JANE (JIAN) LI

www.lijianuchicago.com
lijian@uchicago.edu

Office Contact Information

1126 E. 59th Street – Saieh Hall for Economics
Chicago, IL 60637
(773) 987-1203

Placement Director: Professor Ufuk Akcigit, uakcigit@uchicago.edu, (773) 702 0433

Graduate Student Coordinator: Robert Herbst, fherbst@uchicago.edu, (773) 834 1972

Personal Information: U.S. permanent resident application in process

Education

The University of Chicago, 2015-Present
PhD Candidate in the Joint Program in Financial Economics
Thesis Title: "The Importance of Investor Heterogeneity: An Examination of the Corporate Bond Market"
Expected Completion Date: June 2021

BA, Economics and Mathematics, University of Hong Kong, with Honors, 2015

References:

Zhiguo He (co-chair)
Booth School of Business
University of Chicago
Zhiguo.He@chicagobooth.edu

Ralph Koijen (co-chair)
Booth School of Business
University of Chicago
Ralph.Koijen@chicagobooth.edu

Anil Kashyap
Booth School of Business
University of Chicago
Anil.Kashyap@chicagobooth.edu

Lars Peter Hansen
Department of Economics
University of Chicago
lhansen@uchicago.edu

Douglas Diamond
Booth School of Business
University of Chicago
Douglas.Diamond@chicagobooth.edu

Teaching and Research Fields

Primary Fields: Financial Intermediation, Macro-Finance
Secondary Field: Market Structure

Teaching Experience

2021	International Financial Policy (Business Econ), Instructor
2020	Money, Banking and the Financial Crisis (EMBA), Teaching Assistant for Randall Kroszner
2018	Investments (EMBA), Teaching Assistant for John Heaton
2018	The Analytics of Financial Crises (MBA), Teaching Assistant for Anil Kashyap
2018	Theory of Financial Decisions II (PhD), Teaching Assistant for Douglas Diamond and Zhiguo He
2018	Empirical Analysis II (PhD), Teaching Assistant for Lars Peter Hansen
2017	Price Theory I (PhD), Teaching Assistant for Kevin Murphy

Research Experience and Other Employment

2017-2018	University of Chicago, Research Assistant for Anil Kashyap
2014-2015	University of Hong Kong, Research Assistant for Cheng Chen
2014	Morgan Stanley, Research Analyst Intern in the Macro Research Team

Honors, Scholarships, and Fellowships

2020	Stevanovich Student Fellowship, Stevanovich Center for Financial Mathematics
2020	Dissertation Completion Fellowship, University of Chicago
2019	MFM Dissertation Fellowship, Becker Friedman Institute
2018	Liew Fama-Miller PhD Fellowship, Fama-Miller Center
2016-2019	Bradley Fellowship, Bradley Foundation
2016	Lee Prize for the Best Macroeconomics Core Exam, University of Chicago
2016	Lee Prize for the Best Econometrics Core Exam, University of Chicago
2016	CRSP Summer Research Grant, Booth School of Business
2015-2020	Social Science Graduate Fellowship, University of Chicago
2015	Jao Tao Su Prize in Economics, University of Hong Kong
2013	Ronald Hsia Prize in Economics, University of Hong Kong

Professional Activities

Conference Presentations

2020	SFS Cavalcade
2019	SITE Poster Session, Stanford University

Workshop Organization

2018-2020	Economic Dynamics and Financial Markets, University of Chicago

Workshop Participation

2019	Financial Economics of Insurance, Princeton University
2018	Delegated Money Management in Equilibrium, Stanford GSB
2017	MIT-FARFE Capital Markets Research Workshop
2017	MFM Summer Session for Young Scholars, Becker Friedman Institute
2017	Liquidity in Financial Markets, Finance Theory Group

Language and Computer Skills

Computer Skills: Python, R, Matlab, and Stata
Languages: English (fluent) and Mandarin (native)

Job Market Paper

"The Importance of Investor Heterogeneity: An Examination of the Corporate Bond Market" with Haiyue Yu

Abstract: Corporate bond market participants are increasingly worried about liquidity. However, bid-ask spreads and other standard measures indicate liquidity has not deteriorated significantly. This paper proposes a potential reconciliation. We show the sensitivity of credit yields to bid-ask spreads increased fourfold from 2005 to 2019. We then provide a model that connects this change to the rapid growth of mutual funds in the corporate bond market. The model features heterogeneous investors with different trading needs who choose between a risk-free asset and illiquid bonds. As the risk-free rate declines, more short-term investors reach for yield and enter the bond market. These short-term investors reduce the selling pressure in each sub-market and so the bid-ask spreads. However, their greater trading needs amplify the sensitivity of credit yields to the bid-ask spreads, leading to a larger liquidity component. We next test the model's predictions using detailed data on investor holdings in the U.S. As predicted, we find investor turnover is associated with larger effects of illiquidity on credit yields. Bonds with more short-term investors are traded at lower bid-ask spreads, but their credit yields are more sensitive to the bid-ask spreads. Finally, we look across countries and show that, consistent with the model, larger declines in risk-free rates are associated with higher growth in mutual fund shares. These results highlight the key role that investor heterogeneity plays in determining how liquidity is priced into corporate bond yields and firms' financing conditions.

Research Papers

"The Benchmark Inclusion Subsidy" (2019) with Anil Kashyap, Natalia Kovrijnykh, and Anna Pavlova
Accepted at the *Journal of Financial Economics*

Abstract: We study the effects of evaluating asset managers against a benchmark on corporate decisions, e.g., investments, M&A, and IPOs. We introduce asset managers into an otherwise standard model and show that firms inside the benchmark are effectively subsidized by the asset managers. This "benchmark inclusion subsidy" arises because asset managers have incentives to hold some of the equity of firms in the benchmark regardless of their risk characteristics. Due to the benchmark inclusion subsidy, a firm inside the benchmark values an investment project more than the one outside. The same wedge arises for valuing M&A, spinoffs, and IPOs. These findings are in contrast to the standard result in corporate finance that the value of an investment is independent of the entity considering it. We show that the higher the cash-flow risk of an investment and the more correlated the existing and new cash flows are, the larger the subsidy; the subsidy is zero for safe projects. We review a host of empirical evidence that is consistent with the model's implications.

"Is There Too Much Benchmarking in Asset Management?" (2019) with Anil Kashyap, Natalia Kovrijnykh, and Anna Pavlova

Abstract: The use of benchmarks for performance evaluation is commonplace in asset management, and yet, surprisingly, such contracts have not received much attention in the literature. This paper builds a model of delegated asset management in which benchmarking arises endogenously and analyzes the unintended consequences of benchmarking. The fund managers' portfolios are unobservable and so is the asset

management cost. We show that conditioning managers' compensation on performance of a benchmark portfolio partially protects them from market risk and encourages them to generate more alpha. In general equilibrium, however, the use of such incentive contracts creates a pecuniary externality. Benchmarking inflates asset prices and gives rise to crowded trades, thereby reducing the effectiveness of incentive contracts for others. We show that privately-optimal contracts chosen by fund investors diverge from socially-optimal ones. A social planner, recognizing the crowding, opts for less benchmarking and less incentive provision. Privately-optimal contracts end up forcing managers to excessively pursue alpha, at too high a cost, and the planner corrects this. The planner's choice of benchmark portfolio weights also differs from the privately-optimal one.

"The Pricing and Welfare Implications of Non-Anonymous Trading" (2020) with Ehsan Azarmsa

Abstract: A key distinction between over-the-counter markets and centralized exchanges is the non-anonymity of the transactions. In this paper, we develop a model of non-anonymous trading and compare its prices, liquidity, and efficiency of asset allocations against a baseline with anonymous transactions. The non-anonymity improves the market liquidity by reducing the concerns for adverse selection. More specifically, it allows the market participants to learn valuable information about their counter-parties through repeated interactions and consequently enables them to form trading relationships. However, it could harm the market liquidity by increasing the dealers' bargaining power, as the dealers learn more about their clients' liquidity needs. Our theory predicts that the bid-ask spread is smaller in non-anonymous markets, and more so for bonds with low credit-ratings, and at times of high uncertainty. The non-anonymity improves the allocative efficiency for assets with high volatility, with higher degree of asymmetric information, and with less interest among liquidity traders. Using a novel dataset of U.S. corporate bond trades, we find confirming evidence that for high-yield bonds, the bid-ask spread for non-anonymous orders is 20% smaller than that for anonymous orders, while no such price improvement is observed for investment-grade bonds. By examining the waiting times and execution probabilities in our dataset, we present evidence that differentiates our channel from search-based theories.

Work in Progress

"Platform Competition and Multi-tier Pricing Schedule"

Abstract: Most security exchanges adopt some form of multi-tier pricing schedule in setting transaction fees, i.e. higher transaction volume leads to lower per-unit transaction fee. I study the optimal design of volume-dependent fees when platforms face competition for order flows and evaluate its welfare implication on heterogeneous traders. When traders are strategic and are concerned about their price impact, as in Vayanos (1999), a quadratic subsidy (volume dependent rebate) can restore the first best. However, when two exchanges are competing for traders, I show that (1) when traders are homogeneous ex-ante, competition does result in the social optimal rebates. (2) But when traders are heterogeneous, i.e. some have high expected trading volume and some have low expected trading volume, the equilibrium features too high volume dependent rebates relative to what a social planner would set. High-volume traders benefit from this too-high rebates whereas low-volume traders suffer losses. Rebates are higher when the platforms are less differentiated along other dimensions or when it is easier for traders to participate in multiple platforms.

"Financial Intermediation Chains and Step-wise Maturity Transformation" with Zhiguo He

Abstract: Different from the simple banking system in the past, the modern financial system often has complicated chains of financial intermediation that perform maturity/liquidity transformation step by step. I study whether dividing the process into layers makes the system more or less stable under different

circumstances. In a dynamic bank-run model, the benefit of step-wise transformation is to reduce the liquidation loss at a particular level, and hence reduces the strategic complementarity among creditors at each level. Moreover, I show that the decentralised equilibrium features too long financing chains. As each agent is optimally reducing her own maturity mismatch, the intermediation chain gets lengthened, which amplifies aggregate funding risks. While the current proposed liquidity index only considers the aggregate liquidity mismatch, the model indicates that the distribution of liquidity mismatch within the financial system is also important.