

DISSERTATION DEFENSE

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I study the exchange rate disconnect puzzle in a two-country DSGE framework that features a financial intermediation sector. An intermediary is subject to two types of financing constraints: 1. a segmented deposit market restricted to local households, and 2. a balance-sheet constraint. These two constraints drive a wedge between marginal decisions of home and foreign intermediaries, which in turn, breaks the link between exchange rates and consumption differences in the Backus-Smith relationship. In contrast to traditional models which find a tight link between exchange rate growth and the consumption growth rate differential, the calibrated model produces a correlation of around -0.16, reconciling the model with the empirical evidence.

We study asset prices, exchange rates, and consumption dynamics in a general equilibrium two- country macro-finance model that features limited stock market participation as well as non-traded goods and distribution cost. The model generates a high price of risk, smooth exchange rates, and makes substantial progress towards explaining the empirically observed low consumption growth correlation between countries. We find that distribution cost plays a central role for reducing inter- national consumption co- movement while also amplifying risk premia.