Commemorating 100 Years of Research

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This year, the Federal Reserve Bank of Kansas City will commemorate the centennial of its flagship research publication, the Economic Review. Esther L. George, the Bank’s President and Chief Executive Officer, highlights how the publication has evolved over time.

Should Monetary Policy Monitor Risk Premiums in Financial Markets?

By Taeyoung Doh, Guangye Cao, and Daniel Molling

The severity of the 2007-08 financial crisis and subsequent slow recovery reignited interest in whether monetary policy should play a more active role in preventing financial instability. Some policymakers have suggested adjusting interest rates in response to risk premiums in financial markets could mitigate financial instability by discouraging excessive risk-taking. Taeyoung Doh, Guangye Cao, and Daniel Molling perform a statistical analysis to assess whether risk premiums can predict future economic growth and whether monetary policy can influence risk premiums. The results suggest monitoring a broad range of risk premiums in financial markets and adjusting policy in response may be worthwhile if monetary policy makers are concerned about tail risks associated with financial instability.

Bank Consolidation and Merger Activity Following the Crisis

By Michal Kowalik, Troy Davig, Charles S. Morris, and Kristen Regehr

The number of U.S. banks has declined sharply over the past 30 years. Since the end of the 2007-09 recession, voluntary mergers between unaffiliated banks have been the primary reason for this decline. Banks merge for a number of business-related reasons, such as to achieve economies of scale, enhance revenues and cut costs through operational efficiencies, and diversify by expanding their business lines or geographic reach.

Michal Kowalik, Troy Davig, Charles S. Morris, and Kristen Regehr analyze the financial characteristics of acquired banks with assets of $1 billion or less from 2011 to 2014 and find these banks had much in common. Acquired banks tended to be smaller and have a lower return on assets, more cash, less capital, and lower regulatory ratings than their
non-acquired peers. The results suggest post-crisis mergers have, on average, led to more efficient banks and a sounder banking system. The authors note, however, that these benefits could be offset if mergers reduce competition in local banking markets and thereby communities’ access to credit.

**What Could Lower Prices Mean for U.S. Oil Production?**

*By Nida Çakır Melek*

U.S. oil and natural gas production has grown significantly since 2005, reflecting a move toward shale gas and tight oil extraction. Since 2011, the most productive tight oil and shale gas fields accounted for nearly all of the growth in U.S. energy production, due largely to extensive use of hydraulic fracturing and horizontal drilling. High energy prices made these costly technologies profitable to apply on a large scale. However, oil prices and rig counts declined sharply in 2014, calling into question whether the boom in U.S. oil production can continue.

Nida Çakır Melek examines how falling oil prices, declining rig counts, and gains in rig and well efficiency could affect 2015 oil production. Her analysis suggests production could decline from 0.7 to 8 percent in 2015 despite highly productive new wells and increasing rig efficiency. For production to increase in 2015, rig efficiency and initial well production would need to increase markedly or the decline in rig counts would need to halt.
A list of research working papers published by the Federal Reserve Bank of Kansas City over the past five years appears annually in the First Quarter Economic Review. To print copies of working papers dating from 1998 and abstracts from 1995, visit the bank’s website at www.KansasCityFed.org. To order earlier working papers, please send your name and address, along with the number of any paper you wish to receive, to: Public Affairs, Federal Reserve Bank of Kansas City, 1 Memorial Drive, Kansas City, Missouri 64198.

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