Abstract

This dissertation deals with the topics related to securitization and with pricing of financial assets in general. The topics are analyzed from a macroeconomic perspective using various theoretical and empirical methods.

The first chapter studies the efficiency of financial intermediation through securitization with asymmetric information about the quality of securitized loans. In this theoretical model I show that, in general, by providing reputation-based implicit recourse, the issuer of a loan can credibly signal its quality. However, in boom stages of the business cycle, information on loan quality remains private, and lower quality loans accumulate on balance sheets. This deepens a subsequent downturn. The longer the duration of a boom, the deeper the fall of output in a subsequent recession will be. I present empirical evidence from securitization deal level data consistent with this result. Finally, the model suggests that excessive regulation which requires higher explicit risk-retention by the originators of loans can adversely affect both quantity and quality of investment in the economy.

The second chapter presents a Markov-switching DSGE model which focuses on the adverse selection on re-sale markets for securitized products. The complexity of securitized assets, which make it costly to verify their intrinsic quality, together with the provision of reputation-based implicit recourse, limits adverse selection on re-sale markets in booms or mild recessions. However, in a deep recession, implicit recourse is widely defaulted upon, which causes a serious adverse selection problem, and deepens and prolongs the recession. The adverse selection problem is especially severe when the recession is preceded by a prolonged boom period. Then, securitized loans of high quality may cease being traded altogether.

In the third chapter (co-authored by Michal Pakoš), we propose a model which attempts to explain both time and cross-section variation in the conditional asset pricing moments on the stock market in a unified framework. We combine two strands of literature on asset pricing: external habit formation and literature on asset pricing where a large share of investors’ consumption consists of service flows from a stock of durable goods. We develop a tractable theoretical model as a generalization of the seminal Campbell and Cochrane (1999) external habit formation model, where we introduce durable goods and estimate the parameters of the model using the GMM methodology on the average market portfolio and the set of 6 Fama-French portfolios.