

LUIGI FALASCONI

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EDUCATION

University of Pennsylvania, Ph.D. in Economics	2020 - ongoing
Universitat Pompeu Fabra, MRes in Economics	2019
Barcelona School of Economics, M.Sc. in Economics and Finance	2018
Bocconi University, B.Sc. in International Economics and Finance	2014–2017

RESEARCH INTERESTS

Macroeconomics, Financial Economics, International Finance

JOB MARKET PAPER

“Bailout Expectations, Default Risk and the Dynamics of Bank Credit Spreads,”

This paper studies the role of bailout expectations in shaping the dynamics of bank credit spreads and the implications for bank risk-taking behavior. I propose a dynamic model of financial intermediation with bank default and time-varying bailout probabilities. Credit spreads are driven by both fundamental risk and bailout expectations. These two forces have contrasting implications for the joint comovement of credit spreads and default probabilities. Combining the model with US bank credit default swap spreads and option-implied default probabilities, I indirectly infer the relative importance of fundamentals and bailout expectations as drivers of spreads. I find that 28 basis points out of the 34-basis-point rise in credit spreads after 2010 are due to lower perceived bailout probabilities, and that the remainder reflects weaker fundamentals and is partly offset by tighter capital requirements. Finally, I use the model to measure the effect of lower bailout expectations and tighter regulation on the expected returns of bank assets and the cost of bank credit. Abstracting from lower bailout expectations overstates the importance of regulatory tightening by a factor of two.

Invited to the **Minneapolis Fed Junior Scholar Conference**

PAPERS UNDER REVIEW

“The Foreign Liability Channel of Bank Capital Requirements,” with P. Herrero, C.

Mendicino, and D. Supera. Revise and Resubmit, *Journal of Financial Economics*

We examine the effects of tighter capital requirements in a quantitative model of risky financial intermediaries partly funded with foreign currency debt. Setting bank capital requirements at appropriately high levels is crucial to enhance the resilience of banks against sudden losses and the risk of insolvency. As bank default risk declines, the cost of foreign funding decreases, encouraging greater reliance on foreign liabilities. This reveals a novel trade-off in bank capital regulation. On the one hand, higher capital requirements strengthen the resilience of both banks and the broader economy against shocks originating from the banking sector. On the other hand, they increase banks’

exposure to potential disruptions in foreign funding. Our findings suggest that in the presence of bank solvency risk, foreign prudential tools, such as capital flow management taxes or foreign exchange rate interventions, are complementary to bank capital requirements in mitigating financial vulnerabilities. Empirical evidence on Peru's transition to higher capital requirements lend support to the foreign liability channel of bank capital requirements.

“Monetary Policy and the Maturity Structure of Corporate Debt,” with A. Fabiani and J. Heineken. Revise and Resubmit, *Review of Finance*

We show that lower monetary policy rates lengthen the maturity structure of corporate debt. A one standard deviation policy rate cut raises the share of long-term debt — i.e., with maturity above one year — by 87 basis points, explaining 20% of its variation. In the cross-section, large and bond-issuing firms drive the adjustment. We propose a theory rationalizing these findings. Lower policy rates increase long-term bond demand due to reach-for-yield. Financial frictions allow large firms only to benefit by refinancing at lower yield. Empirical evidence on corporate bond issuance and holdings by insurers and mutual funds supports this mechanism.

WORKING PAPERS

“Collateralized Loan Obligations as Fire-Sale Insulation,” with W. Diamond and C. Xu

We develop a model where CLOs are the optimal financial structure for securitizing assets that trade in illiquid markets. CLOs hold portfolios of risky loans, sell their lowest quality loans in a crisis, and finance themselves with safe, long-maturity debt. CLOs can become temporarily insolvent without triggering a crisis due to their long-term financing. Banks that invest in CLOs' safe debt are insulated from loan fire sales that would trigger a run if banks held loans directly. Introducing CLOs to a bank-only financial system improves welfare and financial stability, but macroprudential regulation should also constrain the leverage chosen by CLOs.

“Equilibrium Entry in Over-the-Counter and Centralized Markets,” with A. Maselli and C. Xu

This paper studies the determinants of entry in centralized versus decentralized over-the-counter (OTC) secondary markets. We develop a model of asymmetric information in the lending market in which borrowers have access to two costly signals. Creditworthy borrowers signal their type by liquidating non-pledgeable assets in a centralized market or exchanging them for collateralizable assets in an OTC market. Equilibrium prices and haircuts determine signaling costs endogenously. In the optimal separating contract, the cheapest market in terms of signaling costs is accessed. We establish conditions for existence of equilibria in which different markets are accessed — CM-only, OTC-only, and dual-market — and rank them by the utility they provide to borrowers. We show that OTC-only equilibria offer the highest utility, followed by dual-market and CM-only equilibria.

WORK IN PROGRESS

“Entwined Risks: Sovereign Default, Bank Failures and Economic Activity,” with A. Hannon, C. Mendicino, and E. Mendoza (Presented at AEA 2025 Annual Meeting and BSE Summer Forum 2025)

“Bank Capital Regulation in a Monetary Union,” with C. Mendicino, K. Nikolov, and D. Supera

“The Solvency-Run Risk Paradox,” with P. Herrero, C. Mendicino, and D. Supera

AWARDS AND SCHOLARSHIPS

AFA PhD Student Travel Grant, 2026
Penn Institute for Economics Research (PIER) RA Stipend Matching Grant, 2025
EFA PhD Student Travel Grant, 2025
Macro Finance Society PhD Student Travel Grant, 2025
Jacobs Levy Center Research Grant (joint with W. Diamond and C. Xu), 2024
Doctoral Fellowship, UPenn Graduate Division of Arts and Sciences, 2021 - 2025

CONFERENCES AND SEMINARS

2026: AFA Annual Meeting, AFA Annual Meeting (Poster)
2025: AEA Annual Meeting (Poster), UPenn, 25th Macro Finance Workshop (Poster), Boston College 1st PhD Conference in Economics, JCF Information Contracts and Firms Conference, USC Marshall 11th PhD Conference in Finance, Federal Reserve Board, Wharton, Minneapolis Fed Junior Scholar Conference
2024: UPenn, CEA, MFR Program Summer Session for Young Scholars (Poster), Federal Reserve Bank of Philadelphia, Summer Workshop on Money, Banking, Payments and Finance (Poster), FDIC Bank Research Conference (Poster), 19th EGSC, Universita di Napoli Federico II
2023: Midwest Macro Meetings, CEA, Econometric Society NASM, Asian Meeting of the Econometric Society, EcoMod, EEA-ESEM Summer Meeting, 5th Biennial Conference on Financial Stability
2022: World Finance & Banking Symposium

DISCUSSIONS

2023: The Dollar, Fiscal Cyclicalities and the US Safety Puzzle, S.Y. Kim (Asian Meeting of the Econometric Society); The Zombie Lending Channel of Monetary Policy, B. Albuquerque & C. Mao (5th Biennial Conference on Financial Stability)

RESEARCH EXPERIENCE AND OTHER EMPLOYMENT

RA for Prof E. Mendoza (UPenn), September 2025 - May 2026
Graduate Dissertation Fellow, Federal Reserve Board, May - July 2025
RA for Prof. W. Diamond (Wharton), September 2024 - May 2025
Consultant at ECB, DGR - Financial Research Division, June 2022 - June 2023
RA for Professors G. Ordonez and H. Cole (UPenn), January 2023 - May 2023
RA for Prof. A. Dovis (UPenn), September 2022 - December 2022
Student RA at ECB, DGR - Monetary Policy Research Division, August 2019 - July 2020
RA for Prof. Luca Fornaro (CREI-UPF), December 2018 - March 2019
Intern at OECD, Data and Statistics Directorate, Summer 2018
Intern at Italian Treasury, Economic and Financial Analysis Directorate, Summer 2017
Research Project at IGER-Bocconi University (with Prof. Carlo Favero), Summer 2016

TEACHING EXPERIENCE

Introduction to Macroeconomics (UG), UPenn, TA for Prof. L. Bossi, Spring 2024
Macro Modelling (UG), UPenn, TA for Prof. A. DAVIS, Fall 2023
Macroeconomic Theory II (PhD), UPenn, TA for Professors J. Greenwood & J.V. Ríos Rull, Spring 2022
Intermediate Macroeconomics (UG), UPenn, TA for Prof. D. Krueger, Fall 2021
Sovereign Debt and International Financial Markets (Master), BSE, TA for Prof. F. Broner, Spring 2019

ADDITIONAL COURSEWORK

Princeton Initiative: Macro, Money and Finance Conference, Princeton University, September 2022
€ABCN Training School - Financial Intermediation and Monetary Policy, April 2022
Sovereign Debt Crises and Computational Methods, Nova SBE, July 2021

SOFTWARE SKILLS

EViews, L^AT_EX, Mathematica, MATLAB, Julia, Python, R, Stata

REFERENCES

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