

# **Dissertation Proposal**

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## **“Essays on the Connection Between Credit and Labor Markets”**

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Over the past 20 years in both the US and Japan, lending from banks to firms has become increasingly concentrated among a small number of banks. At the same, entrepreneurship rates have declined and employment has gradually become more concentrated among older and larger firms. In my first chapter, I provide preliminary evidence that these trends are connected via sorting between banks and firms of similar size. I use this connection between banking concentration and entrepreneurship to make a normative statement on the optimal distribution of lending across banks, and quantify the impact of banking concentration on economic growth.

The second chapter (joint with Nicolas Petrosky-Nadeau and Etienne Wasmer) documents business cycle asymmetries in the relationship between credit markets and unemployment. We provide empirical evidence suggesting that increases in major credit spreads predict increases in unemployment that are several times larger during recessions than at other stages of the business cycle. Next we show that these business cycle asymmetries arise naturally in a model with search frictions in both labor and credit markets. We estimate the model using simulated method of moments and a nonlinear projection algorithm, and use the fitted model to back out a history of productivity and credit market shocks in the U.S. post-war data.

The third chapter (joint with Emilio Bisetti and Ariel Zetlin-Jones) examines the problem of moral hazard in teams. When output is shared among team members and inputs are unobservable, agents have an incentive to shirk. In this setting there is a role for a principal to commit to impose group punishments to resolve the frictions arising from moral hazard. We ask whether these group punishments are enforceable in a repeated environment when the principal lacks commitment. We show that group punishments are not a feature of the worst equilibrium, either along or off the equilibrium path. Nonetheless, group punishments are indeed enforceable and, when individuals are sufficiently impatient, welfare improving. That is, the threat of group punishments plays a critical role in enforcing the best equilibrium. Finally, we show that the usefulness of group punishments is sensitive to the degree of substitution between team members' actions.