DONGCHEN ZOU

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EDUCATION

The Wharton School, University of Pennsylvania 2019 - 2025 (Expected)
Ph.D. Candidate in Finance

Leonard N. Stern School of Business, New York University 2013 - 2017
B.S. in Finance and Statistics, *summa cum laude*

RESEARCH INTERESTS

Asset Pricing, International Finance, Financial Markets

JOB MARKET PAPER

[1] Bond Demand and the Yield-Exchange Rate Nexus: Risk Premium vs. Convenience Yield

Abstract: This paper examines how demand for government bonds jointly affects bond yields and exchange rates. Exploiting government bond auctions from advanced economies to isolate demand shocks, I identify two channels: the risk premium channel, which reduces both bond and currency risk premiums, and the convenience yield channel, which increases the value of domestic safe assets. While both channels suppress yields, they have opposing effects on exchange rates. A preferred-habitat model featuring preference for liquidity demonstrates these mechanisms. The model predicts that higher auction demand lowers yields and strengthens the domestic currency by raising convenience yields. Empirical results validate these predictions. The standard positive yield-exchange rate relation, primarily driven by the risk premium channel, dampens during auctions as bond yields increasingly reflect convenience yields. These findings highlight the pivotal role of liquidity preferences in the joint dynamics of government bonds and exchange rates.

Award: Global Initiatives Research Grant

OTHER WORKING PAPERS

[2] Common Risk Factors in the Returns on Stocks, Bonds (and Options), Redux
(with Zhongtian Chen, Nikolai Roussanov, and Xiaoliang Wang)

Abstract: Are there risk factors that are pervasive across major classes: stocks, corporate bonds, and options? We employ a novel econometric procedure that relies on asset characteristics to estimate a conditional latent factor model. A common risk factor structure prominently emerges across asset classes. Several common factors explain a substantial amount of time-series variation of individual asset returns across all three asset classes, and have sizable Sharpe ratios. Several of our factors are highly correlated with some of asset-class-specific factors as well as macroeconomic and financial variables. However, a small set of common factors does not fully capture the cross-section of average returns. A mean-variance efficient portfolio that utilizes asset characteristics achieves a high Sharpe ratio as different asset classes hedge each other's exposures to the common factors.

Award: 2024 Jacobs Levy Center Research Paper Prize for Best Paper

Selected Presentations (incl. by coauthors): *2024 SFS Cavalcade North America, 2024 HKUST IAS-SBM Financial Econometrics conference, 2024 Bocconi Asset Pricing Conference, 2024 BI-SHoF*

Conference, 2024 China International Conference in Finance, London Business School, Chicago Booth, USC Marshall, Shanghai University of Finance and Economics, Copenhagen Business School, Columbia Business School

Media Coverage: *Knowledge@Wharton*

[3] Speculation, Forward Exchange Demand, and CIP Deviations in Emerging Economies (with Pierre De Leo and Lorena Keller)

Abstract: We argue that speculative forces drive the currency forward demand and shape the covered interest parity (CIP) deviations in emerging economies. We propose a model in which global investors demand forward exchange to profit from predictable currency returns, while local intermediaries, constrained by position limits, arbitrage between segmented spot and forward markets. This model explains cross-country patterns in CIP and UIP deviations, which differ from advanced economies. Using granular Peruvian data, we validate model predictions that are difficult to test with cross-country data. We find that local intermediaries' forward balances are negatively correlated with foreign customers' positions, and they consistently profit from supplying forward contracts while simultaneously hedging in the spot market. The results are robust both in the time series and across banks. Forward market prices and positions suggest that fluctuations in global investors' forward demand also drive CIP deviations in emerging economies during periods global distress.

Selected Presentations (incl. by coauthors): *2024 LACEA Meeting, University of Virginia, University of Maryland*

[4] The A-H Premium and Implications for Global Investing in Chinese Stocks (with Jennifer Carpenter and Robert Whitelaw)

Abstract: Among the 3600 Chinese firms with A shares listed on the Shanghai and Shenzhen Stock Exchanges, about 100 have H shares dual-listed on the Hong Kong Stock exchange. The prices of the A shares have historically exceeded those of H shares by 60% or more on average. Why do Chinese investors price these stocks so much higher than global investors in Hong Kong? Does this imply that global investors seeking to invest in Chinese firms should prefer foreign-listed stocks over domestic-listed stocks more generally? This paper analyzes the cross-sectional and time series determinants of the A-H premium. We find that traditional asset pricing factors have significant explanatory power, but our results suggest that additional factors such as barriers to convergence and home bias also play an important role. Market-level analysis shows that the A-H premium does not imply that H shares are the better investment for global investors once portfolio considerations are taken into account, because H-share returns are much more highly correlated with the global stock market than A shares.

Selected Presentations (incl. by coauthors): *NYU Stern*

Media Coverage: *Investopedia, Nikkei Asia*

[5] Passive Investing and Stock-Specific Price Informativeness: The Lendable Supply Channel

Abstract: This paper documents a positive association between passive fund ownership and stock-specific price informativeness. The paper proposes that passive funds improve stock-specific price efficiency by expanding the stock's lendable supply and thereby alleviating the short- selling constraints, namely the "lendable supply" channel. Aligned with the lendable supply channel, the positive association only shows up within short-selling constrained stocks and is largely absorbed by

the lendable supply. Using the Russell 1000/2000 index assignment as an instrument for passive fund ownership, the positive relation is causal, and a 1% increase in passive ownership leads to at least a 0.7% increase in lendable supply. In the quantification exercise, almost all of the positive effect can be explained by the lendable supply channel.

HONORS, GRANTS, AND AWARDS

Jacobs Levy Center Research Best Paper Award	2024
Global Initiatives Research Grant	2024
George James Travel Award	2024
Jacobs Levy Equity Management Research Grant	2021
Miller, Anderson, and Sherrerd Graduate Fellowship *(top scorer in qualification exam)*	2020
Beta Gamma Sigma	2016

REFEREEING

Economic Modelling

TEACHING EXPERIENCE

Empirical Asset Pricing (PhD)
Teaching Assistant for Prof. Nick Roussanov — Fall 2022, 2023

International Finance and Cryptocurrency (Undergraduate)
Teaching Assistant for Prof. Marina Niessner — Fall 2022

Consumer Financial Decision Making (Undergraduate)
Teaching Assistant for Prof. Nick Roussanov — Fall 2022

Corporate Finance (Undergraduate, EMBA)
Teaching Assistant for Prof. Lorena Keller and Sasha Indarte — Fall 2021
Teaching Assistant for Prof. Michael Roberts — Summer 2021

Portfolio Management (Undergraduate, MBA)
Teaching Assistant for Prof. Robert Whitelaw — Fall 2016

PAST RESEARCH EXPERIENCE

Fama-Miller Center for Research in Finance — 2017 - 2019
Research Professional

Assisted Professors Wenxin Du, Peter Ganong, Lars Hansen, Takeo Hoshi, Anil Kashyap, Elisabeth Kempf, Pascal Noel, Tom Sargent, Margarita Tsoutsoura, and Eric Zwick on a variety of projects.

OTHER ACTIVITIES

QuantEcon Lectures — 2019 - 2020
Co-authored with Tom Sargent

- Robust Markov Perfect Equilibrium
- Irrelevance of Capital Structure with Complete Markets
- Equilibrium Capital Structures with Incomplete Markets

COMMITTEE

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