Fulin Li

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The University of Chicago Booth School of Business
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Education

The University of Chicago
Booth School of Business and Kenneth C. Griffin Department of Economics Expected 2023
Ph.D. in Financial Economics

Columbia Business School 2017
M.S. in Financial Economics

Peking University 2015
B.Econ. in Finance and Banking
B.S. in Mathematics and Applied Mathematics

Research Interests

Asset Pricing, Macroeconomics

Job Market Paper

1. **Retail Trading and Asset Prices: The Role of Changing Social Dynamics**

   Social-media-fueled retail trading poses new risk to institutional investors. This paper examines the origin and pricing of this new risk. Using data on meme stocks, I first establish that aggregate fluctuations in retail sentiment originated from a growing and concentrated social network. I then document that retail sentiment fluctuations induced changes in investor base composition. As sentiment increased throughout 2020 and 2021, retail investors built up long positions, while price-elastic long institutions started to exit the market since early 2020. Short interest stayed high in 2020, then dropped sharply following the price surge in January 2021, and remained low throughout 2021. I develop a model to show that retail sentiment shocks shift investor composition, which in turn determines the price of retail sentiment risk. In particular, following an increase in aggregate retail sentiment, price-elastic long institutions first hit their short-sale constraints. Then short institutions hit the margin constraints, leading to a short squeeze. As a consequence, the market for an individual stock becomes price-inelastic, and a moderate retail sentiment shock can have a large price impact. The model reconciles the price, quantity and retail sentiment dynamics during this period. Finally, I conduct counterfactuals, which show that social network dynamics shape the distribution of sentiment shocks, and have economically large impact on asset prices.

Working Papers

1. **Neoclassical Growth Transition Dynamics with One-Sided Commitment**
   (with Dirk Krueger and Harald Uhlig)

   This paper characterizes the transition dynamics of a continuous-time neoclassical production economy with capital accumulation in which households face idiosyncratic income risk. Insurance companies operating in perfectly competitive markets offer long-term insurance contracts and can commit to future contractual obligations, whereas households cannot. Therefore the equilibrium features imperfect insurance and a non-degenerate cross-sectional consumption distribution. When household labor productivity takes two values, one of which is zero, and the utility function is logarithmic, we show that the transition dynamics induced by unexpected positive or negative technology shocks, including the evolution of the consumption distribution, can be calculated in closed form, as long as the initial deviation from the steady state is not too large. This is in contrast to both the standard representative agent neoclassical growth model as well as Bewley (1986) style models with uninsurable idiosyncratic income risk. Thus the paper provides an analytically tractable alternative to the standard incomplete markets general equilibrium model developed in

Aiyagari (1994) by retaining its physical structure, but substituting the assumed incomplete asset markets structure with one in which limits to consumption insurance emerge endogenously, as in the macroeconomic literature on limited commitment.

2. **Time Variation in the News-Returns Relationship**
(with Paul Glasserman and Harry Mamaysky)

The well-documented underreaction of stock prices to news exhibits substantial time variation. Higher risk-bearing capacity of financial intermediaries, lower passive ownership of stocks, and more informative news increase price responses to contemporaneous news; surprisingly, they also increase price responses to lagged news (underreaction). Our findings are not driven by short-sale constraints, serial correlation in news flow, or improved information processing capacity. We discuss possible mechanisms based on investor behavior and strategic order-splitting by institutions. A simple model with limited attention and three investor types – institutional, non-institutional, passive – predicts the varying response to news we observe.

Conferences and Workshops

Presentations (* indicates presentation by co-author)

2022: North American Summer Meeting of the Econometric Society*, BSE Summer Forum*, Chicago Joint Program and Friends Conference (Poster Session)

2021: Hydra Workshop on Business Cycles*, Oxford Saïd – ETH Zürich Macro-Finance Conference*

Invited Workshops

2019: Princeton Initiative: Macro, Money and Finance

Teaching Experience

The University of Chicago

Corporate Finance (EMBA core), TA for Pietro Veronesi	2020-2021
Investments (MBA core), TA for John Heaton	2019-2020
Financial Economics: Speculative Markets (Undergrad), TA for Fernando Alvarez	2019-2021

Columbia Business School

Capital Markets and Investments (MBA core), TA for Harry Mamaysky	2016

Research Experience

The University of Chicago

RA for Carolin Pflueger	2021
RA for Dirk Krueger and Harald Uhlig	2019-2021
RA for Elisabeth Kempf and Lubos Pastor	2019-2020

Columbia Business School

RA for Paul Glasserman and Harry Mamaysky	2016-2017

Awards, Fellowships, and Grants

John and Serena Liew Fellowship Data Grant	2022
CRSP Summer Grant	2018

Affiliations and Other Activities

Chicago Booth Standing Committee on PhD Climate	2020-2021
Chicago Booth Finance Brownbag (Co-organizer)	2019-2020

Additional Information

Citizenship: China
Computing: R, Matlab, Python, SAS, Stata, Mathematica (Ordered by expertise)
Languages: English (Fluent), Mandarin Chinese (Native)

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