Nicolas Inostroza

Northwestern
Economics

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Citizenship: Chilean

Fields

Research: Finance, Theory

Teaching: Corporate Finance, Financial Market Design

Education:

Ph.D., Economics, Northwestern University, 2019 (anticipated)
Committee: Alessandro Pavan (Chair), Michael Fishman, Jeff Ely

M.A., Economics, Northwestern University, 2019
M.A., Economics, University of Chile, 2013, *Maximum Distinction*
B.S., Industrial Engineering, University of Chile, 2013, *Maximum Distinction*

Fellowships & Awards

Becas Chile Grant, 2015-2017
Northwestern Graduate Fellowship, 2013-2019
Highest Honors Bachelor Engineering Sciences, major Industrial Engineering, 2012
Conycit Grant for MSc studies at CEA-DII-Universidad de Chile, 2012
Outstanding Student Award in Industrial Engineering 2009, 2010
Excellence Grant "Eiffel" to study at Ecole Centrale Paris, 2007
Outstanding Student Award in Engineering and Science core curriculum, 2005, 2006
Excellence Grant. 4th highest average score accepted at Engineering School, 2005
Highest national score: math section, PSU (national admission test) 2004
Bronze Medal. XVI National Mathematics Olympiad. Mathematical Society of Chile, 2004

Teaching Experience

Teaching Assistant, Northwestern University, 2014-2017
Intermediate Microeconomics I and II, Corporate Finance, Industrial Organization
Microeconomic Analysis (MBA)

Teaching Assistant, University of Chile, 2010-2013

Microeconomics I and II (G), Corporate Finance (G), Managerial Economics (MBA)
Microeconomics (U), Industrial Organization (U), Operations Research (U)

Conferences

Young Economist Symposium (Yale), 2017
Chicago Theory Conference (Booth), 2017
Liquidity Conference (Wharton), 2017
AEA meetings (Information Design session), 2018
Midwest Macroeconomics Conference (Wisconsin -Madison),2018

Refereeing

Journal of Economic Theory (x1), American Economic Review (x4)

Job Market Paper

Persuading Multiple Audiences: Stress Testing, Recapitalizations, and Liquidity Provision

I investigate the optimal design of interventions to stabilize financial institutions under distress. A policy-maker facing the potential default of a bank discloses information about the long-term profitability of its assets and its liquidity position to multiple audiences. I characterize the optimal comprehensive disclosure policy and show that when the quality of the assets is above a threshold, the test assigns a single *pass* grade. In turn, when the quality of the assets is poor, the test assigns one of multiple failing grades and complements that grade with a follow-up pass-fail test on the bank's short-run liquidity position. Additionally, the policy-maker imposes contingent capital requirements. I find that without these requirements, disclosure of information about the bank's buffers may be ineffective. When the regulator lacks the technology to timely respond to liquidity shocks, she designs a liquidity-provision program whereby the government offers to buy assets from the bank in exchange for cash and a public disclosure of the bank's liquidity position. Interventions display a non-monotone pecking order: the private sector funds banks with either high- or poor-quality assets, while institutions with assets of intermediate performance participate in the government's liquidity program. My results shed light on the optimal way to disclose information in environments with multiple audiences and multi-dimensional fundamentals.

Other Papers

Persuasion in Global Games with Application to Stress Testing (joint with A. Pavan) *R&R American Economic Review.*

We study robust/adversarial information design in global games of regime change. We show that the optimal policy coordinates all market participants on the same course of action. Importantly, while it removes any "strategic uncertainty," it preserves heterogeneity in "structural uncertainty". When the designer is constrained to public disclosures, we identify conditions under which the optimal policy is a "pass/fail" test, as well as conditions under which the test is monotone in the banks' fundamentals. Finally, we show that the benefits from discriminatory disclosures come from "dividing-and-conquering" the market, and relate them to the type of securities issued by the banks.

Selling Securities under Distress (joint w. N. Figueroa) *working paper*

We revisit the question of how to sell securities to buyers endowed with private information, as in DeMarzo, Kremer, & Skrzypacz (2005). We consider the case of a firm under distress that is forced to sell assets to improve its liquidity position. The firm maximizes revenue and fully discounts future payoffs associated with the underlying assets. We do not impose any constraint neither on the type of securities, nor on the selling mechanism the firm may use. We show that when buyers' private signals are informative in the MLRP sense, the only type of contracts the seller offers to buyers are debt contracts with face values monotonically ordered according to buyers' types. Furthermore, the optimal auction of securities satisfies the same qualitative properties found in standard auction design. Namely, the optimal allocation rule features (i) no distortion at the top; (ii) binding downward, local incentive constraints; and (iii) no rents at the bottom. We then ask whether the seller benefits from disclosing information to potential buyers. When asymmetric information of the latter represents different levels of optimism regarding the future asset's payoffs and not a technological advantage over other bidders, the seller commits to a full-disclosure policy.

Languages English (fluent), Spanish (native), French (proficient)

References

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