CHAO GU

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EDUCATION

Ph.D. Economics	Cornell University	May 2007 (Expected)
Dissertation Title:	"Herding, Asymmetric Information, and Bank Runs".	
Committee Members:	Professor Karl Shell (Chair), Professor David Easley, Professor Tapan Mitra.	
M.A. Economics	University of Missouri-Columbia	May 2002
B.A. Economics	Fudan University, China	July 1998

RESEARCH AND TEACHING INTERESTS

Primary: Macroeconomics and Monetary Economics, Banking.
Secondary: Economic Theory.

WORKING PAPERS

"Herding and Bank Runs", mimeo, November 2006.
"Asymmetric Information and Bank Runs", mimeo, May 2006.

WORK IN PROGRESS

Herd Behavior in Bank Runs with Flexible Contract.

CONFERENCE PRESENTATIONS

Cornell-Penn State Macroeconomics Workshop, Cornell University.	September 2006
Macroeconomics Workshop, Cornell University.	September 2006
Far Eastern Meeting of the Econometric Society, Beijing, China.	July 2006
Midwest Macroeconomics Meetings, St. Louis, Missouri.	May 2006
Midwest Economic Theory Meetings, Lansing, Michigan.	April 2006
Cornell-Penn State Macroeconomics Workshop, Cornell University.	October 2005

AWARD AND HONORS

Sage Foundation Graduate Fellowship, Cornell University.	2005 – 2006
Ernest Liu Outstanding Teaching Assistant Award, Cornell University.	2004
Sage Foundation Graduate Fellowship, Cornell University.	2002 – 2003
Harry Gunnison Brown Graduate Fellowship, University of Missouri.	2002
People's Scholarship, Fudan University.	1994 – 1998

PROFESSIONAL AND TEACHING EXPERIENCE

Research Assistant for Professor Karl Shell, Cornell University.	Fall 2006 – present
Teaching Assistant, Cornell University.	
Macroeconomics, Graduate Core Course, Professor Karl Shell.	Spring 2004 and Spring 2005
Microeconomics, Graduate Core Course, Professor David Easley.	Fall 2003 and Fall 2004

Research Assistant for Professor Peter Mueser and Professor Kenneth Troske, University of Missouri – Columbia.
Fall 2000 – Spring 2002

REFERENCES

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EXTENDED ABSTRACTS

"Herding and Bank Runs", mimeo, November 2006.
Bank depositors do have some information about attempted withdrawals by other depositors. The formation of a line outside the bank can persuade others to join the line. The classic bank runs models do not allow for this "herding" behavior, because the withdrawal decision is assumed to be simultaneous in these models. In the banking setup, unlike classic models of herding, payoff to one depositor is not in general independent of the payoffs to the other depositors. I construct a model of fundamental-based runs, in which depositors receive noisy private signals about returns on the bank's portfolio and they observe the withdrawals by other depositors. I show that given a demand-deposit contract, there exists a perfect Bayesian equilibrium in which the depositors withdraw if their beliefs are below the threshold, and wait otherwise. A bank run occurs as a result of a herd of withdrawals when the beliefs of all depositors are below the threshold. If the prior belief is favorable enough, the private signal that an informed depositor gets is not decisive, and the informed depositor always waits unless she needs to consume immediately. When the belief is in the middle range, the depositors who have not been informed watch the informed depositors' decisions closely. The informed depositors follow their private signals, and their decisions reveal the information obtained. Computed examples show that in some economies the optimal contract permits herding runs because it not only provides more liquidity to the depositors to insure against the liquidity shocks, but also encourages depositors to reveal the signals they receive. In other economies, the run-proof contract is optimal. Even though it provides less liquidity to the depositors, it prevents the economy from costly bank runs.

"*Asymmetric Information and Bank Runs*", mimeo, May 2006.
It is known that sunspots can trigger panic-based bank runs and that the optimal banking contract can tolerate panic-based runs. The existing literature assumes that these sunspots are based on a publicly observed extrinsic randomizing device. In this paper, I extend the analysis of panic-based runs to include an asymmetric-information, extrinsic randomizing device. Depositors observe different, but correlated, signals on the stability of the bank. A depositor does not know for sure whether other depositors will run on the bank or not. She infers the decisions of others from the signal that she receives, which in general is neither purely public nor purely private. I find that if the signals that depositors obtain are highly correlated, there exists a correlated equilibrium for some demand deposit contracts. In this equilibrium, either a full bank run, or a partial bank run, or no bank run occurs depending on the realization of the signals. The number of contracts allowing for such an equilibrium diminishes as the signals become more noisy. Computed examples indicate that in some economies, if the probabilities of full bank runs and partial bank runs are small, a demand-deposit contract that tolerates bank runs and partial bank runs is better than the run proof contract; while in some other economies a run-proof contract is optimal. The results hold in a broad class of mechanisms, which includes partial suspension of convertibility.