PhD THESIS

PhD Candidate: Adriana Grasso

Thesis Title:
Essays in Macroeconomics and Finance

Keywords:
Real Rates; Habits; Volatility Risk; Yield Curve Inversion
Investment Expectations, Inflation Expectations, Survey Data

PhD in Economics
XXIX Cycle
LUISS Guido Carli
Supervisor: Prof. Pierpaolo Benigno
December 2016

Thesis Defense:
Month Day, Year

Thesis Committee:
Prof. Pierpaolo Benigno, *Institution*
Prof. Francesco Lippi, *Institution*
Prof. Facundo Piguillem, *Institution*

Abstract

In Chapter 1, which is joint with Filippo Natoli[1], we propose a consumption-based model that allows for an inverted term structure of real and nominal risk-free rates. In equilibrium, real interest rates depend not only on shocks to consumption growth but also on expectations about future consumption growth volatility. In bad states, a high uncertainty makes agents more willing to accumulate precautionary savings and to rebalance their bond portfolios towards longer maturities, pushing the equilibrium short-term yields above long-term ones. Pricing time-varying volatility risk is essential to obtain the inversion of the real curve and allows to price the average level and slope of the nominal one.

Chapter 2 is based on a joint work with Tiziano Ropele[2]. In this paper I empirically investigate the relationship between firms' inflation expectations and their willingness to invest. Using survey data on Italian firms I find that higher inflation expectations do exert a favourable effect on business investment decisions. While I document a minor role of the firm-level nominal borrowing cost, other determinants of investment expectations are significant, such as the credit markets' access conditions and the expected liquidity position of firms. These results bear important implications for policymakers as they offer support to measures aimed at engineering higher inflation expectations in order to stimulate the economy.

[1]Bank of Italy and LUISS Guido Carli
[2]Bank of Italy