Abstract

This thesis uses economic theory and empirical estimation to evaluate the effects of macroprudential and fiscal policies. Chapter 1 assesses the efficiency of macroprudential capital requirements in the form of four market risk measures. The chapter generates a novel prediction that prudential instruments based on salience and the overweighting of tail market losses are beneficial for policymakers aiming to reduce the likelihood of a financial crisis. The results suggest that overweighting worst- and best-case outcomes can prevent fire sales, while overweighting intermediate losses leads to welfare improvements for the financial system after an uncertainty shock. This chapter illuminates how adverse liquidity and uncertainty shocks elicit policy responses, and how they affect bank risk attitudes and the time and the cross-sectional dimensions of systemic risk. Chapter 2 studies macroeconomic implications of Value at Risk financial regulation and derives optimal deposit insurance. The main finding is that optimal deposit insurance is risk-sensitive when banks are subject to risk-based capital requirements. Chapter 3 studies the impact of a fiscal stimulus package on firm dynamics and the US labor market. It shows that corporate income tax cuts increase job creation through delayed firm entry, and a reduction in job losses through lower firm exit rates. Wages of newly hired workers rise significantly, while aggregate wages exhibit a persistent rise in the wake of the policy change.