Patrick Coen

LONDON SCHOOL OF ECONOMICS & POLITICAL SCIENCE **Department of Economics**

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GENDER: Male **CITIZENSHIP**: British

PRE-DOCTORAL STUDIES:

MRes Economics	London School of Economics and Political Science	2014 - 2016
MSc Economics	Birkbeck, University of London	2011 - 2013
BA Economics	University of Cambridge	2004 - 2007

DOCTORAL STUDIES: London School of Economics and Political Science, Department of Economics

TITLE: Three papers on industrial organization in financial markets

DATES: 2016 – present (expected completion May 2020)

THESIS ADVISORS AND REFERENCES:

Professor Alessandro Gavazza (advisor)
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RESEARCH AREAS:

Primary Fields:	Financial Economics, Industrial Organization
Secondary Fields:	Household Finance, Banking

TEACHING EXPERIENCE:

Postgraduate

2018 - 2019	MG411 Firms and Markets, for Professor John Sutton, Dr Kristóf Madarász (LSE)

Undergraduate

2018	EC313 Industrial Economics, for Professor Mark Schankerman (LSE)
2015	EC102 Economics B, for Professor Gianmarco Ottaviano (LSE)

Executive

2016 - 2018	PP488e Regulatory Analysis, for Professor Martin Lodge (LSE)

RELEVANT POSITIONS HELD:

2019 - present	Technical Specialist	Financial Conduct Authority, UK
2015 - present	Academic Visitor	Bank of England
2015 - 2018	Contractor	Compass Lexecon
2011 - 2014	Assistant Director of Economics	Competition and Markets Authority, UK
2007 - 2011	Economist	FTI Consulting

HONORS, SCHOLARSHIPS AND FELLOWSHIPS:

2018	LSE Class Teacher Award, highly commended
2014 - 2018	ESRC PhD Scholarship
2007	James Bailey Prize, Corpus Christi College, University of Cambridge

JOB MARKET PAPER:

A structural model of interbank network formation and contagion
with Jamie Coen (LSE)

The interbank network, in which banks compete with each other to supply and demand financial products, creates surplus but may also result in risk propagation. We examine this trade-off by setting out a model in which banks form interbank network links endogenously, taking into account the effect of links on default risk. We estimate this model based on novel, granular data on aggregate exposures between banks. We find that the decentralised interbank market is not efficient, primarily because banks do not fully internalise a network externality in which their interbank links affect the default risk of other banks. A social planner would be able to increase surplus on the interbank market by 13% without increasing mean bank default risk or decrease mean bank default risk by 4% without decreasing interbank surplus. We propose two novel regulatory interventions (caps on aggregate exposures and pairwise capital requirements) that result in efficiency gains.

WORKING PAPERS:

Information loss over the business cycle

The number of active mutual funds is pro-cyclical: net entry is negative in downturns and positive in upturns. The effect of this firm turnover on welfare depends on a key-trade off: the business cycle replaces low quality exiting funds with entrants that may on average be higher quality, but about whom investors have a less precise signal as they have no returns history (where this “information loss" leads to misallocation that harms welfare). We examine this trade-off by estimating a structural model in which rational investors form and update beliefs about competing mutual funds that endogenously choose to enter and exit the market. We estimate this model using data on US mutual funds. We find that the impact of the business cycle on welfare depends on its depth and frequency: a business cycle that is deep and infrequent harms welfare, whereas a business cycle that is shallow and frequent improves welfare. This is because a deep business cycle causes a smaller marginal improvement in average fund quality than a shallow cycle (because in deep recessions high quality funds exit as well as low quality funds) and an infrequent business cycle means that the funds that do exit have longer returns histories, such that a greater volume of socially valuable information is lost.

Squeezing dealers: bank regulation and market liquidity
with Jamie Coen (LSE)

Post-crisis regulation has increased the costs of market-making for dealers, but traditional measures of market liquidity have not deteriorated. To explain this empirical puzzle, we estimate an equilibrium search-and-matching model of an over-the-counter market. We build on existing models of this type by allowing dealers to: (1) endogenously select their search intensity, (2) face heterogeneous search costs, and (3) decide to exit the market. We estimate this model based on transaction-level data on Sterling corporate bonds, making use of a natural experiment in which capital regulation was introduced differentially across banks. We find that higher capital requirements cause high-cost dealers to exit the market and the remaining dealers to increase their search intensity, such that in equilibrium liquidity does not deteriorate. We run counterfactual analyses to reach novel conclusions about how the equilibrium effect of capital regulation on liquidity varies across markets depending on their characteristics and across time depending on financial stress.