



清华经管学院  
Tsinghua SEM



THE LONDON SCHOOL  
OF ECONOMICS AND  
POLITICAL SCIENCE ■

# Joint Tsinghua University - LSE Workshop 2019

**5th November, 2019**

School of Economics and  
Management

Tsinghua University

Beijing, China



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# Welcome

We warmly welcome you to Joint Tsinghua University - LSE Workshop 2019, and wish you an enjoyable academic voyage.

Autumn is a season for harvest, and we wish that you enjoy the harvest of ideas in the Golden Autumn at Tsinghua.

Conference Committee:

**Chong-En Bai**

Tsinghua University

**Erik Bergl f**

The London School of Economics and Political Science

**Piroska Nagy- Moh csi**

The London School of Economics and Political Science

**Keyu Jin**

The London School of Economics and Political Science

Administrative staff and student assistants:

Yu Wang

Jingjing Chen

Haotian Jia

Han Hao

Jiatong Niu

Zhen Huangfu

Weidi Zhou

If you need any assistance during the conference, please feel free to contact Yu Wang at (86) 159-1060-6359, or Zhen Huangfu at (86) 188-0117-2056.

## Committee Chair



**Prof. Chong-En Bai**

Mansfield Freeman Chair Professor, Department of Economics  
Dean, School of Economics and Management  
Tsinghua University

Professor Chong-En Bai is Mansfield Freeman Chair Professor, Dean of the School of Economics and Management of Tsinghua University. He is also the Director of the National Institute for Fiscal Studies of Tsinghua University. He earned his Ph.D. degrees in Mathematics and Economics from UCSD and Harvard University, respectively. His research areas include Institutional Economics, Economic Growth and Development, Public Economics, Finance, Corporate Governance and Chinese Economy.

Professor Bai is a member of the executive committee of International Economic Association, and of the Scientific Council of the Barcelona Graduate School of Economics. He currently serves on the editorial board of a few top economic journals in China. He also served on the editorial board of Journal of Comparative Economics from 2004 to 2006 and of The World Bank Economic Review from 2006 to 2008 as well as from 2011 to 2013.

Professor Bai is a member of the National Committee of the Chinese People's Political Consultative Conference, the "14th Five-Year Plan" National Development Planning Expert Committee, the Chinese Economists 50 Forum, the China Finance 40 Forum, and Chinainfo 100. He was a member of the monetary policy committee of the People's Bank of China from 2015 to 2018. He served as Adjunct Vice-President of Beijing State-Owned Assets Management Co., Ltd. from August 2011 to December 2012. He was a non-resident Senior Fellow of the Brookings Institution from 2006 to 2007.

## Committee Chair



**Prof. Erik Bergl f**

Professor, Department of Economics  
Director, Institute of Global Affairs (IGA)

The London School of Economics and Political Science

Professor Erik Bergl f is Professor, Director of the Institute of Global Affairs (IGA) at the London School of Economics and Political Science (LSE). Previously, he served as Chief Economist for the European Bank of Reconstruction and Development. He has published widely in top journals on economic and political transition, corporate governance, financial development and EU reform.

Professor Bergl f was a member of the Secretariat for the G20 Eminent Persons Group on global financial governance. Currently, he is a member of the EU High-Level Group of Wise Persons on the European development finance architecture, He is also a Brookings Non-Resident Fellow and Fellow of the Centre for Economic Policy Research.

Prior to joining the LSE, Professor Bergl f was the Chief Economist and Special Adviser to the President of the European Bank for Reconstruction and Development (EBRD). Previously, he was Director of the Stockholm Institute of Transition Economics (SITE) and Professor at the Stockholm School of Economics. He was Assistant Professor at Universite Libre de Bruxelles and has held visiting positions at Harvard, Stanford and Massachusetts Institute of Technology (MIT). He has also served as Special Adviser to the Prime Minister of Sweden.



## Committee Chair



### **Piroska Nagy-Mohácsi**

Program Director, Institute of Global Affairs  
Senior Research Fellow, Institute of Global Affairs  
The London School of Economics and Political Science

Piroska Nagy-Mohácsi is Programme Director and Senior Research Fellow at the Institute of Global Affairs at the London School of Economics and Political Science (LSE), where she is responsible for various global policy initiatives on financial resilience, growth, and migration. She was Policy Director of the European Bank for Reconstruction and Development (EBRD), overseeing strategic directions in Emerging Europe, Central Asia and North Africa as well as policy initiatives. She was also responsible for the EBRD's economic forecast and co-created and co-led the Vienna Initiative in 2008-15, a public-private crisis management and coordination platform in emerging Europe, and headed its Secretariat.

Piroska worked in senior positions as economist in the International Monetary Fund (IMF) between 1986 and 2008 with surveillance, policy advice and program responsibilities in Europe, Africa and Asia. While on leave from the IMF, she was guest lecturer at the Hebrew University of Jerusalem in 1996/97 and Senior Adviser at Fitch Ratings in 2003/4. She has published in the areas financial stability, fiscal policy reform and structural transformation. She is the author of the book *The Meltdown of the Russian State* (Edgar Elgar, 2000). Piroska serves on the Board of Trustees of the Institute of Statecraft, and independent think-tank on governance and national security.

## Attendees



### **Tuo Chen**

Tsinghua University

Prof. Chen is an assistant professor of Economics at the School of Economics and Management, Tsinghua University. He received his PhD in Economics from Columbia University in 2018.

His main approach in research is to use micro-level data in Macroeconomics. He is interested in productivity, inequality and macroeconomic questions in general. He teaches Advanced Macroeconomics and Intermediate Macroeconomics at Tsinghua University.



### **Feng Dong**

Tsinghua University

Prof. Dong is an associate professor of Economics at the School of Economics and Management, Tsinghua University. He received his PhD in Economics from Washington University in St. Louis in 2014.

His research interest consists of Macroeconomics, Monetary Economics, Chinese Economy, and Economic Networks. His research has been published in Journal of Monetary Economics and Economic Theory.



## Yi Huang

Graduate Institute in Geneva and CEPR

Prof. Huang is currently the associate professor and Pictet Chair in Finance and Development at the Graduate Institute in Geneva and a research affiliate at the Center for Economic and Policy Research (CEPR). He received his PhD in International Macroeconomics and Finance from the London Business School.

His research consists of international macroeconomics and finance, especially the influence of corporation's financing and investment to financial market and labor market. Recent work focuses on credit markets, fintech, and entrepreneurship. His research is published at academic journals such as the Review of Economic Studies and Journal of Finance.



## Keyu Jin

The London School of Economics and Political Science

Prof. Jin is a professor (with tenure) of Economics at the London School of Economics and Political Science. She holds a B.A., M.A. and PhD from Harvard University.

Her research focuses on International Macroeconomics and the Chinese Economy. Multiple academic works have been published in the top academic journals. She sits on the editorial board of one of the leading journals in Economics, The Review of Economic Studies. She has had prior experience at the IMF, the World Bank, the New York Fed, Goldman Sachs, as well as other financial institutions.





## Tao Jin

PBC School of Finance, Tsinghua University

Prof. Jin is currently an assistant professor at the PBC School of Finance, Tsinghua University. He is also the Director of the Monetary & Fiscal Policy Research Lab, Hang Lung Center for Real Estate, Tsinghua University and the Deputy Director of the Center for Finance & Development, The National Institute of Financial Research, Tsinghua University. He received his PhD in Economics from Harvard University, and his PhD in Mathematics from University of Rochester.

His research agenda covers Asset Pricing, Macroeconomics, and Econometrics. He has published papers in Economics and Applied Mathematics, such as Econometrica and IEEE Conferences.



## Shu Lin

The Chinese University of Hong Kong

Prof. Lin is an associate professor of Economics at the Chinese University of Hong Kong. He received his PhD in Economics from the University of Oklahoma in 2005.

His research focuses on International Economics, Monetary Policy, and Chinese Economy. He has his publications on Review of Financial Studies, Journal of Monetary Economics, Review of Economics and Statistics, Journal of International Economics, Journal of Development Economics, Review of Economic Dynamics. He has also received the Sun Yefang Financial Innovation Award and Pushan Award for Academic Research in International Economics.



## Qing Liu

Tsinghua University

Prof. Liu is an associate professor of Economics at the School of Economics and Management, Tsinghua University. He received his Ph.D. from University of Toronto in 2008 and has been working at Tsinghua SEM since then.

His research focuses on Macroeconomics, International Finance, and Monetary Economics. His recent research focuses on macro implications in Chinese Economy, especially in understanding exchange rate behavior, monetary policies and investment in China. He has published a number of academic papers in the top field Journals, such as International Economic Review, Journal of Development Economics, etc. He teaches Monetary Economics, International Finance, and Advanced Macroeconomics for both undergraduate and graduate students at Tsinghua SEM.



## Wenlan Luo

Tsinghua University

Prof. Luo is an assistant professor of Economics at the School of Economics and Management, Tsinghua University. He received his Ph.D. in Economics from Georgetown University in 2017.

His research focuses on Macroeconomics, Monetary Economics, and Computational Methods. He has published in the Journal of Economic Dynamics and Control and Review of Economic Dynamics. He teaches Advanced Macroeconomics and Macro Finance for graduate students, and Money & Banking and Economic Growth for undergraduates.



## Kang Shi

The Chinese University of Hong Kong

Prof. Shi is an associate professor at the Department of Economics, the Chinese University of Hong Kong. He received his Ph.D degree at The University of British Columbia in 2006.

His research focuses on Macroeconomics, International macroeconomics, monetary policy, and Chinese economy. He has published a number of academic papers in the top field Journal, such as Journal of International Economics, Journal of Development Economics. He was a Research Fellow of Hong Kong Institute for Monetary Research and a Visiting Scholar of Research Bureau of the People's Bank of China, and also a member of China Finance 40 Forum (CF40). In 2016, he was awarded with the Pushan Award 2016, the most prestigious award in China on international economics. In 2018, he was awarded with Sun Yefang Financial Innovation Award.



## Keith Tritton

The London School of Economics and Political Science

Keith Tritton is the Institute Manager at the Institute of Global Affairs, LSE. He joined the Institute in 2016 from the LSE Asia Research Centre where he was Centre Manager. Prior to joining LSE he held management positions at Imperial College London, Roehampton University and Birkbeck College. He holds a BSc International Relations from the LSE.



## Pengfei Wang

Peking University HSBC Business School, HKUST

Prof. Wang is the HSBC chair professor and associate dean in research at Peking University HSBC business school and a professor of Economics at Hong Kong University of Science and Technology. He obtained his Ph.D degree in Economics at Cornell in 2007.

His research interest lies in the areas of business cycles, financial economics, and monetary economics. His recent research focuses on asset bubbles and credit market frictions, which are pervasive in emerging markets. Professor Wang has published many articles in top journals such as Econometrica, American Economic Review, Journal of Finance, Journal of Monetary Economics, Journal of Financial Economics, Journal of Economic Theory, American Economic Journal: Macroeconomics, Review of Economic Dynamics, and Economic Journal.



## Wen Yao

Tsinghua University

Prof. Yao is the assistant professor of Economics at the School of Economics and Management, Tsinghua University. She received her Ph.D. in Economics in 2011 from University of Pennsylvania.

Prof. Yao worked as a senior economist in Bank of Canada from 2011 to 2012. Her research interests are International Finance, Macroeconomics and Computational Economics. She has published articles in Journal of International Economics and Review of Economic Dynamics. Her research has been funded by the National Science Foundation in China.



# Conference Program

## Morning Session

Room 306, Shunde Bldg. SEM

9:30 - 9:45

### Welcome and Objectives

Speakers: **Chong-En Bai**, Tsinghua SEM  
**Erik Berglöf**, LSE

### Session 1

Chair: **Erik Berglöf**, LSE

9:45 - 10:30

#### *Asset Bubbles and Foreign Interest Rate Shocks*

Jianjun Miao, Boston University

**Pengfei Wang**, HKUST

Jing Zhou, Fudan University

10:30 - 11:15

#### *A Spare Tire for Employment: Corporate bond issuance in China*

Yi Huang, Graduate Institute Geneva

**Shu Lin**, CUHK

Haichun Ye, CUHK (Shenzhen)

11:15 - 11:30

Coffee Break

11:30 - 12:15

#### *Exchange Rates, Local Currency Pricing and International Tax Policies*

Sihao Chen, Fudan University

Michael B. Devereux, University of British Columbia

Jenny Xu, HKUST

**Kang Shi**, CUHK

12:15 - 13:30

Lunch





## Afternoon Session

Room 306, Shunde Bldg. SEM

### Session 2

Chair: **Chong-En Bai**, Tsinghua University

- 13:30 - 14:15 *Financing Multinationals*  
Jingting Fan, Pennsylvania State University  
**Wenlan Luo**, Tsinghua SEM
- 14:15 - 15:00 *Trade Networks and Firm Value Evidence from the 2018 US-China Trade War*  
**Yi Huang**, Graduate Institute Geneva  
Chen Lin, The University of Hong Kong  
Sibo Liu, Lingnan University, Hong Kong  
Heiwai Tang, The University of Hong Kong
- 15:00 - 15:15 Coffee Break
- 15:15 - 16:00 *Evolution of Productivity in China*  
**Keyu Jin**, LSE  
Xiaoyu Huang, UIBE  
Tao Jin, Tsinghua PBCSF
- 16:00 - 17:00 **Policy Roundtable**
- 17:00 - 17:15 **Open Discussion**  
**Planning for December 2019 London Workshop**
- 17:15 - 17:30 **Closing and Next Steps**  
Speakers: **Chong-En Bai**, project leader, Tsinghua SEM  
**Keyu Jin**, project leader, LSE
- 18:30 - 20:00 Conference Dinner



# Presentation Information

## Morning Session

### ***Asset Bubbles and Foreign Interest Rate Shocks***

Jianjun Miao, Boston University

Pengfei Wang, Hong Kong University of Science and Technology,

Jing Zhou, Fudan University

**Abstract:** We provide an estimated DSGE model of a small open economy with both domestic and international financial market frictions. Firms face credit constraints and trade an intrinsically useless asset. Low foreign interest rates are conducive to bubble formation. An asset bubble provides liquidity and relaxes credit constraints. It provides a powerful amplification and propagation mechanism. Our estimated model based on Bayesian methods explains high volatilities of consumption and stock prices relative to output, countercyclical trade balance, and procyclical stock prices observed in the Mexican data over the period 1990Q1-2011Q4.

### ***A Spare Tire for Employment: Corporate bond issuance in China***

Yi Huang, Graduate Institute Geneva

Shu Lin, Chinese University of Hong Kong

Haichun Ye, Chinese University of Hong Kong (Shenzhen)

**Abstract:** We study corporate bond issuance in China. An interesting feature of China's corporate bond market is that issuance requires direct government approval, which offers us a unique opportunity to investigate of government's objectives in the process of financial resources allocation. In a large firm level data for the years 2006-2015, we find robust evidence that employment size plays an important role in determining firms' access to corporate bond market. Firms with larger employment sizes have a significantly higher likelihood to issue corporate bonds, especially during economic downturns or tight bank credit periods. Moreover, firms with worse performance are less likely to issue bonds, but the impact of firm performance on the likelihood of issuance is significantly weakened by employment, leading to inefficiency in financial resource allocation. Finally, further deal-level evidence indicates that, conditional on approval of issuance, employment size is associated with a shorter maturity and has no effect on yield to maturity.



## ***Exchange Rates, Local Currency Pricing and International Tax Policies***

Sihao Chen, Fudan University

Michael B. Devereux, University of British Columbia

Jenny Xu, Hong Kong University of Science and Technology

Kang Shi, Chinese University of Hong Kong

**Abstract:** Empirical evidence suggests that for many countries, retail prices of traded goods are sticky in national currencies. Movements in exchange rates then cause deviations from the law of one price, and exchange rate misalignment, which cannot be corrected by monetary policy alone. This paper shows that a state contingent international tax policy can be combined with monetary policy to eliminate exchange rate misalignment and sustain a fully efficient welfare outcome. But this monetary-fiscal mix cannot be decentralized with non-cooperative determination of monetary and fiscal policy. Non-cooperative use of taxes and subsidies introduces strategic spillovers which opens up a fundamental conflict between the goals of output gap and inflation stabilization and those of terms of trade manipulation in an open economy. The implementation of an efficient monetary-fiscal mix requires effective cooperation in fiscal policy, while leaving monetary policy to be determined non-cooperatively. In addition, while an efficient outcome requires state contingent taxes and subsidies to eliminate exchange rate misalignment, it is still necessary to have flexible exchange rates and independent monetary policy.

## **Afternoon Session**

### ***Financing Multinationals***

Jingting Fan, Pennsylvania State University

Wenlan Luo, Tsinghua University

**Abstract:** We develop a quantitative-oriented model that integrates the production and financing decisions of multinational corporations (MNCs). Firms can deploy their technology for production overseas and become MNCs. Due to frictions in obtaining external finance, the scale of the affiliates partially depends on the MNC's internal capital market, giving rise to foreign direct investment (FDI). The model generates empirically consistent relationships between FDI, multinational production (MP), and the financial market conditions of the host and home countries. Model-based decompositions show that the changes in financial market conditions account for a sizable fraction of the rapid growth in global FDI prior to 2008 and the slowdown afterward. Overlooking the technology content of MNCs understates the welfare gains from FDI; overlooking the capital content misses the dynamic welfare effects.



## ***Trade Networks and Firm Value: Evidence from the US-China Trade War***

Yi Huang, Graduate Institute Geneva

Chen Lin, The University of Hong Kong

Sibo Liu, Lingnan University, Hong Kong

Heiwai Tang, the University of Hong Kong

**Abstract:** This paper evaluates the financial implications of policy shocks on global production networks. We exploit various announcements of tariff hikes across a wide range of goods by both the US and Chinese governments in 2018-2019 as events, starting with the presidential referendum issued by the Trump administration on 22 March 2018, to study the impact of trade policy shocks on firms' stock market performance. Using various novel datasets, we document significant heterogeneous responses by firms to the announcements, depending on their direct and indirect exposure through global value chains to US-China trade. In particular, US firms that are more dependent on exports to and imports from China have lower stock returns and higher default risks around the announcement dates, while reduced import competition from China plays a limited role. Consistent patterns of stock price reactions are also found among Chinese firms. Two reverse experiments in 2019 further validate how the complex structure of global trade determines firms' stock market reactions to policy shocks.


## ***Evolution of Productivity in China***

Jin Keyu, The London School of Economics and Political Science

Xiaoyu Huang, University of International Business and Economics

Tao Jin, PBC School of Finance, Tsinghua University

**Abstract:** We develop a theory of firm dynamics that captures essential features of and differences between two types of firms, state-owned and private enterprises. The main differences are: 1) the state enterprises can borrow at a rate lower than the market rate; 2) private firms can decide optimally when to exit the market, while state firms can only exit when bankrupt. In this model, firms invest not only to accumulate capital, but also to raise their productivity (subject to idiosyncratic and aggregate shocks). We show that preferential treatment lends to perverse incentives: the state companies borrow to scale up whilst private firms are more incentivised to invest in productivity. Over time, state companies will fall behind in productivity, face more competition from private firms, and are consequently more likely to become bankrupt. We use this model to show how productivity across firms endogenously evolves and diverges over time in China. The model also captures other firm dynamics, such as the evolution of firm size, of the misallocation and reallocation of resources across firms. We compare key statistics to Chinese manufacturing firm-level data.



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