

DISSERTATION DEFENSE

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1:00 pm

147 Posner Hall

Essays on Financial Intermediation and Economic Linkages

My dissertation studies the impact of economic linkages among market participants on equilibrium outcomes such as asset prices and returns as well as investors' welfare.

The first essay—titled “Inter-firm Relationships and Asset Prices”—studies the asset pricing properties that stem from the propagation of shocks within a network economy and the extent to which such a propagation mechanism quantitatively explains asset market phenomena. I show that changes in the propagation of shocks within a network economy are important to understanding variations in asset prices and returns, both in the aggregate and in the cross section. A calibrated model that matches features of customer-supplier networks in the U.S. as well as dynamic features of macroeconomic variables generates a persistent component in expected consumption growth and stochastic consumption volatility similar to the Long-Run Risks Model of Bansal and Yaron (2004). In the cross section, firms that are more central in the network command higher risk premium than firms that are less central. In the time series, firm-level return volatilities exhibit a high degree of comovement.

Implicit economic linkages among market participants also arise due to the existence of frictions in financial markets. The second essay—titled “Basket Securities in Segmented Markets”—studies the design and welfare implications of basket securities issued in markets with limited investor participation. Profit-maximizing intermediaries exploit investors' inability to trade freely across different markets, so they choose which market to specialize in. I show that when there is only one intermediary, the equilibrium may not be constrained efficient. Increasing competition among intermediaries increases the variety of baskets issued, but does not always improve investors' welfare. Although competition increases the variety of baskets issued, many of these baskets are redundant, in the sense that coordination among intermediaries could improve investors' risk-sharing opportunities. The equilibrium basket structure depends on institutional features of a market such as depth and gains from trade.

The third essay—titled “Imperfect Information Transmission from Banks to Investors: Real Implications” and joint with Nicolas Figueroa (Universidad Católica de Chile) and Oksana Leukhina (University of Washington)—proposes a general equilibrium model that features characteristics of securitization markets and study the interaction of information transmission in secondary loan markets and screening effort at loan origination. We show that increasing collateral values and asset complexity helps to explain the following pre-2008 crisis observations: (1) lax screening standards, (2) intensified ratings shopping, (3) rating inflation, and (4) the decline in the differential between yields on assets with low and high ratings. Contrary to conventional wisdom, we find that regulatory policies, such as mandatory rating and mandatory rating disclosure, may exacerbate credit misallocation.