

DISSERTATION DEFENSE

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Essays on Asset Pricing and the Macroeconomy with Limited Stock Market Participation

In the first essay, I examine the role of personal and corporate income taxation on asset prices in a general equilibrium model featuring limited stock market participation. Taxes are modeled to redistribute income from stockholders, who are relatively richer, to non-stockholders. Under heavier taxation of stockholders, the equity premium rises and the risk-free rate drops. This effect is driven by an increased concentration of consumption risk among stockholders, who then demand a higher premium for bearing the aggregate equity risk. In a version of the model with a realistically calibrated proportional corporate income tax as well as a progressive personal income tax schedule, I find that the redistributive properties of the income tax system are responsible for a one percentage point increase in the after-tax equity risk premium compared to an economy without taxes.

In the second essay (joint with Nam Jong Kim), we study asset prices, exchange rates, and consumption dynamics in a general equilibrium two-country macroeconomic 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 play a central role for reducing international consumption co-movement while also amplifying risk premia.