

Central European University

Péter Kondor's CV
Department of Economics

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DATE OF BIRTH: 6th December, 1977

SEX: Male

CITIZENSHIP: Hungarian

EMPLOYMENT:

Visiting Lecturer, Department of Finance, London School of Economics, 2011-2012
Assistant Professor of Economics, Department of Economics, Central European University, 2008 - present
Assistant Professor of Finance, Graduate Business School, University of Chicago, 2006 – 2008

STUDIES:

London School of Economics, PhD in Finance, 2002-2006
Central European University, MA in Economics (with distinction), 2001 – 2002
Budapest University of Economic Science, M.Sc. in Economics (with distinction), 1996 – 2001
Rajk College for Advanced Studies, Budapest, Hungary, 1997 – 2001
University of Amsterdam, Netherlands, Erasmus student, 2000, Jan – Jul

TEACHING EXPERIENCE:

2011	Lecturer for “Asset Pricing” (MSc) at London School of Economics
2011-	Lecturer for “Global Financial Markets” (MA) at Central European University
2010-	Lecturer for “Investments” (MA) at Central European University
2009-	Lecturer for “Financial Economics” (PhD) at Central European University
2007 -- 2008	Lecturer for “Investments” (MBA) at University of Chicago

HONORS, SCHOLARSHIPS AND FELLOWSHIPS:

2010	Smith Breeden First Prize
2009	Best Teacher Award, CEU
2007-2008	Robert S. Hamada Faculty Fellow, Chicago GSB
2005	GAM Gilbert de Botton Award

PhD STUDENTS:

2010-	Dzsamila Vonnák
2008-	Andras Kiss

REFeree ACTIVITY:

American Economic Review, Econometrica, Economic Journal, Journal of Economic Behaviour and Organization, Journal of Economic Theory, Journal of Finance, Journal of Monetary Economics, Journal of Political Economy, International Journal of Central Banking, RAND Journal of Economics, Management Science, Review of Economic Studies, Review of Financial Studies, Review of Finance

REFEREED PUBLICATIONS:

“The more we know about the fundamental, the less we agree on the price” (*Review of Economic Studies*, accepted, October 2011)

Why do announcements of public information set off a frenzy of trading? Usually, public information brings beliefs closer to each other. With less disagreement, there should be less reason to trade. I highlight two novel properties of certain Gaussian information structures and show that they explain hectic and informative trading around announcements. First, announcements can lead to contrarian higher-order expectations. That is, the more optimistic an agent is regarding the fundamental value, the more pessimistic she is regarding the expectations of others. Second, the announcements can polarize higher-order expectations. That is, the announcement can increase the dispersion of expectations regarding the expectations of others. An information structure with both properties is the equilibrium outcome in a Grossman-Stiglitz type asset pricing model, where agents are subject to rational inattention.

“*Fund Managers, Career Concerns and Asset Price Volatility*” (with Veronica Guerrieri, forthcoming at the *American Economic Review*, previous version was published as an NBER wp14898 in 2009)

We propose a model where investors hire fund managers to invest either in risky bonds or in riskless assets. Some managers have superior information on the default probability. Looking at the past performance, investors update beliefs on their managers and make firing decisions. This leads to career concerns which affect investment decisions, generating a positive or negative "reputational premium". For example, when the default probability is high, uninformed managers prefer to invest in riskless assets to reduce the probability of being fired. As the economic and financial conditions change, the reputational premium amplifies the reaction of prices and capital flows.

“Risk in dynamic arbitrage: Price effects of convergence trading” (*Journal of Finance*, 64(2), April 2009, 638-658) Winner of the **Smith Breeden First Prize** for the Best Paper in asset pricing on the *Journal of Finance* in 2009

I develop an equilibrium model of convergence trading and its impact on asset prices. Arbitrageurs optimally decide how to allocate their limited capital over time. Their activity reduces price discrepancies, but their activity also generates losses with positive probability, even if the trading opportunity is fundamentally riskless. Moreover, prices of identical assets can diverge even if the constraints faced by arbitrageurs are not binding. Occasionally, total losses are large, making arbitrageurs' returns negatively skewed, consistent with the empirical evidence. The model also predicts comovement of arbitrageurs' expected returns and market liquidity.

RESEARCH PAPERS in Progress:

"The delegated Lucas tree" (with Ron Kanie, R&R at the Review of Financial Studies)

We introduce delegation into a standard Lucas exchange economy, where trading in financial assets is delegated to funds, but the endowment process is owned by their clients. Flow-performance incentive functions describe how much capital investors provide to funds at each date, as a function of past performance. We consider a rich set of flow-performance functions including examples with both convex and concave regions, and derive implications for asset prices and trading patterns of various incentive schemes. Delegation affects the Sharpe ratio through two channels: discount rate and capital flow. The two work in opposite directions leaving the aggregate effect ambiguous, in general. For some flow-performance functions even if all investors are identical funds trade among themselves and returns are dispersed in the cross-section. In contrast, when the flow-performance relationship is convex for some funds and concave for others they might not trade at all. In this case, delegation does not affect the Sharpe ratio. Also, the direction of lending and borrowing between funds with different incentives can depend on the sign of the skew of the endowment process.

"Do Hedge Funds reduce Idiosyncratic Risk?" (with Namho Kang and Ronnie Sadka)

This paper documents that the cross-sectional distribution of idiosyncratic volatility of US stocks has been increasingly skewed over the period 1963-2008. The contribution of the top decile to the aggregate idiosyncratic volatility increased, while the contribution of the bottom decile decreased. We postulate that the increased trading activity of Long/Short-Equity fund subject to loss limits exacerbates idiosyncratic volatility of the top decile, but attenuates that of the bottom decile. Both time-series and cross-sectional evidence provide support for this explanation. These findings highlight the roll of hedge funds and other institutional investors in explaining the dynamics of extreme realizations in the cross-section of stock returns.

"Inefficient Investment Waves" with Zhiguo He, October 2011

We propose a dynamic model of investment and trade in a market of a specialized technology subject to two main frictions. First, agents cannot raise outside capital. Second, a random group of agents will have the opportunity to invest in new technology and there is no market to insure against this shock. The first friction implies the presence of investment cycles with abundant investment and low returns in booms and little investment and high returns in recessions. Only when the second friction is present investment cycles are constrained inefficient. Often the inefficiency is two-sided with too much investment in booms and too little in recessions from a social point of view. Interventions targeting only the underinvestment in recessions might make all agents worse off. Also, the two-sided inefficiency typically implies too volatile prices and too frequent realizations of abnormally low prices compared to fundamentals.

"Social learning with subjective communication and self-selection" (with Gergely Ujhelyi)

We study social learning about a new product in a model with subjective communication (influenced by agents' beliefs) and self-selection of social contacts. Self-selection implies that consumers will be disappointed on average. Subjective communication implies that the messages sent will tend to be negative. In this model, unless the quality advantage of the new product is large enough, learning causes the set of consumers choosing the new product to shrink over time. Thus, learning may help efficiency by driving out inferior new products, but can hurt efficiency by reducing the consumption of new products that are superior. We show that learning in more "diverse" neighborhoods implies more consumption of the new product. However, these neighborhoods are more receptive to new products regardless of their quality. A number of extensions are studied, including more accurate communication, communication with subjective thresholds, and less accurate consumption experience. The results provide a learning-based explanation of why some communities seem resistant to new products or ideas.

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"The More We Know, the Less We Agree: Uncertainty, Confusion and Speculative Attacks"

Polarization of opinions after public announcement is widely observed, but often considered to be inconsistent with Bayesian learning. I show that this is not the case in environments where higher-order expectations play a role. I characterize informational structures where public announcement leads to polarization in all higher-order expectations, but not in first-order expectations. To illustrate the economic consequences, I analyze a version of the speculative currency attack model of Morris and Shin (1998) where the central bank has imperfect knowledge of the state of the economy. To assess the probability of a devaluation, speculators have to second guess the expectation of the central bank. I show that the fact that a public announcement can polarize higher-order expectations implies that generating and disclosing more public information can destabilize the exchange rate system.