

# Frictions in Financial and Labor Markets



Federal Reserve Bank of St. Louis  
**35th Annual  
Economic Policy Conference**

October 21-22, 2010

# Frictions in Financial and Labor Markets

*All conference events will take place at the  
Federal Reserve Bank of St. Louis, Sixth Floor.*

**Thursday, October 21, 2010**

8:15 AM                      **Continental Breakfast**  
*Auditorium pre-function area*

9:00-9:15 AM              **Opening Remarks**  
**James Bullard, President,**  
*Federal Reserve Bank of St. Louis*

9:15-10:30 AM  
**“Financial Markets and Unemployment”**

Presenter:                **Vincenzo Quadrini,**  
*University of Southern California*

Coauthors:               **Tommaso Monacelli and**  
**Antonella Trigari,**  
*Bocconi University*

Discussant:              **Hernan J. Moscoso Boedo,**  
*University of Virginia*

10:30-10:45 AM        **Break**

10:45-12:00 PM  
**“Joint Search Theory:  
New Opportunities and New Frictions”**

Presenter:                **Fatih Guvenen,**  
*University of Minnesota*

Coauthors:               **Bulent Guler,**  
*Indiana University–Bloomington*  
**Gianluca Violante,**  
*New York University*

Discussant:              **John Kennan,**  
*University of Wisconsin–Madison*

12:00-1:30 PM      **Lunch**

1:30-2:45 PM

**“Equilibrium Price Dispersion and Rigidity:  
A New Monetarist Approach”**

Presenter:            **Guido Menzio**  
                              *University of Pennsylvania*

Coauthors:           **Allen Head,**  
                              *Queen’s University*

**Lucy Qian Liu,**  
                              *International Monetary Fund*

**Randall Wright,**  
                              *University of Wisconsin–Madison*

Discussant:          **Nancy Stokey,**  
                              *University of Chicago*

2:45-3:00 PM      **Break**

3:00-4:15 PM

**“Quantifying the Impact of Financial  
Development on Economic Development”**

Presenter:            **Jeremy Greenwood,**  
                              *University of Pennsylvania*

Coauthors:           **Juan M. Sanchez,**  
                              *Federal Reserve Bank of St. Louis*

**Cheng Wang,**  
                              *Iowa State University*

Discussant:          **Gary Hansen,**  
                              *University of California–Los Angeles*

4:15-4:30 PM      **Break**

4:30-5:45 PM

**“Middle-Men in Limit Order Markets”**

Presenter:            **Boyan Jovanovic,**  
                              *New York University*

Coauthor:            **Albert Menkveld,**  
                              *Vrije Universiteit–Amsterdam*

Discussant:          **B. Ravikumar,**  
                              *University of Iowa*

5:45-6:30 PM      **Reception**  
                              *St. Louis Room*

6:30 PM              **Dinner**

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**Friday, October 22, 2010**

8:00 AM              **Continental Breakfast**  
                              *Auditorium pre-function area*

8:30-9:45 AM

**“Intergenerational Redistribution  
in the Great Recession”**

Presenter:            **Dirk Krueger,**  
                              *University of Pennsylvania*

Coauthors:           **Jonathan Heathcote,**  
                              *Federal Reserve Bank of Minneapolis*

**Victor Rios-Rull,**  
                              *University of Minnesota*

Discussant:          **Larry E. Jones,**  
                              *University of Minnesota*

9:45-11:00 AM

**“Finance and Misallocation:  
Evidence from Plant-Level Data”**

Presenter:            **Virgiliu Midrigan,**  
                              *New York University*

Coauthor:            **Yi Xu,**  
                              *New York University*

Discussant:          **Manuel Santos,**  
                              *University of Miami*

11:00-11:15 AM    **Break**

11:15-12:30 PM

**“Social Security, Benefit Claiming,  
and Labor Force Participation:  
A Quantitative General  
Equilibrium Approach”**

Presenter:       **Selahattin Imrohoroglu,**  
                          *University of Southern California*

Coauthor:       **Sagiri Kitao,**  
                          *Federal Reserve Bank of New York*

Discussant:      **Michele Boldrin,**  
                          *Washington University in St. Louis*

12:30-2:00 PM      **Lunch**

**Authors and Discussants**  
(in alphabetical order)



## MICHELE BOLDRIN

Michele Boldrin is the J.G. Hoyt Distinguished University Professor and chair of the department of economics at Washington University in St. Louis. He is a research fellow at the Federal Reserve Bank of St. Louis and an economic adviser to the Bank of Japan. He has held positions at the Santa Fe Institute, Stanford University, University of Pennsylvania, UCLA, Academia Sinica, Chinese University of Hong Kong, University of Chicago, Università Bocconi, IAS at Wuhan University, Beijing University, Kyoto University, and University of Tokyo, among others. He is a fellow of the Econometric Society and a research fellow of CEPR (London) and FEDEA (Madrid); he has also served in an editorial role for several scholarly journals. His research focuses on the theory and application of dynamic general equilibrium models. He has written on economic growth, business cycles, asset pricing, the welfare system, innovation theory, and technological progress, among other topics. His fourth book, written with David K. Levine, was published in August 2008 by Cambridge University Press: *Against Intellectual Monopoly*. He received his doctorate in economics in 1987 from the University of Rochester.

## JEREMY GREENWOOD

Jeremy Greenwood is a professor of economics at the University of Pennsylvania. He is a fellow of the Econometric Society, a research associate at the Center for the Advanced Study in Economic Efficiency at Arizona State University, and a research associate at the National Bureau of Economic Research. He received his doctorate in economics in 1983 from the University of Rochester.

## BULENT GULER

Bulent Guler has been an assistant professor in the department of economics at Indiana University, Bloomington, since August 2009. His specializations include macroeconomics, real estate economics, and computational economics. He received the Professional Development Award at the University of Texas in 2007 and 2008 and the Graduate Fellowship and Tuition Scholarship at the University of Rochester from 2003 through 2006. He received his doctorate in economics in 2009 from the University of Texas at Austin.

## FATIH GUVENEN

Fatih Guvenen is an assistant professor at the University of Minnesota. His affiliations include assistant professor of economics at the University of Minnesota since January 2008, a visiting scholar at the Federal Reserve Bank of Minneapolis since January 2008, faculty research fellow at the National Bureau of Economic Research since April 2007, and international research fellow at the Institute for Fiscal Studies, United Kingdom, since January 2007. He is co-editor of the *Berkeley Electronic Journal of Macroeconomics*. He received his doctorate in economics in 2001 from Carnegie Mellon University.

## GARY HANSEN

Gary Hansen is a professor and chair of the economics department at the University of California at Los Angeles. Previously he was a visiting professor at the universities of Brasilia and Pennsylvania and a recipient of a Fulbright award. He is a research associate at the National Bureau of Economic Research and associate editor of the *Review of Economic Dynamics*. His research has focused on understanding business cycles and the role of monetary policy for aggregate fluctuations; currently, he is using theoretical models to understand how consumption and labor market behavior changes over the life cycle. He received his doctorate in economics in 1986 from the University of Minnesota.

## ALLEN HEAD

Allen Head is a professor of economics, RBC Fellow, and the coordinator of graduate studies in the department of economics at Queen's University. He was also a visiting scholar at the Departament d'Economia i Empresa, Universitat Pompeu Fabra, Barcelona; and the University of Rochester. He received his doctorate in economics in 1992 from the University of Minnesota.

## JONATHAN HEATHCOTE

Jonathan Heathcote is a senior economist in the research department of the Federal Reserve Bank of Minneapolis. Previously he was in the International Finance Division of the Board of Governors of the Federal Reserve System and on the faculty at Georgetown University, the Stockholm School of Economics, and Duke University. He has been a visiting scholar at New York University's Stern School of Business, University College in London, and the Federal Reserve Bank of Atlanta. He is an editor of the *Berkeley Electronic Journal of Macroeconomics* and an associate editor of the *Review of Economic Dynamics* and *Journal of Monetary Economics*. His current research focuses on understanding the evolution of cross-sectional inequality in wages, labor supply, income, consumption, and welfare. He received his doctorate in economics in 1998 from the University of Pennsylvania.

## SELAHATTIN IMROHOROGLU

Selahattin Imrohoroglu is a professor of finance and business economics at the Marshall School of Business of the University of Southern California. He has been a visiting scholar at many institutions, including New York University's Stern School of Business, University of Minnesota, the Federal Reserve Bank of Atlanta, and the Bank of Japan. His research focuses on the role of fiscal policy and social security in quantitative general equilibrium models. He is an associate editor of the *Journal of Economic Dynamics and Control* and a member of the American Economic Association, Econometric Society, and the Society for Economic Dynamics. He received his doctorate in economics in 1988 from the University of Minnesota.

## LARRY E. JONES

Larry E. Jones is a professor and chair of the economics department at the University of Minnesota and a visiting scholar in the research department of the Federal Reserve Bank of Minneapolis. Previously, he was the Harold L. Stuart Professor of Managerial Economics and chair of the department of managerial economics at Northwestern University's Kellogg Graduate School of Management. He is also a research fellow of the National Bureau of Economic Research and a fellow of the Econometric Society. His research interests are economic theory, macroeconomics, and public finance. He received his doctorate in economics in 1981 from the University of California at Berkeley.

## BOYAN JOVANOVIC

Boyan Jovanovic is a professor of economics at New York University. He is a fellow of the Econometric Society and the American Academy of Arts and Sciences and a research associate at the National Bureau of Economic Research. He started out as a labor economist, then branched out to industrial organization and then macroeconomics, growth and development. He received his doctorate in economics in 1978 from the University of Chicago.

## JOHN KENNAN

John Kennan is a professor of economics at the University of Wisconsin, Madison. He is a research associate at the National Bureau of Economic Research, a fellow of the Econometric Society, and an affiliate of the Institute for Research on Poverty, University of Wisconsin. He has been a visiting professor at various universities, including Yale University, the University of Melbourne, and the National University of Ireland. He has been co-editor of the *Journal of Labor Economics* and member of the board of editors of the *American Economic Review*. He received his doctorate in economics in 1973 from Northwestern University.

## SAGIRI KITAO

Sagiri Kitao is an economist at the Federal Reserve Bank of New York. Previously, she was an assistant professor at the University of Southern California, Marshall School of Business. Her research fields of interest include macroeconomics, public policies, and computational economics. She has also been affiliated with the University of Tokyo, International Monetary Fund, and Merrill Lynch & Co. She received her doctorate in economics in 2007 from New York University.

## DIRK KRUEGER

Dirk Krueger is a professor of economics and director of graduate studies at the University of Pennsylvania. He also serves as co-editor of the *American Economic Review*. His research interests are macroeconomics and public finance, with emphasis on models with heterogeneous households. He has worked as an assistant professor at Stanford University and held a chaired professorship in macroeconomics at Goethe University in Frankfurt, Germany. He is also a research associate at the National Bureau of Economic Research, a research fellow at the Centre for Economic Policy Research and Netspar, and a research professor at the Mannheim Research Institute for the Economics of Aging. He received his doctorate in economics in 1999 from the University of Minnesota.

## LUCY QIAN LIU

Lucy Qian Liu is an economist at the International Monetary Fund. Her fields of research include macroeconomics and monetary and financial economics. She has received the Skelton Clark Economics Award in 2008 and the Social Sciences and Humanities Research Council of Canada, Doctoral Scholarship, in 2007. Her positions have included lecturer at Queen's University and a summer student at the department of monetary and financial analysis at the Bank of Canada. She received her doctorate in economics in 2009 from Queen's University.

## ALBERT MENKVELD

Albert Menkveld is an associate professor of finance at Vrije Universiteit–Amsterdam. He was a visiting scholar at the Wharton School and Stanford University on a Fulbright scholarship. He visited New York University's Stern School of Business in 2004-2005 and in 2008-2010. In 2007 he received the Pierson medal ("Dutch Bates Clark") from the Royal Dutch Economic Association; in 2004 a three-year VENI grant from the Netherlands Organization for Scientific Research (NWO); in 2003 a Lamfalussy scholarship from the European Central Bank; and in 2001 the Josoph de la Vega Prize from the Federation of European Exchanges. He has been a member of the academic council of the Autorité des Marchés Financiers ("French SEC") since 2004. He received his doctorate in economics in 2002 from the Tinbergen Institute, Erasmus University, Rotterdam.

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Guido Menzio is an assistant professor in the department of economics at the University of Pennsylvania. He has been a visiting scholar at the Hoover Institution in Stanford University. He received his doctorate in economics in 2005 from Northwestern University.

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Virgiliu Midrigan is an assistant professor in the department of economics at New York University. He also is a research economist at the Federal Reserve Bank of Minneapolis and research fellow at the National Bureau of Economic Research. His awards include the Young Macroeconomists' Jamboree from Duke University in 2008, the *Review of Economic Studies* Tour in 2006, and Institute for Computational Economics Fellow, University of Chicago/Argonne National Laboratory, in 2005. He received his doctorate in economics in 2006 from The Ohio State University.

## TOMMASO MONACELLI

Tommaso Monacelli is an associate professor of economics at Università Bocconi, Milan, and a research fellow at IGIER. He has been an assistant professor at Boston College (1999-2002) and at Igier-Bocconi (2002-2005). He is a research fellow of CEPR and associate editor of the *Journal of Money, Credit, and Banking*. He has been a research consultant for the ECB and the OECD, visiting scholar at IMF, ECB, and Riksbank, and visiting professor at CEU. His research interests range from open economy macroeconomics to monetary economics. He received his doctorate in economics in 1999 from New York University.

## HERNAN J. MOSCOSO BOEDO

Hernan J. Moscoso Boedo is an assistant professor of economics at the University of Virginia. His fields of interest include macroeconomics and economic growth and development. He has received the Bankard Fund for Political Economy Award and the Robock Award. He is a member of the American Economic Association and the Econometric Society. He received his doctorate in economics in 2006 from the University of Wisconsin, Madison.

## VINCENZO QUADRINI

Vincenzo Quadrini is a professor at the Marshall School of Business, University of Southern California. Previously, he was an assistant professor at New York University's Stern School of Business, Duke University, and Pompeu Fabra University. His research is on macroeconomics, international economics, financial contracts, and entrepreneurship. He is a faculty research fellow at the Centre for Economic Policy Research and at the National Bureau of Economic Research. He received his doctorate in economics in 1996 from the University of Pennsylvania.

## B. RAVIKUMAR

B. Ravikumar is a Henry B. Tippie Research Professor of Economics at the University of Iowa. Previously, he was a professor of economics at Pennsylvania State University and an associate professor of economics at the University of Virginia. He received his doctorate in economics in 1989 from the University of Iowa.

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## JUAN M. SANCHEZ

Juan M. Sanchez has been an economist with the research division of the Federal Reserve Bank of St. Louis since August 2010. Before joining the St. Louis Fed, he was an economist at the Federal Reserve Bank of Richmond. His research focuses on macroeconomics. He received his doctorate in economics in 2008 from the University of Rochester.

## MANUEL SANTOS

Manuel Santos is a professor and James L. Knight Chair of Economics in the School of Business Administration at the University of Miami and a fellow of the Econometric Society. His areas of expertise are macroeconomics, finance, and managerial incentives. He has extensive teaching experience and has served on the editorial board of several top journals, including *Review of Economic Dynamics* and *Journal of Economic Theory*. He has been a professor at Universidad Carlos III de Madrid, ITAM (Mexico City), University of Minnesota, and Arizona State University, as well as a visiting professor of the University of Chicago and UCLA. He received his doctorate in economics in 1984 from the University of Chicago.

## NANCY STOKEY

Nancy Stokey is a distinguished service professor at the University of Chicago and was previously the Frederick Henry Prince professor of economics there. She is also a visiting scholar in the research department at the Federal Reserve Bank of Minneapolis. She has been on the Class Membership Committee from the National Academy of Sciences and served as member of the Expert Panel of the Copenhagen Consensus on Climate Change in 2009. She is a fellow of the Econometric Society. She received her doctorate in economics in 1978 from Harvard University.

## ANTONELLA TRIGARI

Antonella Trigari is an associate professor in the department of economics at Bocconi University and a research fellow at IGIER. Her research fields includes macroeconomics, labor economics, and monetary economics. She is also associate editor at the *Journal of Monetary Economics*. She received her doctorate in economics in 2003 from New York University.

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Cheng Wang is a professor of economics at the Iowa State University. His research interests include macroeconomics and dynamic contract theory. He received the Outstanding Teaching Award at Carnegie Mellon University in 2001 and the T. M. Brown Thesis Award at the University of Western Ontario in 1994. He received his doctorate in economics in 1994 from the University of Western Ontario.

## RANDALL WRIGHT

Randall Wright is the Zemon Professor of Liquid Assets in the Wisconsin School of Business and the department of economics at the University of Wisconsin at Madison. Previously he taught at the University of Pennsylvania and is also a consultant for the Federal Reserve Bank of Minneapolis. He serves on the editorial board of the *International Journal of Economics* and is an advisory editor of *Macroeconomic Dynamics*. He is a fellow of the Econometric Society. His areas of research include macro, labor, and monetary economics. He received his doctorate in economics in 1986 from the University of Minnesota.

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Yi Xu is an assistant professor in the department of economics at New York University and a faculty research fellow at the National Bureau of Economic Research. His research interests include industrial organization R&D, productivity and growth, and industry dynamics. He received his doctorate in economics in 2007 from Pennsylvania State University.

