PAYMON KHORRAMI

www.paymonkhorrami.com
p.khorrami@imperial.ac.uk

Imperial College Business School
South Kensington Campus, London SW7 2AZ, UK

Appointments

Imperial College Business School
Assistant Professor of Finance, 2019 - present
Affiliate member of the CESifo Network

Education

The University of Chicago
Ph.D. in Financial Economics, 2019
Thesis Title: "The Risk of Risk-Sharing: Diversification and Boom-Bust Cycles"
B.A., Economics, 2009

Working Papers

"Commonality in Credit Spread Changes: Dealer Inventory and Intermediary Distress"
with Zhiguo He and Zhaogang Song
Abstract: Two intermediary-based factors – a broad distress measure and a corporate bond inventory measure – explain 50% of the puzzling common variation of credit spread changes beyond canonical structural factors. A simple margin-based model accounts for this co-movement and delivers further implications with empirical support. First, whereas bond sorts on margin-related variables produce monotonic loading patterns on intermediary factors, non-margin-related sorts produce no pattern. Second, dealer inventory co-moves with corporate-credit assets only, whereas intermediary distress co-moves even with non-corporate-credit assets. Third, dealers' inventory responds to (instrumented) bond sales by institutional investors. Fourth, bond-factor sensitivities flip signs during regulatory tightening.

"Arbitrage and Beliefs"
with Alexander Zentefis
Abstract: We study a segmented-markets setting in which self-fulfilling volatility can arise. The only requirements are (i) asset price movements redistribute wealth across markets (e.g., equities rise as bonds fall) and (ii) some stabilizing force keeps valuation ratios stationary (e.g., cash flow growth rises when valuations rise). We prove that when self-fulfilling volatility exists, arbitrage opportunities must also exist. Conversely, at times when arbitrage profits exist, asset markets are susceptible to self-fulfilling fluctuations. The tight theoretical connection between price volatility and arbitrage is detectable in currency markets by studying deviations from covered interest parity.

"The Risk of Risk-Sharing: Diversification and Boom-Bust Cycles"
Abstract: In this paper, I model a shock whereby financial intermediaries can better diversify borrowers' idiosyncratic risks. A sector-specific diversification improvement induces intermediaries to reallocate funds toward the shocked sector. As lending spreads fall, intermediaries build up leverage over time. The result is a fragile sec-

toral boom that can end in an economy-wide bust. This cycle is amplified if the diversification-shocked sector is higher-risk or more external-finance dependent. I apply the model quantitatively to the recent housing cycle. Feeding in a novel mortgage diversification index, the model generates the measured increase in household credit coincident with a 1-2% decline in mortgage spreads. In the subsequent bust, spreads in all sectors spike by 2% as aggregate output drops.

"Entry and slow-moving capital: using asset markets to infer the costs of risk concentration"
(R&R at Journal of Financial Economics)
Abstract: Risk concentration is a major outstanding explanation for crisis dynamics of asset prices and macroeconomic quantities. Apparently, capital flows are slow to correct these crises. By considering costly entry in a canonical limited participation model, I illustrate how asset prices encode costs of risk concentration. These costs must be enormous to match risk premia levels and variability. This finding is robust: auxiliary features that increase risk premia levels mitigate their dynamics, through endogenous entry. In short, either entry costs are large, or limited risk-sharing arises for other reasons. One appealing possibility is extrapolative expectations, which complements entry well.

"Comparative Valuation Dynamics in Models with Financing Restrictions"
with Lars Hansen and Fabrice Tourre
Abstract: This paper develops a theoretical framework to nest many recent dynamic stochastic general equilibrium economies with financial frictions into one common generic model. Our goal is to study the macroeconomic and asset pricing properties of this class of models, identify common features and highlight areas where these models depart from each other. In order to characterize the asset pricing implications of this family of models, we study their term structure of risk prices and risk exposures, the natural extension of impulse response functions in economic environments exhibiting non-linear behaviors.

"Financial Frictions and Aggregate Fluctuations"
Abstract: Concentrated idiosyncratic risk positions may generate aggregate fluctuations. I study a canonical macroeconomic model with a standard moral hazard friction but with a single innovation: fundamental shocks are correlated (but still aggregate to zero). Experts hold concentrated asset positions, while less productive households hold diversified positions in experts' equity. I prove that aggregate output and the wealth distribution have aggregate volatility if and only if observability and contractibility are imperfect. This failure of the law of large numbers holds generically and does not require any assumptions about fat-tailed size distributions. Even though aggregate volatility disappears with perfect contractibility, it can increase with partial contractibility improvements, due to market segmentation between experts and households. These results are immune to allowing agents to frictionlessly hedge the endogenously-arising aggregate shocks.

Honors and Awards

CESifo Distinguished Young Affiliate Award	2019
Cubist Systematic Strategies Research Paper Award	2019
Outstanding Graduate Lecturer for an Economics Topics Course	2018
Bradley Foundation Fellowship	2017
Macro-Financial Modeling Dissertation Fellowship	2016
Stevanovich Center Student Fellowship in Quantitative Finance	2016
Fischer Black Fellowship in Finance	2015-2016
Martin and Margaret Lee Prize in Advanced Financial Economics	2014
CRSP Summer Paper Award	2013
John and Serena Liew Fama-Miller PhD Fellowship	2012
Chicago Booth School of Business Doctoral Fellowship	2012-2016

Presentations

2020.
London Empirical Asset Pricing, INSEAD, Western Finance Association (WFA), NBER Summer Institute, CESifo Macro-Money-Int'l, Midwest Finance Association (MFA)

2019.
Duke Fuqua, Imperial College London, Northwestern Kellogg, UPenn Wharton, UCLA Anderson, Princeton, Western Finance Association (WFA), CESifo Macro-Money-Int'l, UNIL/EPFL/SFI

2018.
Platform for Advanced Scientific Computing (PASC), University of Zurich, Young Economists Symposium (YES)

2017.
Chicago Initiative in Theory and Empirics (CITE), Macro-Financial Modeling (MFM) Summer Session, Crossing Disciplinary Boundaries (University of Chicago)

2016.
Trans-Atlantic Doctoral Conference (TADC)

Discussions

2020.
– Winston Dou, Lucian Taylor, Wei Wang, and Wenyu Wang, "Dissecting Bankruptcy Frictions"' at Midwest Finance Association (MFA)
– Ehsan Azarmsa, "Investment Sophistication and Wealth Inequality" at Western Finance Association (WFA)
– Adem Atmaz, Suleyman Basak, and Fangcheng Ruan, "Dynamic Equilibrium with Costly Short-Selling and Lending Market" at SFS Cavalcade North America

2019.
– Xiang Fang and Yang Liu, "Volatility, Intermediaries, and Exchange Rates" at Midwest Finance Association (MFA)
– Evgeny Lyandres, Berardino Palazzo, and Daniel Rabetti, "Are Tokens Securities? An Anatomy of

Initial Coin Offerings” at the Adam Smith Workshop

2018.
– Redouane Elkamhi and Chanik Jo, “Time-Varying Market Participation: A Potential Resolution of Asset Pricing Puzzles” at Young Economists Symposium (YES)

2017.
– Jincheng Tong and Chao Ying, “Dynamic-Agency Based Asset Pricing in a Production Economy,” at Midwest Finance Association (MFA)

2016.
– Nuno Clara and João Cocco, “An Analysis of Consumer Debt Restructuring” at Trans-Atlantic Doctoral Conference (TADC)

Refereeing

Journal of Financial Economics, Economic Journal, Journal of Financial Markets, Review of Economic Studies, Journal of Empirical Finance

Teaching

Lecturer:

Mathematics for Finance (MSc), Imperial College London	Autumn 2019
Introduction to Finance (undergraduate), University of Chicago	Spring 2018
Introduction to Finance (undergraduate), University of Chicago	Winter 2015

Teaching Assistant:

Corporation Finance (MBA), Booth School of Business, Prof Kelly Shue	Spring 2016
Financial Institutions (MBA), Booth School of Business, Prof Doug Diamond	Spring 2015
Financial Instruments (MBA), Booth School of Business, Prof John Heaton	Autumn 2014
Theory of Income II (PhD), University of Chicago, Prof Nancy Stokey	Winter 2014
Asset Pricing I (PhD), Booth School of Business, Prof John Cochrane	Autumn 2013

Previous Work

Federal Reserve Bank of Chicago, Associate Economist 2010-2012

PhD References

Lars Peter Hansen
University of Chicago
lhansen@uchicago.edu

Zhiguo He
Booth School of Business
zhiguo.he@chicagobooth.edu

Veronica Guerrieri
Booth School of Business
veronica.guerrieri@chicagobooth.edu

Pietro Veronesi
Booth School of Business
pietro.veronesi@chicagobooth.edu