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Thesis Abstract

"Uncertain Expenses and the Short-Run Transmission of Monetary Policy" (Job Market Paper)
In this paper, I study the importance of uncertain expenses on household's savings. Using data from the Consumer Expenditure Survey (CEX) I document that uncertain expenses represent a significant fraction of total expenses (14.5%), and that they are an important driver of the short-run consumption response to monetary policy shocks. I develop a heterogeneous-agent incomplete markets model with two assets: money and bonds; where households use the two assets to self-insure against income and expenditure uncertainty. A timing friction in the portfolio choice problem, together with frictions in the goods market, lead households to hold *extra* liquidity relative to their total consumption level. I show that household portfolio rebalancing, due to changes in the policy rate, is an important mechanism to understand the short-run transmission of monetary policy to consumption. In addition, precautionary money demand, due to expenditure risk, is able to generate concentration in the distribution of money holdings consistent with the data, a feature hard to reconcile with traditional transaction motives for money demand.

"Risk sharing and illiquid assets"
This paper studies the extent to which asset market illiquidity affects risk-sharing among asset holders. It is typically assumed that lower asset *re-saleablity* constrains those agents who need to sell the asset in order to smooth negative income shocks. However, a fall in liquidity amounts to a negative supply shock in the asset market, which creates excess demand for private financial claims. The asset price in turn must rise to equilibrate supply and demand. This response would leave the budget constraint for sellers of the assets unaffected, with no effect on consumption. I build a model where assets are traded subject to search and matching frictions with two types of agents: large households and financial intermediaries. Members of a typical household receive an idiosyncratic endowment shock: those who receive a high endowment participate in the market as buyers of the asset, while those who receive a low endowment are sellers. The matching technology is owned by financial intermediaries, who process the buy-sell claims, at some cost, and the transaction price is determined as the solution to a bargaining problem between buyers and sellers. Matching efficiency in this market endogenously determines the degree of asset illiquidity. It is shown that the combination of lower liquidity, along with the pricing mechanism derived from the bargaining problem, tightens the budget constraint for the members that receive the low endowment, who are less able to finance consumption. As a consequence, the consumption wedge between household members increases, deviating from perfect risk sharing.

"Balance Sheet Liquidity, Consumption Smoothing, and the Business Cycle"
This paper examines the effects of aggregate conditions on the ability of households, with different balance sheets, to smooth consumption in the presence of idiosyncratic income shocks. Evidence is provided, using data from the Consumer Expenditure Survey (CEX), that risk sharing over the business cycle is asymmetric across households with balance sheets that differ in the degree of liquidity. Households with both liquid and illiquid assets are insured over the business cycle. Those with mostly illiquid assets smooth consumption less in busts, while those with no assets smooth consumption less in booms. This evidence is complemented by computing higher order moments of the distribution of consumption over the business cycle. Similar to Constantinides and Ghosh (2017), there is a countercyclical negative skewness and an acycliclal variance. This suggests that the large countercyclical income shocks identified in Guvenen, Ozkan, and Song (2014) are also transmitted to household consumption. However, when looking at the different household groups, it is found that a procyclical negative skewness in the distribution for households with no assets exists, while it does not for households with assets. These findings bolster the notion that there exists asymmetric business cycle exposure for households that differ in their balance sheet composition.