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APPOINTMENT

Lecturer, University of Essex, 08/2007- Present

EDUCTION

PhD, September, 2009, London School of Economics; supervisor: Prof. John Moore
M.Res. in Economics, July, 2005, London School of Economics, with Distinction
PhD in Applied Economics, July, 2003, Beijing University; supervisor: Prof. Weiying Zhang
M.S. in Pure Mathematics, July, 1999, Beijing University, China (Top Grade)

RESEARCH INTEREST

Contract Theory, Financial Economics, Microeconomics, Monetary Economics

PUBLICATION

"The Dynamics of Names: A Model of Reputation", *International Economic Review,* 2011, 52, 1039 – 1058.

"A Model of Leverage Based on Risk Sharing", *Economics Letters*, 2013, 119, 97 – 100.

"Competition and Increasing Returns to Scale: A Model of Bank Size," accepted by *The Economic Journal.*

WORKING PAPERS

"Money Creation by Banks and Central Banking", September, 2013

This paper considers banks' function of creating money in a general equilibrium and how the central bank's issuance improves efficiency. It shows that in circumstances where banks issue too much money, conventional interest rate policy may work, but in circumstances of credit crunch, where banks issue too little money, a quantitative-easing policy is optimal, whereby the central bank lends to all banks its issues, which are not backed by taxation but purely nominal. The optimal quantity of this lending is unique. The paper also sheds new lights on the matter of bank liquidity.

"Put Your Money where Your Mouth Is: An Model of Certification by Informed Financing", Empirically it is well suggested and supported that financing by informed investors certifies the quality of the firms, but theoretically that is not much examined. The paper fills the gap and models the certification role of informed financing. It delivers two novel predictions. First, obtaining a bigger amount of the informed finance certifies the firm is of a higher quality. Second, the value of certification to firms is higher where the distribution of firm quality is more dispersed (ranked according to the second order stochastic dominance). The paper may shed lights on the market freeze of asset-backed securities in the recent crisis.

"Collusion, Incentives and Information: The Role of Experts in Corporate Governance," with Sanjay Banerji

The paper shows that the severer moral hazard problems of the CEO and poorer ability of the outside expert not only separately increase information rent to the CEO on their own, but also worsen the problem of collusion between them. The collusion drives the firm to increase the incentive payment and introduce a severance payment to the CEO. The expert's incentives to acquire reputation or the availability of public signals mitigate such problems but cannot undo them completely. The paper predicts that the market of reputable experts is thin and that collusion is stressing the most during booms.

"Intrinsic Cycles in Intermediately Developed Economies", with Sanjay Banerji

The paper shows that in intermediately developed economies, the interactions between incentives, risk sharing, and wealth may drive economic cycles, where the economy oscillates between two equilibrium modes. When the economy is poor, it is in the incentivized mode, where the young agents take risks, work hard, and are more productive. Consequently, the economy gets richer, making it harder to incentivize the young generation. Eventually the economy falls into the disincentivized mode, where young agents obtain full insurance, shirk, and are less productive. As a result, the economy becomes poorer and eventually falls back into the incentivized mode. Such oscillations arise only when the productivity of the economy falls in a medium range.

"Risk Sharing, (Over)Leverage, and Dimensions of Competition"

The paper studies the leverage of financial intermediaries (FIs) with an approach based on risk sharing in a general equilibrium framework. The paper examines market competition on both sides of FIs' balance sheets and endogenizes the equilibrium contracts on both capital markets. The paper finds that if entrepreneurs compete only in the dimension of price, FIs are overleveraged; and if they compete in both price and investment scale, FIs are socially optimally leveraged. The paper shows that the overleverage problem can be rectified by proper capital adequacy regulation and suggests that the regulation be imposed on the whole financial sector.

"The Allocation of Liability, Delegated Monitoring, and Mode of Financing"

Based on the allocation of liability, the paper examines all the modes of organizing finance and delegated monitoring in an economy with costly state verification. Besides the mode of financial intermediation (FI), a mode of direct finance, Conglomeration, accommodates delegated monitoring and obtains the benefit of diversification also, which, therefore, do not necessarily make FI viable, as the extant literature claims. The paper empirically predicts that the prevalence of bank financing could increase with the costs of banks' services or the rates of banks' loans. The paper is the first to examine the market organization of a financial service through the allocation of liability.

"Ownership, Control, and Incentive"

The paper shows that by acquiring critical physical capital, the principal enhances her control over the agent's human capital, in the sense that she can more likely engage him to work specifically for her. However, the enhancement in control necessarily reduces his incentive of working hard. This trade-off between control and incentives decides the optimal allocation of ownership. Principal-ownership, or integration, occurs if there is a large enough benefit of specificity, which roughly represents the benefit of coordination. Principal-ownership captures the organization of conglomerate firms.

RESEARCH IN PROGRESS

"Interpretative Court and Lawyers"

In the literature so far, the role of the court of law is to enforce contracts and to make the choice where ex ante contracts are silent. However, in realities, the more important role of the court of law, and also lawyers, is to interpret contracts and law. The importance of the interpretative court could be measured by aggregate lawyers' fee, which is in the order of hundred billion dollars per year in the US. Is that amount of money totally social waste? The purpose of this research is to examine where and how the interpretative court and lawyers improve social efficiency.

"Why and When Is a Constitution Not Just a Piece of Paper?"

How to write an enforceable contract in a world where not only there is no outside party for enforcement, but all the rules of the game could be changed in certain way.

Teaching:

EC301, Mathematic Economics, spring term, 2009-201, and autumn term, 2010-2011

EC908, Topics in Financial Economics (mainly corporate finance), spring terms, 2009-2010 and 2010-2011