James D. Paron

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Education

2019–2025	The Wharton School, University of Pennsylvania Ph.D. Candidate in Finance
2015–2019	The Wharton School, University of Pennsylvania B.S. in Economics, *summa cum laude* Concentrations: Finance, Statistics, & Accounting | Minors: Mathematics & History

Committee

Jules H. van Binsbergen
The Nippon Life Professor in Finance
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Sylvain Catherine
Assistant Professor of Finance
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Jessica A. Wachter
Dr. Bruce I. Jacobs Professor of Quantitative Finance
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Thomas Winberry
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Research Interests

Asset Pricing, Macroeconomics, and Household Finance

Job Market Paper

The wealth of stagnation: Falling growth, rising valuations

Over the last half-century, economic growth stagnated but stock-market wealth boomed. I present evidence that declining innovation productivity reconciles these trends. At the macro level, I document that R&D spending has fallen relative to value, while M&A spending has doubled relative to R&D. At the micro level, most of the increase in aggregate valuation ratios is explained by a reallocation of sales shares toward high-valuation firms. Using a Schumpeterian model of growth and asset prices, I find that declining innovation productivity explains these facts. When innovation productivity falls, R&D falls and M&A rises. This concentrates production into the hands of the most efficient (high-valuation) incumbents, causing aggregate value to boom. Quantitatively, this explains most of the decline in growth and the rise in valuations. It also helps explain other salient trends, including declining firm entry, rising concentration, and falling interest rates. While stock-market wealth boomed, the present value of consumption (consumer welfare) stagnated with output.

Working Papers

Sovereign default and the decline in interest rates, with Max Miller and Jessica A. Wachter

Revise and Resubmit, ***Review of Financial Studies***

Sovereign debt yields have declined dramatically over the last half-century. Standard explanations, including aging populations and increases in asset demand from abroad, encounter difficulties when confronted with the full range of evidence. We propose an explanation based on a decline in inflation and default risk, which we argue is more consistent with the long-run nature of the interest rate decline. We show that a model with investment, inventory storage, and sovereign default captures the decline in interest rates, the stability of equity valuation ratios, and the recent reduction in investment and output growth coinciding with the binding zero lower bound.

Interest-rate risk and household portfolios, with Sylvain Catherine, Max Miller, and Natasha Sarin

Reject and Resubmit, ***American Economic Review***

How are households exposed to interest-rate risk? When rates rise, households experience capital losses on long-term assets but enjoy higher expected returns in the future. These counteracting forces imply an optimal portfolio duration. We present a life-cycle model in which households invest in two assets with different durations. The optimal long-term asset share is hump-shaped over the life cycle. Within cohorts, it increases with wealth and earnings. These predictions are in line with observed patterns. Social Security serves as a hedge against interest-rate risk and mitigates the distributional effects of interest rate changes.

What explains wealth and portfolio differences between Black and White Americans?, with Sylvain Catherine and Ellen Lu

Revise and Resubmit, ***Review of Financial Studies***

We study how economic and social disparities between Black and White Americans shape the composition of their balance sheets and contribute to the racial wealth gap in a life-cycle model. Our analysis yields three main results. First, socioeconomic disparities fully explain differences in portfolio composition. Second, in a dynamic setting where consumption and portfolio choices are endogenous, negative economic conditions increase saving demand and therefore have a limited impact on the racial wealth gap. In other words, the overall consequence of these disparities on Black wealth is smaller than their direct monetary and welfare costs. Third, progressive programs like Social Security can only explain one-third of the racial wealth gap.

Heterogeneous-agent asset pricing: Timing and pricing idiosyncratic risks

This paper studies the importance of idiosyncratic endowment shocks for aggregate asset prices in a generalized continuous-time framework that accommodates both jumps and recursive preferences. I show that, regardless of the presence of jumps, countercyclical cross-sectional risk is irrelevant to risk premia if and only if (i) all agents have time-additive power utility and (ii) cross-sectional risk is uncorrelated with aggregate consumption risk. To quantify the relevance of these conditions, I calibrate a general-equilibrium model with a continuum of recursive-utility agents who face uninsurable idiosyncratic human-capital disasters. The model explains both asset pricing moments and cross-sectional income moments from Social Security Administration income data.

Associative learning and representativeness, with Michael J. Kahana and Jessica A. Wachter

The representativeness heuristic constitutes a striking departure from Bayesian updating. According to a strong form of the heuristic, agents reverse a conditioning argument: for example inferring that a patient is more likely than not to have a rare disease, conditional on a positive test result. The correct inference is that a positive test result is more likely than not, conditional on disease. Recent research implicates representativeness in a wide range of financial market anomalies, with potential consequences for the real economy. However, the cognitive foundations of the representativeness heuristic (RH) remain unknown. Here, we show that the RH emerges from a theory of associative memory and recognition, leading to a cognitive foundation for the RH, and a means of integrating the RH into economic models involving decision-making under uncertainty.

Teaching

Spring 2023 & 2024	**Venture Capital and the Finance of Innovation** (Undergraduate) Teaching Assistant for Sylvain Catherine
Fall 2021	**Foundations of Financial Economics** (Ph.D.) Teaching Assistant for Winston Wei Dou
	Topics in Macro-finance (Ph.D.) Teaching Assistant for Itamar Drechsler and Tim Landvoigt
Spring 2021	**Foundations of Asset Pricing** (Ph.D./MBA/Undergraduate) Teaching Assistant for Jessica A. Wachter
	Neuroeconomics (Undergraduate) Teaching Assistant for Joseph W. Kable
	Venture Capital and the Finance of Innovation (Undergraduate) Teaching Assistant for Sylvain Catherine
Fall 2019	**Accelerated Corporate Finance** (MBA) Teaching Assistant for Jessica A. Wachter

Presentations

** denotes presentation by coauthor*

Seminars	Cambridge Economics, Wharton
Conferences	EFA 2024, FIRS 2024*, WFA 2024, UIC Finance Conference 2024, NBER Long-term Asset Management 2024*, NBER SI Asset Pricing 2021*, WFA 2021, Conference on Macro and Monetary Policy at the San Francisco Fed 2021*, NBER SI Capital Markets 2020*

Service

Referee	*Journal of Monetary Economics*
Discussant	EFA 2024 ("Household Debt Overhang and Human Capital Investment," Manso, Rivera, Wang, and Xia)
Co-organizer	Memory, Beliefs, and Choice Seminars (joint with Computational Memory Lab); Wharton Macroeconomics Reading Group

Awards and Fellowships

2019–	Wharton Doctoral Fellowship
2024	Harris Program Student Fellowship
2022–2023	Jacobs Levy Dissertation Fellowship in Quantitative Finance
2022	Irwin Friend Prize for Best Third-Year Paper

Personal Information

Born October 1997 in Toronto
Citizen of Canada & Italy
Permanent resident of the United States
Married to Madison Paron
Father of Thomas Paron (June 2023)