Research Statement

Thomas S. Lee

I am broadly interested in empirical research topics in Finance. My primary research focuses on the intersection of corporate finance and public finance, with secondary interests in financial intermediation and institutional investors.

Current Research

In my job market paper, I examine the role of debt relief programs in alleviating debt burdens on Texas school districts. Many U.S. districts face significant funding limitations, particularly for capital investments in educational infrastructure. Exploiting a quasi-natural experiment involving state-sponsored debt relief, I explore how targeted debt assistance influences school districts' capital spending and long-term educational outcomes.

My findings show that debt relief programs lead to a 22% increase in capital spending, significantly improving academic outcomes over time. Specifically, for every additional $1,000 per pupil invested in capital, I find gains in test scores and graduation rates, with measurable improvements in long-term educational attainment indicators. These results underscore the importance of lowering debt financing costs among debt-strapped districts to make critical infrastructure improvements that enhance the quality of public education.

In my other research project, I investigate the effects of state-specific tax policies on municipal bond pricing. Given that many states tax out-of-state municipal bond income while exempting in-state bond income, I study how this asymmetry affects bond yields and investor behavior. Using a model that incorporates varying tax treatments and short-sale constraints, my analysis suggests that these tax policies create distinct pricing differences, revealing a previously underexplored layer of market segmentation in municipal bonds. This research offers insights into how tax policies shape investor demand and pricing at the state level, potentially influencing the cost of public financing for state and local governments.

Future Work

In future research, I aim to explore how interactions among key stakeholders in the municipal bond market—local governments, underwriters, institutional investors, and individual investors— shape pricing dynamics and impact local public finance. Municipal bonds are vital in financing public services, from infrastructure and education to healthcare, yet the market remains complex and often opaque, with each participant bringing unique goals and constraints. Furthermore, recent shifts in policy and market conditions, such as the Tax Cuts and Jobs Act, the rise of green and social bonds, and the tightening of monetary policy, have introduced new complexities to the municipal bond landscape, influencing investor preferences and adding

layers of strategic decision-making for issuers and intermediaries. These developments highlight the need to understand the incentives and evolving behaviors of each market player. By examining these interactions, my research aims to provide insights that quantify and enhance market efficiency, bridging finance and public policy to offer strategies that strengthen the role of municipal bonds.

In addition to my primary research, I am interested in exploring topics related to financial intermediation and institutional investors. My research in this area aims to understand the incentives, constraints, and strategic behaviors of these intermediaries and how they adapt to regulatory changes and economic shifts. Similarly, institutional investors, given their substantial market presence, impact both the stability and direction of financial markets through their investment strategies. This secondary line of research allows me to examine the evolving landscape of financial markets, providing insights into how capital flows are shaped by complex interactions among key market participants.