University of Minnesota - Twin Cities

Department of Economics
4-101 Hanson Hall
1925 Fourth Street South
Minneapolis, Minnesota 55455
U.S.A.

(612) 625-6353
(612) 624-0209 FAX

Placement Director
Manuel Amador
(612) 624-4060 or
(612) 204-5781
amador@umn.edu
Placement Coordinator
Catherine Bach
(612) 625-6859
c-bach@umn.edu

Curriculum Vitae
Fall 2016

ZHIFENG CAI

Personal Data

Address
4-101 Hanson Hall
1925 Fourth Street South
Minneapolis, MN 55455

Contact Information
Cell: (612) 876-6998
E-mail: caixx162@umn.edu
URL: zhifengcai.weebly.com/

Citizenship: China (F1 Visa)

Major Fields of Concentration

Macroeconomics, Financial Economics

Education

Degree	*Field*	*Institution*	*Year*
Ph.D.	Economics	University of Minnesota (expected)	2017
B.S.	Economics	The University of Hong Kong	2011

Dissertation

Title: “Essays in Macroeconomics and Finance”
Dissertation Advisors: Professor V. V. Chari and Dr. Jonathan Heathcote
Expected Completion: Summer 2017

References

Professor V. V. Chari	(612) 626-7151 chari002@umn.edu	Department of Economics University of Minnesota 4-101 Hanson Hall
Professor Larry E. Jones	(612) 624-4553 lej@umn.edu	1925 Fourth Street South Minneapolis, MN 55455
Professor Christopher Phelan	(612) 626-2533 cphelan@umn.edu	
Dr. Jonathan Heathcote	(612) 204-6385 heathcote@minneapolisfed.org	Research Department Federal Reserve Bank of Minneapolis 90 Hennepin Avenue Minneapolis, MN 55480

Honors and Awards

Summer 2015	*Distinguished Instructor*, Department of Economics, University of Minnesota, Minneapolis, Minnesota
Fall 2012	*Distinguished Teaching Assistant*, Department of Economics, University of Minnesota, Minneapolis, Minnesota
2011 - 2012	*Warwick Fellowship*, University of Minnesota, Minneapolis, Minnesota
2010 - 2011	*Martin Fellowship*, The University of Hong Kong
2008 - 2011	*Scholarship for Outstanding Mainland Students*, The University of Hong Kong

Teaching Experience

Summer 2015	*Instructor*, Department of Economics, University of Minnesota, Minneapolis, Minnesota. Taught *Chinese Economy*.
2012 - 2013, Summer 2014	*Teaching Assistant*, Department of Economics, University of Minnesota, Minneapolis, Minnesota. Led recitation sections for *Principles of Microeconomics*, and the graduate level sequence *Macroeconomic Theory*.

Research Experience

2013 - present	*Research Assistant*, Research Department, Federal Reserve Bank of Minneapolis, Minneapolis, Minnesota. Research assistant to Jonathan Heathcote. Solved two country business cycle model using global methods.
2012	*Princeton Initiative: Money, Macro, and Finance*, Princeton University, Princeton, New Jersey

Papers

"Secular Stagnation, Land Prices, and Collateral Constraints," job market paper
"Dynamic Complementarity in Information Acquisition"
"Income Inequality and College Tuition," with Jonathan Heathcote
"How do Financial Frictions Affect Self-Financing Firms," with Kai Ding

Presentations

"Income Inequality and College Tuition," presented at the Society for Economic Dynamics Annual Meeting, Toulouse, France, June 2016.
"Dynamic Complementarity in Information Acquisition," presented at the Research Department, Minneapolis Federal Reserve, Minneapolis, Minnesota, September, 2015.

Computer Skills

Stata, Matlab, Fortran, LaTeX

Languages

Chinese (native), English (fluent)

Abstract*s*

"Secular Stagnation, Land Prices, and Collateral Constraints," job market paper

Why was the recovery from the Great Recession slower than recoveries from other postwar recessions? This paper develops and quantifies a theory to account for this pattern. I propose a standard neoclassical model enriched with a land sector. Land can be used either as a consumption good for the household, or as collateral for the firm to finance working capital. The model exhibits two locally stable steady states: one with high capital and high land price, the other with low capital and low land price.

At the good steady state, the high land price relaxes the firm's working capital constraint. With enhanced employment capacity, the firm is induced to invest in capital, since capital and employment are complementary. The high level of investment leads to a higher level of capital and hence higher levels of household wealth This in turn leads to strong demand for housing, enhancing the high land price. At the bad steady state, land price is depressed, constraining the firm's ability to finance working capital. This leads to low incentives to invest and hence to lower levels of capital. This in turn implies lower levels of household wealth, sustaining the low land price.

The multiplicity of steady states allows for asymmetric responses to small and large shocks. Large adverse shocks have a much more persistent impact, as they trigger transitions from one steady state to the other. A calibrated version of the model displays significantly delayed recovery upon large adverse shocks and is consistent with various features of the Great Recession and its aftermath.

"Income Inequality and College Tuitions?" with Jonathan Heathcote

We develop a quantitative model to explore the impact of rising income inequality on college tuition. The framework is one in which households value college quality, and where quality reflects both resources devoted to tuition and the average ability of the student body. Thus colleges are "club goods" where students are both inputs to production and consumers of output.

Assuming a competitive, profit-maximizing environment, we show that observed changes in household income inequality can account for (i) the observed rise in average tuition, (ii) the rise in tuition dispersion across colleges, (iii) the rise in tuition dispersion within colleges, and (iv) the observed stagnation in aggregate college attendance.

"Dynamic Complementarity in Information Acquisition?"

This paper studies an infinite-horizon trading model where overlapping-generations of investors choose whether or not to acquire costly information about a stock's expected dividend. It is shown that multiple equilibria in information acquisition can arise in such an environment. The reason is that the incentive to acquire information today is increasing in the share of investors that will become informed tomorrow, since the larger the share of investors that are informed tomorrow, the more sensitive to fundamental will be the future resale stock price. The dynamic complementarity dominates classical static substitutability (Grossman and Stiglitz, 1980) and leads to multiplicity because interim dividend payout makes stock payoff more sensitive to the fundamental than current stock price. The multiplicity in information acquisition is more likely to arise if the stock fundamental is more persistent than supply, or if the public signal becomes less precise.

"How do Financial Frictions affect Self-Financing Firms?" with Kai Ding

Standard models of financial frictions impose collateral or borrowing constraints on firms. However, firms with sufficiently high net worth don't have to borrow externally to finance their investment, hence are unaffected by the tightening of collateral constraints. This is inconsistent with the fact that even the largest corporations in the US reduced their capital expenditure by 24.4% after the bankruptcy of Lehman Brothers. We argue that financial frictions affect these firms through the liquidity channel. We develop a model where bank credit lines and liquid assets are substitutes for financing liquidity shocks. In the model, a tightening of the bank credit lines forces firms to hold more liquid assets, increasing the effective cost of capital expenditure and hence reducing corporate investment. The calibrated model also matches the fact that after the collapse of Lehman firms increased their liquid assets holdings and bonds issuance.