The Chair of Corporate Finance and Governance organizes a research seminar in finance on

Tuesday, March 26, 2019, 5:15pm-6.45pm, room C230

Tim KROENCKE
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"Recessions and the Stock Market "

Abstract: Why do stock prices fall more sharply than dividends around recessions? One explanation could be that stock prices fall in anticipation of low future cash flows. Against conventional wisdom, I do not find empirical evidence for such a channel. Alternatively, prices might drop a lot because expected future returns are high. I find that stock price volatility increases substantially more than cash flow volatility during recessions, which suggests that large changes in the price of risk play a key role. I argue that standard calibrations of theoretical asset pricing models have difficulties in explaining the stock market around recessions.

The research seminar is open to all interested persons