

## DISSERTATION PROPOSAL

# Essays on International Finance

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In the first essay, I study the exchange rate disconnect puzzle in a two-country DSGE framework that features a financial intermediary sector. An intermediary is subject to two types of financing constraints: 1. deposit taking 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 that find a tight link between FX rate growth and consumption growth rate differential, the calibrated model produces a correlation as low as 0.37, bringing the model closer to the empirical evidence.

In the second essay (with Alexander Schiller), we study international risk sharing and asset prices in a general equilibrium two-country macroeconomic model that features limited stock market participation as well as goods market frictions. In contrast to traditional models of the equity premium, our model is consistent with smooth exchange rates while also making substantial progress towards explaining the empirically observed low consumption growth correlation between countries. We argue that both, financial and goods market frictions, are necessary to reconcile the model with the data.