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Undergraduate Studies:

MMath, Mathematics, University of Cambridge, Distinction, 2007
BA, Mathematics, University of Cambridge, First Class, 2006

Graduate Studies:

Harvard University, 2007 to present
Thesis Title: "Inflation and Asset Prices"
Expected Completion Date: June 2012

References:

Professor Luis M. Viceira
Harvard Business School
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Professor John Y. Campbell
Harvard University
617-496-6448, john_campbell@harvard.edu

Professor Erik Stafford
Harvard Business School
617-495-8064, estafford@hbs.edu

Professor James Stock
Harvard University
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Teaching and Research Fields:

Primary fields: Asset Pricing, Macroeconomics
Secondary fields: Corporate Finance, Econometrics

Teaching Experience:

Fall, 2008: Asset Pricing, Harvard University, teaching fellow for Prof. Christopher Polk

Research Papers:

"Inflation Risk in Corporate Bonds" , with H. J. Kang ([Job Market Paper](#))

Do corporate bond spreads reflect fear of debt deflation? Most corporate bonds have fixed nominal face values, so unexpectedly low inflation raises firms' real debt burden and increases default risk. In a real business cycle model with time-varying inflation risk and optimal but infrequent capital structure choice, more volatile and more procyclical inflation lead to large credit spread increases, even with inflation volatility as moderate as in the United States since 1970. We find strong qualitative and quantitative

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empirical support for our model predictions in a panel of six developed economies. Credit spreads increase by 15 basis points as either inflation volatility or the inflation-stock return correlation increase by one standard deviation. Inflation risk explains as much variation in credit spreads as do equity volatility and the dividend-price ratio. Firms counteract higher debt financing costs by decreasing leverage and increasing the share of floating-rate debt in times of higher inflation uncertainty.

“An Empirical Decomposition of Risk and Liquidity in Nominal and Inflation-Indexed Government Bonds”, with Luis M. Viceira

This paper decomposes excess return predictability in inflation-indexed and nominal government bonds into liquidity, market segmentation, real interest rate risk and inflation risk. We estimate a liquidity premium, which appears systematic in nature. It is around 40 to 70 bps during normal times but much larger during the early years of TIPS and during the financial crisis in 2008-2009. We find evidence for large time-varying liquidity premia and real rate risk premia in TIPS and a time-varying inflation risk premium in nominal bonds. We find no evidence for segmentation between nominal and inflation-indexed bond markets in the US or UK.

“A Heteroskedasticity and Autocorrelation Robust Pre-Test for Weak Instruments”, with Jose Montiel Olea, Revise and Resubmit, *Journal of Business and Economic Statistics*

This paper develops a pre-test for weak instruments in linear instrumental variable regression that is robust to heteroskedasticity and autocorrelation. Our test statistic is a scaled version of the regular first-stage F statistic. The critical values depend on the long-run variance-covariance matrix of the first stage and can be conveniently evaluated numerically. The test controls the bias of the Two-Stage Least Squares estimator relative to a worst-case bias. We apply our pre-test to the instrumental variable estimation of the Elasticity of Intertemporal Substitution and find that instruments previously considered not to be weak do not exceed our threshold.

Publications:

Pflueger, Carolin E., and Luis M. Viceira, 2011, “Inflation-Indexed Bonds and the Expectations Hypothesis”, forthcoming *Annual Review of Financial Economics*

This review empirically analyzes the expectations hypothesis (EH) in inflation-indexed (or real) bonds and in nominal bonds in the United States and in the United Kingdom. We strongly reject the EH in inflation-indexed bonds, and also confirm and update the existing evidence rejecting the EH in nominal bonds. This rejection implies that the risk premium on both real and nominal bonds varies predictably over time. We also find strong evidence that the spread between the nominal and the real bond risk premium, or the breakeven inflation risk premium, also varies over time. We argue that the time variation in real bond risk premia most likely reflects both a changing real interest rate risk premium and a changing liquidity risk premium, and that the variability in the nominal bond risk premia reflects a changing inflation risk premium. We estimate significant time series variability in the magnitude and sign of bond risk premia.

Czado, Claudia, and Carolin E. Pflueger, 2008, “Modeling Dependencies between rating categories and their effects on prediction in a credit risk portfolio”, *Applied Stochastic Models in Business and Industry* 24(3):237-259

Work in Progress:

“Macroeconomic Origins of Bond Risks”, with John Y. Campbell and Luis M. Viceira

The covariance between US Treasury bond returns and stock returns has moved considerably over time. While it was slightly positive on average in the period 1953-2009, it was unusually high in the early 1980's

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and negative in the 2000's. This paper explores the macroeconomic determinants of nominal bond risks in a simple new Keynesian model.

Professional Activities

2011: Presentations at NBER Summer Institute Asset Pricing Workshop, NBER Summer Institute Capital Markets and the Economy Workshop, North American Summer Meetings of the Econometric Society, SCOR/Toulouse School of Economics Inflation Conference
Referee: Econometrica, Quarterly Journal of Economics, Journal of Applied Econometrics

Research Experience and Other Employment:

Fall, 2010: Harvard University, Research Assistant for James Stock
2008-2009: Harvard University, Research Assistant for John Y. Campbell and Luis M. Viceira
2007-2008: Harvard University, Research Assistant for Nicola Fuchs-Schuendeln