Andrew Preston

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Employment

Research Economist 2025 – Present
Bank of England

Assistant Economist, Tax Compliance 2018 – 2019
HMRC

Education

PhD in Economics 2020 – Present
University College London
Supervisors: Professor Franck Portier, Professor Vincent Sterk

MRes in Economics (Distinction) 2019 – 2020
University College London

MSc in Economics (Distinction) 2017 – 2018
University College London

BSc in Economics (First Class Honours) 2014 – 2017
University of Exeter

Publications and Accepted Papers

1. **News Shocks, Precautionary Saving and the Labour Market**
   Conditionally Accepted at The Economic Journal

   Abstract: This paper develops a theory of how TFP news shocks can impact the economy via a Keynesian supply channel. With frictional labour markets, bad TFP news reduces firms' incentive to post vacancies, worsening households' employment prospects. Households respond by accumulating liquid assets and cutting spending for precautionary reasons, triggering a recession that compounds the labour market downturn. This mechanism is outlined analytically and numerically in a heterogeneous agent New Keynesian model, with supporting local projection evidence. The combination of labour market frictions and precautionary saving is necessary to match the joint output and nominal interest rate dynamics observed empirically following a news shock. In contrast to previous theories, the transmission mechanism leaves room for policy to mitigate the shock's contractionary effects.

Working Papers

1. **Risky Jobs and Risky Assets**

   Peter Sinclair Prize Runner-Up, 11th Annual MMF Society PhD Conference

   Abstract: Jobs become more precarious in recessions, while risk premia tend to rise. This paper links these two empirical regularities in a consumption-based asset pricing model with imperfectly insurable job loss risk, and shows that this offers a unified explanation for several macro-finance phenomena, including the equity premium, risk-free rate and return predictability puzzles. Since job loss leads to a large decline in idiosyncratic consumption, agents become less willing to bear risk when jobs become more insecure. Consequently, extrinsic risk aversion increases endogenously when job insecurity rises, generating high, countercyclical risk premia. Consistent with this mechanism, the job loss rate is shown to be a robust forecaster of future excess returns. The model's equity premium Euler equation can be estimated directly, producing a value of 12 for the risk aversion parameter versus estimates for the standard CCAPM which exceed 100. The precautionary saving motive spurred by job loss risk means that the risk-free rate puzzle is avoided, while the model explains the cross-section of returns more effectively than several other consumption-based models.

2. **Risky Jobs and Risky Business Cycles**
   Abstract: I develop a macro-finance model which can simultaneously resolve the equity premium puzzle and the unemployment volatility puzzle in a general equilibirum setting. The key friction is the presence of uninsurable job loss risk which households must reckon with when making consumption and asset allocation decisions. When jobs become more precarious, this increases risk premia since households endogenously become more risk averse due to the greater degree of background risk now present. When firms use the prevailing pricing kernel to make intertemporal decisions, I show that this leads to a negative feedback loop; since hiring a worker is a risky investment, the rise in risk premia causes a further drop in vacancy posting, which pushes up risk premia further via the unemployment risk channel. For a risk aversion of 5.5 and a realistic TFP process, the model can match the equity premium, the risk-free rate, and the volatility of unemployment, as well as a number of other asset pricing moments. When agents are risk-neutral, as in the standard Diamond-Mortensen-Pissarides model, the volatility of unemployment is four times lower.

3. **The Perils of Estimating Taylor Rules** (with Franck Portier and Paul Beaudry)

   Abstract: The way monetary policy is conducted is a key element in New Keynesian models, and crucially determines allocation properties. We show that assuming monetary authorities follow a Taylor rule may bias estimation of New Keynesian type models for two reasons. The first one is theoretically trivial, and is a standard misspecification bias that occurs if the actual conduct of policy does not follow the model specified Taylor rule. The second one is more subtle, and we refer to it as a determinacy bias. It occurs when wrongly assuming a Taylor rule restricts the set of admissible model deep parameters when one requires a minimum state variable solution, as is almost always the case in the applied literature. Using US data, we show that the determinacy bias is a serious problem in small-scale New Keynesian models, as the slope of Phillips curve is biased upwards. The misspecification bias is a serious problem when estimating a medium-scale model, as it affects the contribution of the various shocks to macroeconomic fluctuations. We propose an alternative agnostic policy rule specification that is immune to misspecification and determinacy biases.

4. **News Concentration** (with Nikolas Kuhlen)

Abstract: We develop a quantitative measure of one economically relevant dimension of news coverage: the degree of news concentration. Intuitively, news coverage is likely to become highly concentrated around particularly newsworthy events, meaning it potentially conveys information about the economy's latent state variables. We observe that news concentration does indeed exhibit clear spikes around important economic, financial, and political events, and find that these increases are associated with two key features: an immediate rise in uncertainty, consistent with theory, and a future macroeconomic contraction. These increases are not found to be driven by a range of typical macroeconomic shocks. The variable is a robust forecaster of recessions and is priced in the cross-section of returns. We rationalise the latter result through an ICAPM framework by showing that innovations in news concentration represent volatility news.

Work in Progress

1. **Endogenous Labour Income Risk and Asset Prices** (with Utso Pal Mustafi)

Honors and Scholarships

- UCL Economics Best Second-Year Undergraduate Teaching Assistant, 2023
- ESRC Studentship Award, 2019 – 2023
- ESRC Advanced Quantitative Methods Scholarship, 2020 – 2023
- HMRC High Performance Award, 2019

Talks

1. Economics and Data Science Seminar, University of Zurich, March 2021.
2. Macroeconomics Workshop, University of Surrey, June 2022.
3. UCL Macroeconomics Reading Group, February 2023.
4. UCL PhD Seminar, March 2023.
5. Royal Economic Society Conference, April 2023.
6. 11th Annual Money, Macro and Finance Society PhD Conference, June 2024.
   Peter Sinclair Award Winner for 2nd Best Paper.

Teaching

Teaching Assistant 2023
EABCN Training School
The Macroeconomics of Complementarities (taught by Professor Franck Portier)
Teaching Assistant 2020 – Present
University College London
Economics of Finance (2nd-year Undergraduate Module taught by Professor Albert Marcet and Professor Wei Cui)
Advanced Economics of Finance (3rd-year Undergraduate Module taught by Dr Rodrigo Guimaraes)

Skills

Computer: Matlab, Python, Stata, R, Dynare, LaTeX, Office.

Professional Services

- Refereeing: The Economic Journal

References

Professor Franck Portier
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Professor Vincent Sterk
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