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CV

Research

The Paradox of Pledgeability

with Denis Gromb and Giorgia Piacentino (accepted at the JFE)

We develop a model in which collateral serves to protect creditors from the claims of competing creditors. We find that collateralized borrowing has a cost: it encumbers assets, constraining future borrowing and investment—there is a collateral overhang.

Houshold Debt and Unemployment

with Giorgia Piacentino and Anjan Thakor (forthcoming at the JF)

Using a search model, we find that levered households protected by limited liability suffer from a household-debt-overhang problem that leads them to require high wages to work. Firms respond by posting high wages but few vacancies. The equilibrium level of household debt is inefficiently high due to a household-debt externality.

Contracting to Compete for Flows

with Giorgia Piacentino (in JET 173)

Delegated asset managers frequently refer to public information, such as credit ratings and benchmark indicies, in the contracts they offer their investors. However, regulators have advised against this. Why do asset managers refer to public information in their contracts? We show that it is a way for asset managers to compete for flows of investor capital, even though it is socially inefficient.

Warehouse Banking

with Giorgia Piacentino and Anjan Thakor (in the JFE 129)

We develop a theory of banking that explains why banks started out as commodities warehouses. Our theory helps to explain how modern banks create funding liquidity and why they combine warehousing (custody and deposit-taking), lending, and private money creation within the same institutions.

Resaleable Debt and Systemic Risk

with Eva Micheler (in the JFE 127)

Many debt claims, such as bonds, are resaleable, whereas others, such as repos, are not. We develop a model of bank lending in which debt claims are heterogenous in their resaleability. We find that decreasing credit market frictions leads to an increase in borrowing via non-resaleable debt. This causes credit chains to form, creating systemic risk.

Deadlock on the Board

with Nadya Malenko and Giorgia Piacentino (revise and resubmit at the RFS)

Best Paper Award at the 2018 ASU Sonoran Winter Finance Conference

In a dynamic model of board decision making, directors strategically block proposals that benefit other directors. Such deadlock on the board explains CEO entrenchment and strategic inertia. We study how board composition affects deadlock, and find, for example, that board diversity can exacerbate it.

Intermediation Variety

with Giorgia Piacentino and Anjan Thakor (revise and resubmit at the JF)

Non-depository financial intermediaries ("non-banks") have a higher cost of capital than depositories ("banks") do, because they do not benefit from government safety nets. How do they still compete with banks? Non-banks use their high cost of capital as a commitment device not to fund traditional projects, inducing entrepreneurs to innovative efficiently.

Money Runs

with Giorgia Piacentino

We present a banking model in which bank debt is traded over the counter like banknotes were in the nineteenth century and repos are today. This focus on bank money creation reveals a new rationale for demandable debt and a new type of bank run, or "money run."

Procyclical Promises

I explore how the cyclicality of firms' output affects their debt capacity. I point out that, in contrast to received theory, procyclical firms can have an advantage in the funding market: because they have more assets in booms, when asset prices are high ex post, they have looser collateral constraints ex ante—assets are useful as collateral only when they are valuable.

Netting

with Giorgia Piacentino

Banks hold gross debts without netting them out. Why? These gross debts implement valuable contingent transfers via the option to dilute.

Affiliations

CEPR

Systemic Risk Centre

Finance Theory Group

Labor and Finance Group

Other Stuff

Heroes

Recommended Reading