do so only if the person that carries the baby is in danger. However, there are some countries in the north and the south of the continent where the individual can abort for a precise period (for most legislations in these countries the period is about three months). Regarding the practice of this technique, in Uruguay, the number of pregnant people who died because of abortion has been one or two

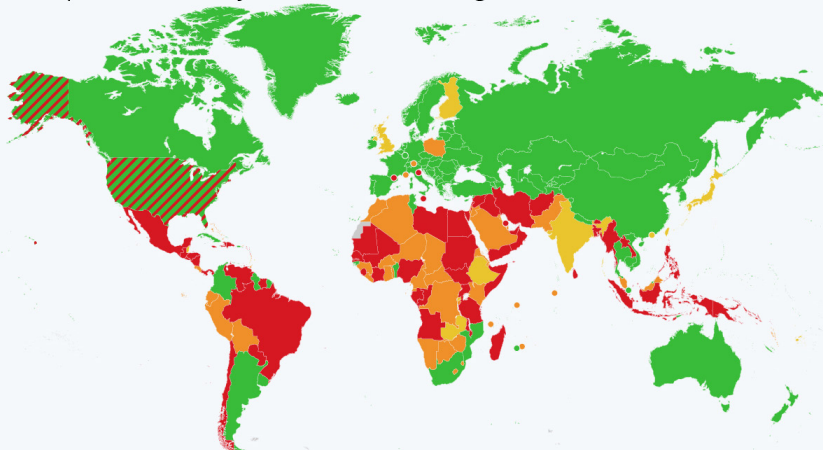
per year in recent years, compared to six or nine at the beginning of the century.

Another policy that took place a decade ago was same-sex marriage. Although for roughly half of these countries, it is legal and does not seem to be repealed shortly, there are six nations where it is still illegal. In practice, this right is commonly used. For example, in Argentina, there were 20 244 same-sex marriages during the 2010-2020 period, which represents over 1,6% of the total number of marriages in the country. ineffective and unfair.

The Legal State of Abortion

International status of abortion law in 2022

- To save the woman's life/prohibited entirely
- To preserve health
- Broad socioeconomic grounds
- On request*



As of June 27, 2022 * Gestational limits vary
Source: Center For Reproductive Rights

Opposite perception of the international environment

The South American countries are aligned in two major blocs, "The Pacific Union" (Union del Pacifico) and the "Common Market of the South" (Mercado Común del Sur or Mercosur). These two blocs were formed with the objectives of promoting cooperation between countries and getting more profitable economic deals with bigger economies. However, even if those groups could be proof of some sort of common foreign policy, that is not the case at all. Each state has grown its alliances for example, Brazil is an active member of the BRICS while other countries have developed deeper bonds with the USA, like Ecuador which uses the

American dollar as its official currency, or Colombia whose major trade partner is The Uncle Sam (27.5% of its exportation went to the US in 2021). Let's now take a closer look at these opposite diplomatic points of view with a 50-year-old example and a recent one.

Another example of this diplomatic alignment is the 2758 UN resolution. In 1971,

World War? Even though many factors come into play, the healthy relationships that these nations have developed between them have inevitably contributed to peace between them. Let me explain this hypothesis. First, similarly to what happens in EU countries, there is a great number of South American citizens who decide to move within the region. For

what separates us. ■

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“Perhaps we should work as citizens to promote peace and try to see what brings us together instead of what separates us”

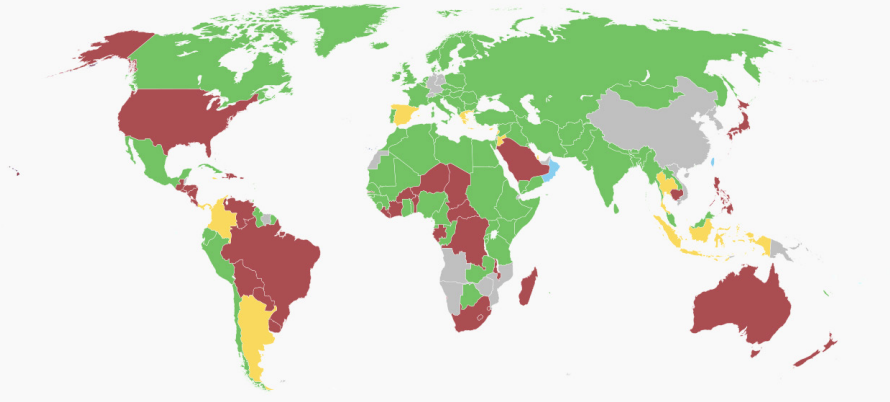
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(Yellow=abstained, Red=against, Green= in favour), Voting for China in the UNSC

it was debated if The People's Republic of China shall be considered the legitimate representative of China (and therefore become a permanent member of the

example, over the last 27 years, foreign students at UBA (Universidad de Buenos Aires, Buenos Aires, Argentina) have increased their number by 482% and were about 13.200 (4.4% of the total number) in 2016. Second, there are several projects between artists (especially musicians) from these countries that have been going on during the past decades and are still ongoing nowadays. A clear example is the Colombian singer Shakira Isabel Mebarak known as « Shakira » who worked with a vast number of South American singers and producers. Finally, there are plenty of sports events regularly organised to reunite all these communities, the most renowned ones being the football competition *La Copa America* and *La Copa Conmebol Libertadores* (this last one adopted its name in memory of Latin-American independence heroes) .

“Perhaps we should work as citizens to promote peace and try to see what brings us together instead of what separates us”

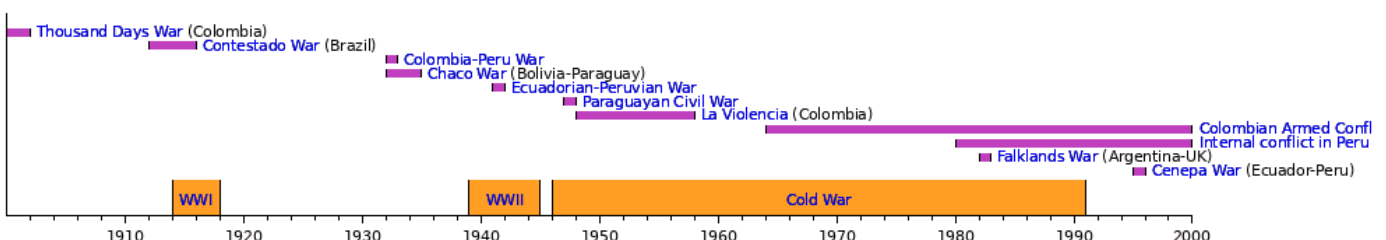
Security Council). These differences persist in the modern day, regarding the Russian invasion of Ukraine, one country supported Russia, while three have set sanctions against Russia, six condemned Russia's actions, and two have not pronounced themselves.

How does this system survive?

Now, throughout history divergent-thinking nations in the same geographical zone ended up in conflicts and wars; therefore, why has South America not experienced a single international war after the Second

Is confrontation inevitable?

Certainly, international disputes among nations can spread easily when they have alternative ways to see the world. However, as we presented in this article, it is not always the case. Perhaps we should work as citizens to promote peace and try to see what brings us together instead of



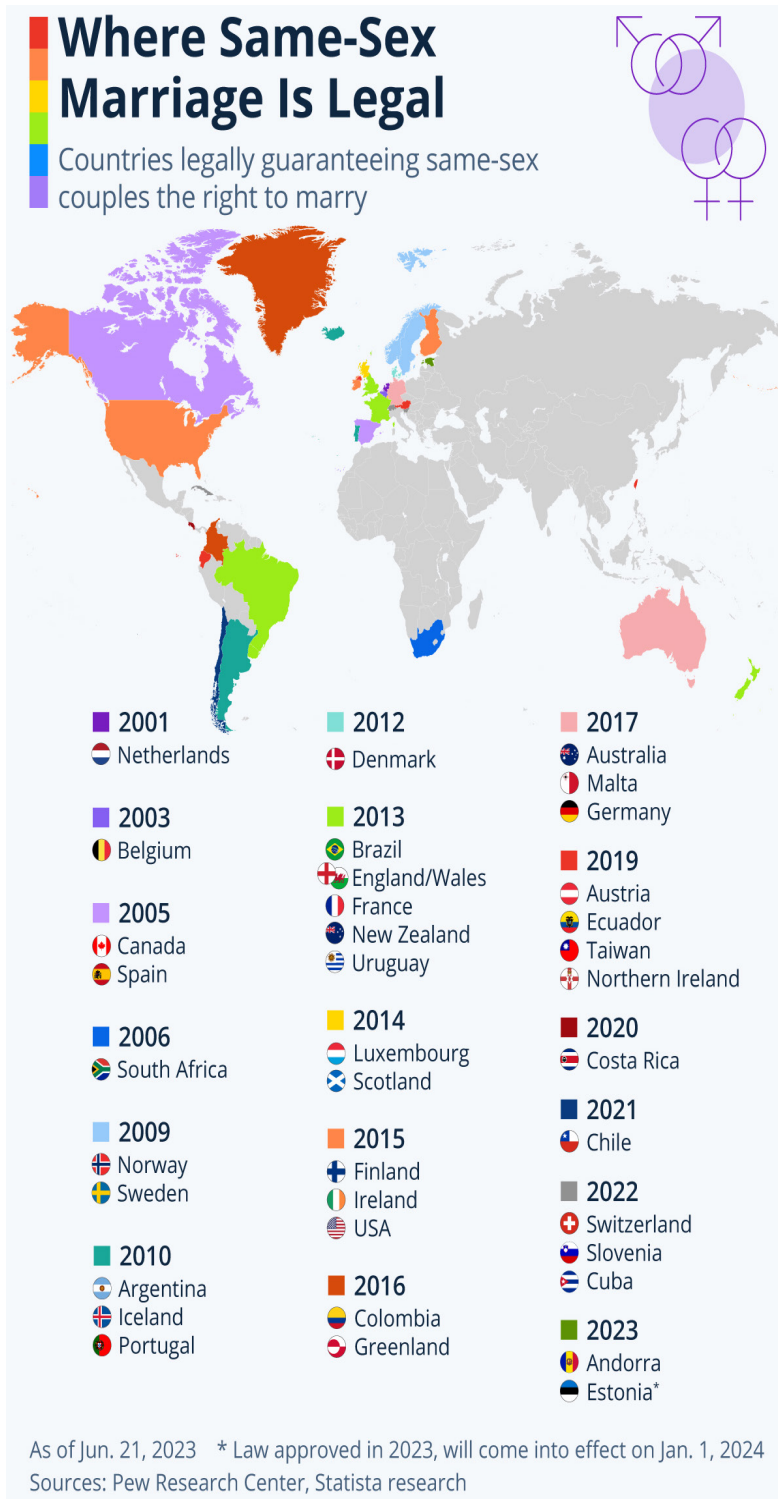
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Through the costs to society or by physical flows: Which approach to the ecological transition?

Remy Molinie

Last April, Christian Gollier said on his Twitter: “*Janco est une star bien méritée par ses compétences techniques et sa force de conviction et de vulgarisation. Il jongle merveilleusement entre Twh, MtCO₂e, et autres J, mais très rarement avec les €.*”. In English: It juggles wonderfully between Twh, MtCO₂e, and other J, but very rarely with €.

Gollier, the environmental and risk economist, criticised the engineer, bearer of the Transformation Plan of the French Economy (TPFE), for focusing on the energy value of actions necessary for the ecological transition, forgetting to calculate their different costs for society. Gollier and Jancovici are increasingly present in the media debate, with a head start for Jean-Marc Jancovici, the author of the Best-Seller *The Endless World*, agreeing that the transition will be costly; they disagree on the means to be used to implement it. They discussed it on October 23, 2023, in auditorium 3 of the Toulouse School of Economics (TSE).

The quantification of the economy’s physical flows by the *Shift project*, a think tank chaired by Jean-Marc Jancovici that is pushing for the decarbonisation of the economy, has led to the Transformation Plan of the French Economy (TPFE). It

lists the changes in economic activity and employment that will be required to bring France into compliance with the Paris Agreements, i.e. reduce its greenhouse gas (GHG) emissions by 5% each year. “The problems of global warming and the loss of biodiversity come from the physical or real world, and it is important to think about the resources and skills available. Billions are human conventions, and we will manipulate them to make them fit”, he explained.

A costly transition

Without denying the usefulness of such a plan, Christian Gollier, director of TSE and co-author of the 4th and 5th reports of the Intergovernmental Panel on Climate

“The idea is to maximise the well-being of society as a whole, by ensuring that each agent only takes action to reduce greenhouse gases (GHGs) if the cost is less than the damage that the GHGs will cause in the future”

Change (IPCC), criticises it for failing to take into account the cost to society, which is measured in monetary units. Taking up the reasoning of neo-classical theory, the idea is to maximise the well-being of society as a whole, by ensuring that each agent only takes action to reduce greenhouse gases (GHGs) if the cost is less than the damage that the GHGs will cause in the future. For each agent to internalise the cost to society of an action emitting GHGs, it is necessary to price carbon. As the damage caused by an emission has deferred effects, it is necessary to use a

discount rate. This is why, in his lecture at the College de France, he states that the price of emitting one tonne of carbon dioxide should be „equal to the present value of the flow of damage that this emission causes“.

Before disagreeing on the tools to be used to drive the energy transition, Gollier and Jancovici agree that the transition will be costly and that it will be difficult for politicians to assume it. In an article published in *Le Monde* last September, Christian Gollier asserts that „the transition will be inflationary“, because of the higher cost of the technologies needed to decarbonise. He adds during the debate that there are

also “non-economic costs to sobriety”, such as the time lost when riding a bike instead of a car, or the discomfort when lowering the heating in your home.

Jean-Marc Jancovici says that “as long as Gross Domestic Product (GDP) measures the same thing, it is bound to decline at some point” (Debate Jean-Marc Jancovici/Bertrand Piccard, *le Figaro*, 12/10/2023). The measurement of GDP is based on „conventions“ to determine whether the increase in the value of a product is real or whether it is simply inflation. For example, if we divided the weight of cars sold by 2 (they would be less polluting, all other things being equal) while leaving them at the same price, the people in charge of national accounts would have two choices. They could just as easily decide that there has been 100% inflation on the price of cars - as would be the case for a cereal box sold at the same price but with 200g instead of 400g of cereals - as 0% because the intrinsic value of the car has not changed. In the second case, GDP would remain unchanged. He therefore prefers to rely on physical indicators of economic activity (e.g. square metres built per year, tonnes of goods loaded onto lorries), which have already started to decline since 2007.

Physicists vs Economists

Although it has evolved, the controversy between economists and physicists, or other scientists with a background in the natural sciences, over the management of natural resources was already present in the 1970s after the publication of the Meadows report on *The limits to growth* that showed the impossibility of infinite growth based on finite resources. At the time, William Nordhaus criticised the authors for not including a monetary dimension in their models, and therefore for underestimating the sensitivity of economies and individuals to prices (they increase as a natural resource becomes scarcer). By balancing the damage of climate change and the costs of its mitigation at the macroeconomic level, he estimated that the optimum level of global warming would be +3°, which won him the Nobel Prize in Economics in 2018. What startle «climatologists and serious economists who work on the subject», claims Céline Guivarch on *France Culture* in the show program *Entends-vous l'éco* (29/08/2023).

Jean-Marc Jancovici, like other scientists, questions the fact that only a sufficiently high carbon price will enable France to move onto a trajectory that will limit global warming to 2°. “While carbon taxation

may work quite well for industry, it cannot work for households, which cannot anticipate and adapt that an industrial environment does”, he cautions. For him, we need to “keep the market for short-term adjust-



DEBAT - Transition énergétique : quels outils économiques pour décarboner nos modes de vie ? Source: La Tribune

ments, but not long-term planning”. The State must intervene to foresee the sectors destined to grow and those to shrink, and thus push for the necessary investment in capital and training. In Christian Gollier’s view, households being rational, if the amount of carbon price is announced clearly for the 30 years that follow, all the actors of the economy will adapt and give substance to a new balance where carbon activities have decreased, and this more efficiently and flexibly than with a plan. Whether it is the plan or a carbon tax, the important thing is to provide visibility and predictability for at least several decades.

“The average Frenchman has a carbon footprint of 10.8 tons of CO₂ equivalent, but it should be 2 to comply with the Paris Agreement”

Doing your bit

For the shifters, a member of the association promoting the TPFE, planning is necessary as more than individual behaviour changes will be needed to achieve carbon neutrality in 2050, if actions at the collective level are not carried out. Carbone 4, the low-carbon strategy consultancy headed by Jean-Marc Jancovici, highlights this in a study entitled *“Doing your bit”*. The average Frenchman has a carbon footprint of 10.8 tons of CO₂ equivalent, but it should be 2 to comply with the Paris Agreement, a decrease of 80%. According

to the study, significant changes in individual behaviour would enable a reduction of 20% for a “realistic level of action”, and 25% for a “heroic level” (becoming vegetarian, no longer taking the plane,

favouring cycling, lowering your heating, etc.). If we add to these actions that require an investment (thermal renovation, replacing a boiler with a heat pump, electric car, etc.), on which the State can therefore act strongly, it could decrease by an additional 20%. The remainder, which includes the decarbonisation of industry, freight and public services, therefore represents 60% of the carbon footprint. Thus, if individual gestures are indispensable and are not negligible, they will not be enough.

For Christian Gollier, the problem with such a plan is acceptability because it lies between Soviet planning and America at the time of prohibition. As the example of the electricity market showed last year, whose prices were not increased, leading to threats of power cuts to manage the shortage, not wanting to go through prices leads to rationing logics, which are necessarily random and unfair. Faced with this Jean-Marc Jancovici argues that all price-based regulations can also lead to situations difficult to accept, by defending his now famous proposal of 4 flights per life. Despite a very large carbon tax, “if a billionaire pays more for the crop to make an agrofuel for his private jet than an Indian to feed himself, the billionaire will win”.

Although both defend their methods of regulation, they are both in favour of mixing them. The director of TSE says that he is “not against bans and standards” as long as it is clear that the social cost of maintaining an activity is much higher than the benefit to the user, as in the case of the ban on heated terraces or coal-fired electricity

generation in Europe. For his part, Jean Marc Jancovici agrees that the carbon tax can be useful in the industrial sector but also in some cases to avoid bouncing effects. As soon as a technology becomes more energy efficient, it will tend to see its consumption increase, thus cancelling out all or part of the gains. On this point, the economist and advisor to the government Jean Pisani-Ferry stresses that “*in comparison to a regulatory approach, an incentive approach requires spending more to achieve the same result*”.

Why make an effort when others don't?

On the very complex question of the efforts to be made depending on the behaviour of other countries, the two participants in the debate give the beginnings of solutions. For Christian Gollier, the Border Adjustment Mechanism that the European Union has just adopted will encourage exporting countries in the eurozone to pay a carbon tax so that the revenue from this tax fills their coffers rather than the treasures of the Union. The chairman of the Shift Project believes that “the only Pascalian wager that holds up is for us to start making efforts ourselves”. Here he transposes Pascal's reasoning on the existence of God to the behaviour we need to adopt in the context of global warming. Since, for Pascal, the pleasures obtained on Earth by living one's life without following the precepts laid down by God are far from compensating for what people who have misbehaved will suffer in hell if God exists, it is rational to believe in God and to apply what he advocates. Similarly, since the small reductions in our lifestyle imposed by sobriety are far less unpleasant than living in a world at +3° in 50 years, it is rational to implement it in France. ■

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Land Value Capture: Innovative way of funding infrastructure

Louis Gourgue

The pursuit of sustainable and resilient infrastructure is a crucial objective for humanity. Investing in high-quality infrastructure is a pivotal factor, as it significantly impacts people's daily lives and plays a central role in facilitating the green and digital transitions. In addition, by 2050, nearly 70% of the world's population will live in cities, increasing the pressure on urban transport systems and infrastructure (World Bank, 2022). According to the OECD (2017), global infrastructure needs are estimated at approximately USD 95 trillion between 2016 and 2030, encompassing energy, transport, water, and telecommunications infrastructure. Policy-makers are looking for new funding options. Population growth and higher standards of living inevitably enhance the value of land, hence new mechanisms such as land value capture (LVC), have gained attention.

It is crucial to understand the need of funding in the case of infrastructure, and particularly for developing countries. Talking about financing infrastructure, we need to separate two financial mechanisms. First, financing: Money from private or public investors that pay up-front investment costs. And second, funding: Where does the money that will pay for

the construction and operation of the service-providing piece of infrastructure ultimately come from? LVC mechanisms serve as a means of generating revenue to fund infrastructure. The potential for cost recovery through LVC mechanisms is contingent on pricing decisions and the timing of cash flow, which ultimately affect the participation of private financiers (Fay et al. 2021). In-fine the realization of infrastructures.

What are LVC mechanisms?

Described as public finance instruments and initiatives that enable communities to recover and reinvest land value increases resulting from public investment and other government actions, LVC mechanisms are under study in various fields and contexts. Governments have the potential to utilize their land resources to generate income. This approach has been successfully implemented on numerous occasions throughout history, in various settings, and contexts. As such, it represents a viable, and proven option for policymakers, as LVC is a less resisted policy option than land taxation. It is also a component to consider when exploring ways to finance infrastructure and fund public projects. By leveraging the value of public land, governments can generate significant

revenues, which can in turn be directed towards investment in critical infrastructure, such as energy, transportation, water, and telecommunications. Additionally, mobilizing finance from land transactions created price signals that improved the

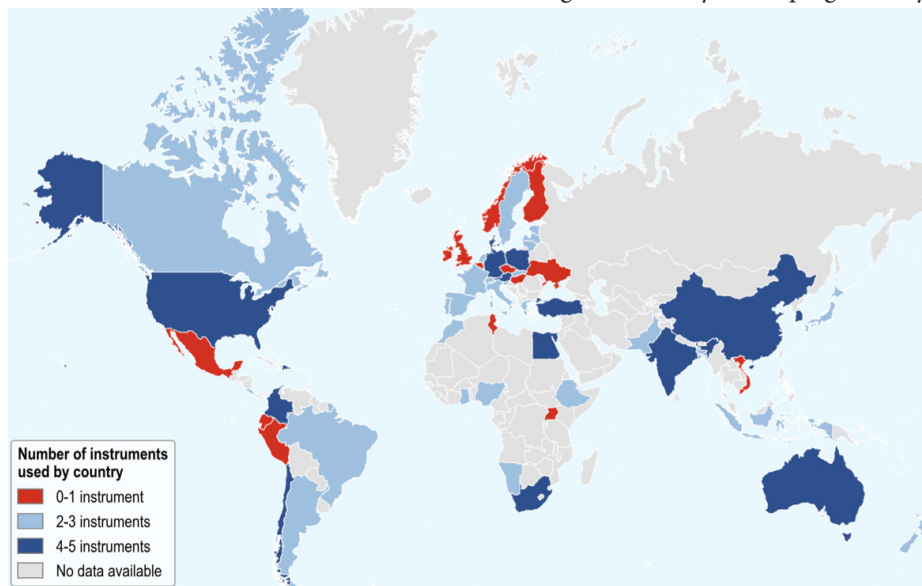
“The potential for cost recovery through LVC mechanisms is contingent on pricing decisions and the timing of cash flow, which ultimately affect the participation of private financiers”

efficiency of urban land markets and rationalized the urban development pattern. The potential of land value capture (LVC) mechanisms is not fully used (Figure 1). Due to the lack of implemented LVC mechanisms, practical examples and knowledge surrounding this concept are scarce. This limitation poses a significant obstacle to scaling up the adoption of LVC mechanisms in practice. Currently being labeled as innovative ways of financing

infrastructure 2, extracting value from land can take various forms, ranging from

property tax system. Additionally, accurately valuing assets presents a particular challenge, even many developing country

where this tax is applied. The calculation involves assigning a taxable value to the project area (e.g., house, pool) per square meter and applying municipal rates (ranging from 0% to 20%) and departmental rates (ranging from 0% to 2.5%) to this value. The tax varies based on the nature of the project and the specific rates applicable in each area. This could generate significant revenue collected through taxation, potentially in a very localized manner around the infrastructure. “Land Policy” and “Land Readjustment” are less commonly used; however, they allow the government to rethink urban planning and land use, especially agricultural land, during large development projects. We can also highlight the role of the “Special Equipment Tax” (like our beloved school TSE) in financing land or real estate needed for these infrastructure projects.



Source: OECD/Lincoln Institute of Land Policy, PKU-Lincoln Institute Center (2022), Global Compendium of Land Value Capture Policies

“The idea is to maximise the well-being of society as a whole, by ensuring that each agent only takes action to reduce greenhouse gases (GHGs) if the cost is less than the damage that the GHGs will cause in the future”

taxation to temporal arrangements, and are often situational. Nevertheless, in a rapidly expanding urban environment with growing demand for land or building permits, the implementation of an LVC mechanism becomes more feasible. In many developing countries, the prevailing practice has been for the public sector to bear the cost of installing both internal and external infrastructure, while also allocating land to private developers through negotiated sales or sales at below-market prices for investment in housing, commercial, and industrial projects. However, this approach has placed a significant financial burden on public budgets, and has also failed to harness the efficiency of market price signals to optimize urban development outcomes. Furthermore, developing countries may face additional challenges in implementing LVC mechanisms effectively, such as a lack of a complete cadastral system, undefined property rights, and an ineffective

governments are unable to capture the true variation in land and property values.

What already exists?

France already uses several LVCs to finance infrastructure investment projects, as shown in Figure 2. The “Taxe d’aménagement” (Articles L331-1 to L331-17) is an imposed tax primarily used to finance public infrastructure, such as networks and roads, required for future construction and development projects. It applies to construction, expansion, or changes in the usage of a property. The tax becomes payable following urban planning authorization and is collected by the Department of Public Finance, after which it is redistributed to the relevant municipality and department. Indeed, the municipality can determine the areas

Toulouse Metro C

As you probably notice, Toulouse is building its third metro line. Financing and funding this project are huge issues. It will be composed of 27 km of rail, 21 stations and 200,000 visitors per day are estimated to answer the growing demand for transportation due to the rise of population in the city. The total cost is estimated, for now at 3.151B euros 5, initially it was 2.3B euros. An amount that has varied with the crises, increasing timelines as well as the prices of materials and energy. The project is financed by a range of public stakeholders, including the European Union through diverse investment initiatives (totalling 220 million euros 6), the French state, and local territorial entities. But there is, apparently, still 600 million euros that are not found yet to achieve the infrastructure. The municipalities have not delved into the use of LVC, even though they are already in use and there

Instrument (OECD-Lincoln taxonomy)	Local name	National legal provisions	Implementation	Use
Developer obligations	<i>Contributions d’urbanisme: taxe d’aménagement et participations aux équipements publics</i>	<i>Loi 1253 d’orientation foncière/1967; Articles L331-1 to L332-30 of the Code de l’urbanisme/1975; Article 7 of the Loi 1208 relative à la solidarité et au renouvellement urbains (SRU)/2000; and Loi 1658 de finances rectificative pour 2010/2010</i>	Local governments and the départements (the intermediate level of government)	Always
Strategic land management	<i>Politique foncière</i>	<i>Article 4 of the Loi 1253 d’orientation foncière/1967; Articles L221-1 to L221-3 and Article L300-1 of the Code de l’urbanisme/1975; Loi 13 d’amélioration de la décentralisation/1988; Ordonnance 460 relative à la partie législative du code général de la propriété des personnes publiques/2006; and Loi 366 pour l’accès au logement et un urbanisme rénové (ALUR)/2014</i>	Local governments and public land agencies	Frequent
Land readjustment	<i>Remembrement foncier</i>	<i>Loi 1253 d’orientation foncière/1967; Articles L322-1 to L322-11 of the Code de l’urbanisme/1975; and Loi 366 pour l’accès au logement et un urbanisme rénové (ALUR)/2014</i>	Private consulting firms	Rare

Source: OECD/Lincoln Institute of Land Policy, PKU-Lincoln Institute Center (2022), Global Compendium of Land Value Capture Policies

is evidence of an increase in property prices around the stations which could enable a lot of possible LVC. It remains a

““Land Policy” and “Land Readjustment” are less commonly used; however, they allow the government to rethink urban planning and land use, especially agricultural land, during large development projects.”

well-known political communication tool among residents and businesses.

These mechanisms, which range from taxation to temporal arrangements, can significantly alleviate the financial burden on public budgets while optimizing urban development. There is a growing need for practical examples and increased knowledge about LVC mechanisms. These can be a significant lever for infrastructure funding for policymakers. ■

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How did a US government decision contribute to the global recession of 2008?



In September 2008, one of the strongest financial institutions, Lehman Brothers, founded a century and a half ago collapsed during the subprime crisis. Against what everybody expected, the US government decided not to save the bank from its plight, and on the 15th of September, the bank went bankrupt triggering a storm in financial markets across the world. The fall of this American bank that became the symbol of the excesses in finance worsened the financial crisis and is considered the tipping point of the Great Recession of 2008. This article is aimed at understanding what happened.

In 1843, Henry Lehman, a young German immigrant settled in Montgomery, Alabama where he opened a dry goods store. A few years later, he was joined by his brothers Emanuel and Mayer; and in 1850 decided to change the name of the store: "Lehman Brothers" was born. As the demand for cotton was tremendously high at that time in the US, particularly in Alabama, the Lehman Brothers started to accept it as payment and progressively shifted the firm operation to a business trading in cotton. The company grew, and eventually in 1858, moved its activities to New York City which was at that time the center of cotton trading. Lehman Brothers progressively diversified its activities as well as the assets portfolio it managed and a century and a half later was one of the most powerful investment banks in the world, holding 600 billion of assets and employing more than 26,000 people globally in 2008.

Let us go back to a few years ago. After the dot-com crash of 2000 and the terrorist attacks of 9/11 2001, the Fed (the Central Bank of the US) decided to lower the interest rates to boost the American

economy. Consequently, loans, especially mortgages became cheaper, and hence affordable to a large number of Americans, including the poorest who were considered as *subprime* borrowers. Those latter are known to be the most likely to default on their loan. But why would banks lend to high default-risk people? Well,

pooling assets such as mortgage loans or commercial debt and repackaging them into a single new financial asset that is tradable. Suppose, for instance, that Bank A issued a mortgage loan to an insolvent individual, Mr Risky, who will use the money from that loan to buy a lovely house in Los Angeles. Instead of keeping



what was key at that time in investment banking was *securitization*. It consists of

Mr Risky's loan in its books for 20 years and carrying the default risk all along,

bank A will merge the mortgage loan of Mr Risky with other mortgage loans and debts of less risky people to create a bond that it will sell to bank B. Hence, Bank B will be entitled to receive all interests of the bond it bought, but it will also carry the default risk of Mr Risky and the other loans included in the bond. With this tool, bank A can keep issuing loans to insolvent people because it can get rid of those risky assets with the securitization operation. This phenomenon brought about a rise in real estate prices in the years preceding the crisis, which gave even more confidence to banks in issuing subprime loans as they would win in any case. Indeed, if Mr Risky defaults on his loan, bank B can take the house he bought with the mortgage loan (since it is put as collateral) and sell it on the market and make a profit since housing prices are going up! Theoretically, this idea was aimed at transferring the risk to financial agents that were willing to carry it. But somewhere along the line, as securitization became increasingly popular for banks, the securitized products became more and more complex. Their growing opacity made their analysis so hard that one could not evaluate properly the real proportion of risky loans and the proportion of non-risky ones in some of those bonds. Some products were graded AAA (highest level of security) by the rating agencies (firms whose purpose is to assess the default risk of a country, a firm or an asset, they are supposed to play a huge role in providing transparency in financial markets) whereas they were filled with more subprime loans than safe loans. Added to that, speculation and fraud played a large role in increasing the size of the housing bubble as well as the consequences of its bursting. Some banks such as Lehman Brothers at the beginning of the 2000s were very tolerant with their criteria, accepting to lend money to insolvent people in what was called NINJA loans (NINJA stands for No Income, No Jobs, No Assets) with literally no verification of the income of the borrower. As explained before this wasn't a problem for banks as long as they could securitize these risky loans to sell them. Therefore, fraud, speculation, and lack of transparency created a huge self-fulfilling bubble in the housing markets. As a result, when a large number of defaults on mortgage loans occurred in 2007, a lot of banks were clueless about the real volume of toxic assets in their balance (as the risk was misevaluated) and one year later the heaven on Earth that securitization had created for investors turned into

a highway to hell.

Lehman Brothers was very affected by the rise of delinquencies in mortgage loans in 2007 as it was one of the leaders in the subprime market. However, the bank managed to hide a lot of its losses using accountant mechanisms such as the *Repo 105*: it consisted of selling some of the bank's assets to its partner (a subsidiary in London) the night before the publication of its quarterly results before re-purchasing them afterwards. This was aimed at giving the public (especially investors) the illusion of the well-being of the firm and conserving the trust of the market. Unfortunately for the Bank and for its last CEO Richard Fuld who has been seen as the face of the crisis since then, in 2008 defaults became so import-

“One should be aware of the necessity and the difficulty of implementing policy and regulation in financial markets to control and impose ethical behaviour and limit the negative impact of financial markets on the economy.”

ant that financial institutions started to experience huge losses, threatening their sustainability. Even Lehman Brothers could not hide anymore how exposed it was to the subprime losses, and after losing the trust of investors the bank was on the edge of bankruptcy just like the others (AIG, Fannie Mae, Bear Stearns). But whereas the US government rescued most financial institutions that were about to fail in a 700-billion-dollar bailout plan, Lehman Brothers was not, and on the 15th of September went bankrupt. This collapse of one of the strongest banks in the World deepened the financial crisis and propagated it globally leading to the Great Recession that we observed.

The decision of the US government not to save Lehman Brothers has been criticised for its effects on the global economy and the reason for this decision is still debated. The first explanation is related to a legal constraint the government faced: According to Henry Paulson, who was the Secretary of the US Department of the Treasury and who took the decision to not include Lehman in his bailout plan, Lehman Brothers did not have

enough guarantee of financial sustainability that would allow the government to lend public funds to the bank. The second explanation is more economic: the government did not want banks to benefit from *moral hazard*. Moral hazard is a situation when an agent that benefits from insurance has high incentives to adopt a risky behavior considering that he is protected if an accident occurs. Here the insurer is the government. By bailing out banks after they triggered the financial crisis by speculating on the housing market, taking huge risks and using fraudulent means to make big profits, the government gives them incentives to keep having this behaviour as they know that the lender of last resort will save them if they are in trouble. Regardless of the reasons that led the US government not to rescue Lehman Brothers, the consequences were the same: since the banks and other financial institutions are interconnected globally (especially through the interbank market where banks lend and borrow to each other) a collapse of one big institution leads to panic in the market and the freeze in the interbank market. Banks try desperately to sell their risky assets and get some cash, raise the interest rate on loans, and take the houses of insolvent borrowers who cannot pay their loans anymore to sell them. As loans are not affordable anymore, economic agents postpone their investment decisions and reduce their consumption which gives rise to unemployment and all the negative effects of the crisis that we saw (rise of suicide rates, austerity policies etc..)

The collapse of Lehman Brothers made the concept of 'too big to fail' institutions emerge. This idea refers to institutions that are so important in the financial system that their fall could lead to the collapse of the whole system itself. For this reason, one should be aware of the necessity and the difficulty of implementing policy and regulation in financial markets to control and impose ethical behaviour and limit the negative impact of financial markets on the economy. ■

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ON CAMPUS





Food and Drinks in Toulouse

Baba Canteen

If you're on the lookout for a nice brunch or lunch place, look no further. Rustic but chic ambience and a solid use of herbs and spices make this self-proclaimed canteen one of my favorite places in Toulouse. Dishes adjust to the season and change slightly every week. Throw in amazingly nice staff and coffee roasted by Carmes neighbors Hayuco, and you got yourself a winner. Personal recommendations: Salty Toast and Brioche Perdue.

Address: 26 Rue des Couteliers

Open: Wed-Sun during daytime

Prices: Mains from 10€



Photo by Peter Kamal

Le Café Cerise

One of the classic third wave coffee shops in Toulouse. Solid micro roasting, lunch and brunch offerings, and cold brew on hot days. If you want to embrace the avo-on-toast lifestyle, this is the place for you. Available as a laptop/working café or as a cozy brunch place up on the gallery where you can take your parents or friends. They also sell coffee equipment - so if you're on the lookout for an Aeropress or a V60, shop here instead of Amazon. My personal recommendation: the pecan cookies.



Photo by Peter Kamal

Address: 4 Quai de la Daurade

Open: 8:30-16:00 on weekdays, 9:30-16:30 on Saturdays

Prices: 7,50 for an Avo on Toast, 3,70 for a cappuccino

Bep Chay

In my personal opinion, this is the closest you can get to authentic Vietnamese taste in Toulouse. It's vegan and (mostly) gluten-free - but that does not diminish the quality one bit. I have taken the biggest of carnivores there and they have loved it too. Daily changing lunch plate (the same for everyone), and tapas and mains for dinner. Overflowing with lanterns and plastic stools, with Uncle Ho



Photo by Peter Kamal

looking down on you while you eat, this place is as cliché as it is cozy - and you'll love every second of it.

Address: 22 Rue des Couteliers
Open: Tue-Sat for lunch and dinner
Prices: Mains from 13€

Breughel L'Ancien

The only thing this bar shares with the famous painter is a remote Belgian-ness, but even that can be questioned. Nonetheless, it's one of my favorite spots for a pint at the end of the day - they've got all the beers you could ever want, and they serve fries and other accoutrements with it. Best falafel in town - that's all I'm going to say. Try a hazy IPA that tastes like pineapple if you feel fancy or a simple Pilsner Urquell if you want to reconnect with your Eastern self. Anything will taste good on Place des Tiercerettes.



Photo by Peter Kamal

Address: 30 Rue de la Chaîne
Open: Mon-Sat from 5pm
Price: Beer from 4€, Fries from 5€

This was originally published in Issue 31 September 2022 by Peter Kamal

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M2 Choice Report: EGR

on choosing a new master , internship and other

Nikolaos Papoulias

What made you choose this new master? Interest in which topics are the most important for appreciating it?

Two factors played a key role in my choice. Firstly, it was the master's focus on new sources of risk such as the climate crisis, pandemics, cyber risks etc. that I found very interesting as managing these risks effectively is becoming more relevant both for the public and the private sector. Secondly, I found it attractive because it is more oriented towards macroeconomics.

I believe that someone who is considering applying for this programme should be interested in finance and econometrics (the latter being a must for all M2s). Furthermore, they should be willing to study, not in detail, several topics that are not directly related to economics but have economic implications such as but not limited to biodiversity, ecosystems etc.

Can you describe this program's aims and scope in more detail? Aptitude for which courses in the preceding years are necessary?

I believe that the main purpose of this programme is to combine traditional risk management techniques with newly emerging sources of risk. On the one hand, it exposes students to essential risk management statistical techniques such as Scoring and Extreme Risk Analysis. For this reason, having a good understanding of econometrics is important for succeeding in the M2. On the other hand, the courses Understanding Global Risks and Global Risks for a Living Planet, provide an understanding of the implications of climate change, and loss of biodiversity. Furthermore, through the courses in Macroeconomics of Risks, Cost Benefit Analysis and Long-term Asset Pricing, EGR provides policy-relevant theory and skills. Finally, one has to note that the EGR master offers a great variety of skills and knowledge that are not only applicable to risk management.

How did you get your internship and what were your tasks? How did your choice of EGR help you during the internship?

The application process for my position started in October 2022. After going through an interview, which was both behavioural and technical, I received an offer in early December to join the Market Operations Analysis division at the European Central Bank as a trainee in mid-April 2023. Therefore, I advise the readers not to be discouraged by the early timing of the job opening. Being part of the Data Management team, my tasks included fulfilling requests for data analysis by the economists of the division, contributing to the regular tasks of the division (e.g., collection of supervisory data) and building Python applications for the automatization of processes. Therefore, the tasks of my position

were not directly related to the subject matter of EGR. However, pursuing EGR was very useful as I was able to broaden my understanding of monetary policy as well as econometric analysis. I also had the opportunity to sharpen my coding skills, an aspect which proved to be crucial in succeeding in this position.

What would be your advice to students looking for a similar internship?

For prospective candidates who are currently in their M1, I would advise seizing the opportunity of the Macroeconomics course of the first semester and choosing Advanced Macroeconomics in the second semester to build a good understanding of monetary policy theory. I also suggest taking the Databases course as skills in SQL and database management are in high demand.

For students currently involved in EGR, I believe it is "obligatory" to take the Python elective in the second semester, not only for this internship but also for most internships out there. I would also encourage you to challenge yourself as much as possible in your empirical projects to gain valuable experience in data cleaning, visualization and analysis. Recruiters very often ask about the empirical projects in which candidates were involved, thus, it is useful to have as much experience as you can. Finally, I advise



you to choose as a topic for your empirical project something relevant to the activities of a central bank, such as but not limited to financial risk management, macroprudential policy, and forecasting.

What are you planning to do after your internship?

I would like to continue working for a European institution, preferably the European Commission, in a role that is closer to macroeconomic policymaking.

"Getting Started on LinkedIn: Your Step-by-Step Guide"

Laila Echerfaoui

LinkedIn is the world's largest professional networking platform, with over 950 million members in more than 200 countries. Whether you are a recent graduate looking for your first job or an experienced professional seeking new opportunities, LinkedIn can be a powerful tool to showcase your skills, connect with industry professionals, and advance your career.

This step-by-step guide will walk you through the process of starting LinkedIn, from creating a compelling profile to building a network and leveraging the platform's features to your advantage. If you already have an account there may be things you can implement in your already existing account. So, if you're ready to take your professional presence to the next level, read on!

Tips for LinkedIn:

If you don't like the idea of having your name popping in the Google search bar you can deactivate it in "Preferences and Privacy > Profile Visibility Discovery > Profile Visibility Outside LinkedIn."

- If someone accepts you in his network don't hesitate to write a quick note "Welcome to my network " or "Thank you for accepting me in your network", It's quick easy but makes a great difference.
- Don't use LinkedIn like any social media account, do not lose perspective of your end goal with LinkedIn and be strategic with every post, comment, or as you make on this platform.

These are some 'don'ts':

- Avoid liking posts that talk about pointless things, like a joke or a story that has no link to the professional world. It makes you look less professional.
- Avoid following controversial people who will make recruiters sceptical about recruiting you.
- Be mindful of the tone of your posts: do not like posts that target a person or a group of people, for example, if someone is criticizing recruiters do not republish or like their post because your end goal with LinkedIn is to find a job.
- Don't talk too much about yourself, yes LinkedIn is mostly a portfolio for you if every post in your account is only about you, your goals, and your achievements it will not interest people to read your posts or to interact with you.

- Do not spam people and send too many requests to join their network, you will be seen by your colleagues as a spammer

If you upload a photo, 3 things to avoid:

- ✗ Identity photo, make a chest
- ✗ Low-quality photo
- ✗ Casual photo

If you have no idea for the banner:

- College campus
- College colors
- Abstract design
- Inspirational quote
- Or no banner

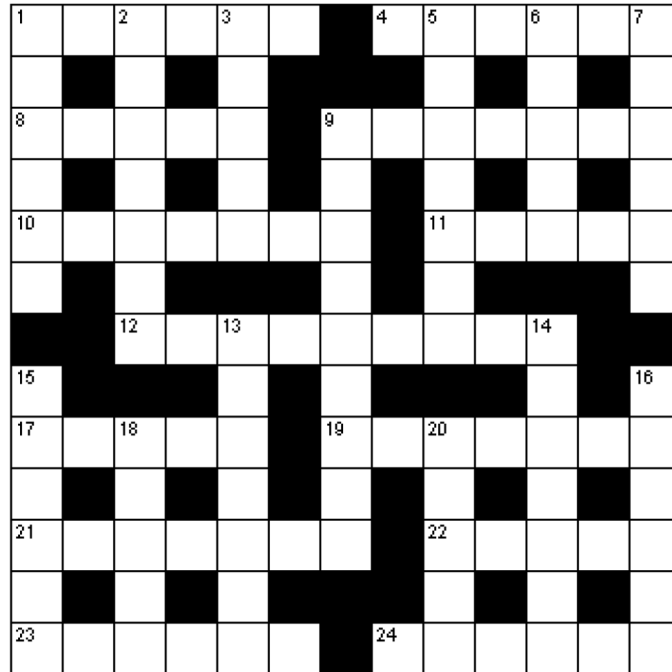
The screenshot shows a LinkedIn profile for Taylor Russel, a student at Toulouse School of Economics. The profile includes a banner image of a building, a profile picture, and a list of interests like Insee and Compass Lexecon. Annotations highlight key profile elements and provide tips:

- Profile Picture:** A blue circle with a camera icon and an arrow pointing to the profile picture.
- Banner:** A blue cloud with text: "Here put the institutions you like to be linked to, your college, your last internship, an ONG you're part of."
- Profile Name:** "Taylor Russel" with a blue checkmark.
- Education:** "Étudiante à TSE" and "Toulouse School of Economics".
- Interests:** A section titled "Centres d'intérêt" showing "Insee" (51 288 abonnés) and "Compass Lexecon" (20 542 abonnés).
- Formation:** A section titled "Formation" showing "Toulouse School of Economics" with details: "Master 2 (M2), Economics and Market Organizations", "sept. 2023 - juin 2024", and "Activités et associations : President of the Environmental Debate Club".
- Activities:** A list of activities including "Students' Magazine Secretary", "Ping Pong Team Photographer", and "Modules: Business Economics, Quantitative analysis for competition, Regulation policy, Datanomics, Energy economics, Climate change policy".

Additional annotations include:

- "Make sure to follow accounts that contribute positively to your professional image. And follow organisations you aim to work for." with an arrow pointing to the "Suivi" buttons on the interests section.
- "Write activities and illustrate them with photos" with an arrow pointing to the "President of the Environmental Debate Club" activity.
- "Writing the title of your degree is not enough! Write your modules, it gives more understanding of what you actually study." with an arrow pointing to the "Modules" list.

Crossword Puzzle



Across

- 1 Powerful (6)
- 4 Accepted practice (6)
- 8 Commerce (5)
- 9 Breed of cat (7)
- 10 One who settles disputes (7)
- 11 Bewildered (2,3)
- 12 Small fast warship (9)
- 17 Mountain ash (5)
- 19 Measure of noise intensity (7)
- 21 Wordy (7)
- 22 Amount charged (5)
- 23 Attempting (6)
- 24 Fourscore (6)

Down

- 1 "Our -- Friend", Dickens novel (6)
- 2 Seized (7)
- 3 Deal with (5)
- 5 Not prepared (7)
- 6 Two born at the same time (5)
- 7 Dynamo (anag.) (6)
- 9 Game bird (9)
- 13 Isle of Wight resort (7)
- 14 Bosh (7)
- 15 Shrub used for hedges (6)
- 16 Somnolent (6)
- 18 Fret (5)
- 20 Isle in the Bay of Naples (5)

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Robert M Townsend

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The Equity Premium Puzzle
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G. Alogoskoufis

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P. De Donder

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G. de Muizon

Nobel Corner
T. Yamashita

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A. B. Jarre

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P. Aghion

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