TOOMAS LAARITS

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Academic Appointments

New York University Stern School of Business — New York, NY
Assistant Professor of Finance — July 2019–present

Education

Yale University — New Haven, CT
Ph.D., Financial Economics — May 2019
M.Phil., Financial Economics — May 2017
M.A., Financial Economics — May 2016

Harvard University — Cambridge, MA
A.B., Mathematics — May 2010

Research Interests

Asset pricing, financial intermediation, monetary policy transmission, safe assets

Working Papers

"Pre-Announcement Risk"

I show that the pre-FOMC announcement drift arises in a model where policy statements are interpreted based on recent news. If the market reaction to a given change in the Fed funds rate depends on announcement time conditions, there are two sources of uncertainty regarding a Fed announcement: 1) the news contained in the policy statement, and 2) announcement time market exposure. Resolution of uncertainty regarding announcement time market exposure leads to an upward drift prior to the news release. The discrete timing of news events induces a seasonality in expected returns, even though fundamentals change at a constant rate.

"The Run on Repo and the Fed's Response" with Gary Gorton and Andrew Metrick

The Financial Crisis began and accelerated in short-term money markets. One such market is the multi-trillion dollar sale-and-repurchase ("repo") market, where prices show strong reactions during the crisis. The academic literature and policy community remain unsettled about the role of repo runs, because detailed data on repo *quantities* is not available. We provide quantity evidence of the run on repo through an examination of the collateral brought to emergency liquidity facilities of the Federal Reserve. We show that the magnitude of repo discounts ("haircuts") on specific collateral is related to the likelihood of that collateral being brought to Fed facilities.

"Precautionary Savings and the Stock-Bond Covariance"

I show that the precautionary savings motive can account for high-frequency variation in the stock-bond covariance. An increase in the price of risk lowers risky asset prices on account of an increase in risk premia; it lowers bond yields on account of the precautionary savings component. Consequently, a price of risk shock moves risky and safe asset prices in the opposite direction. Times when the price of risk is *volatile* see more a negative stock-bond covariance. Empirically, I show that the stock-bond covariance is a strong determinant of credit spreads and can predict excess returns, issuance, and sectoral holdings of safe assets.

"1930: First Modern Crisis" with Gary Gorton and Tyler Muir

Modern financial crises are difficult to explain because they do not always involve bank runs, or the bank runs occur late. For this reason, the first year of the Great Depression, 1930, has remained a puzzle. Industrial production dropped by 20.8 percent despite no nationwide bank run. Using cross-sectional variation in external finance dependence, we demonstrate that banks' decision to not use the discount window and instead cut back lending and invest in safe assets can account for the majority of this decline. In effect, the banks ran on themselves before the crisis became evident.

OTHER PUBLICATIONS

"Collateral Damage" with Gary Gorton
Financial Stability Review, 22 (2018): 73-81.

"Genes under weaker stabilizing selection increase network evolvability and rapid regulatory adaptation to an environmental shift." with Pedro Bordalo and Bernardo Lemos
Journal of Evolutionary Biology 29.8 (2016): 1602-1616.

SEMINAR PRESENTATIONS

2019:
University of Rochester, Boston College, London Business School, Arizona State University, University of Maryland, University of Toronto, New York University.

TEACHING

Foundations of Finance (Undergraduate) — NYU Stern, Fall 2019

TEACHING ASSISTANCE

Hedging and Speculation in Financial Markets (MBA) — Yale SOM
Professor Stefano Giglio — Spring 2018

Corporate Finance (MBA) — Yale SOM
Professor Heather Tookes — Fall 2016, Fall 2017

Financial Economics II (PhD) — Yale SOM
Professor Alan Moreira — Spring 2015, Spring 2017

Financial Markets (Undergraduate) — Yale College
Professor Robert Shiller — Spring 2016

Capital Markets (MBA) — Yale SOM
Professor Gary Gorton — Fall 2014, Fall 2015

WORK EXPERIENCE

Harvard Business School — Boston, MA
Research Associate — August 2010-December 2012
Worked for professors David Scharfstein and Juan Alcacer

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