

MARTIN C SCHMALZ

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EDUCATION

Princeton University	PhD in Economics	exp. May 2012
	<ul style="list-style-type: none">• Job Market Paper: “Managing Human Capital Risk”• Working papers<ul style="list-style-type: none">◦ “Anxiety and Overconfidence in the Face of Risk” (with Thomas Eisenbach)◦ “Learning about Covariance” (with Sergey Zhuk)	
Princeton University	M.A. in Economics (Finance, Labor)	Nov 2009
Universität Stuttgart	Diplom-Ingenieur (Mechanical Engineering)	June 2007

RESEARCH INTERESTS

Corporate finance, behavioral finance

HONORS, AWARDS, and SCHOLARSHIPS

Fellowship of Woodrow Wilson Scholars	2010 – 2012
Princeton University Fellowship, Merit Prize	2007 – 2012
ERP Scholar	2007 – 2009
Artur-Fischer-Preis for exceptional merits in engineering	2008
Studienstiftung des deutschen Volkes	2006 – 2009
Dr.-Jürgen-Ulderup Scholarship	2006 – 2007

TEACHING and other PROFESSIONAL EXPERIENCE

Certificate holder	McGraw Graduate Teaching Program	Fall 2011
Referee	The Journal of Finance	2010 –
Research Assistant	Prof. Markus Brunnermeier (Princeton University)	2007 –
Teaching Assistant	Environmental and Resource Economics (Prof. S. Brunnermeier)	Spring 2010
Teaching Assistant	Asset Pricing for Master’s in Finance (Prof. M. Brunnermeier)	Fall 2009
Senior Thesis Advisor	Department of Economics (Princeton University)	Spring 2009
Teaching Assistant	Technical Mechanics / Dynamical Systems (Prof. L. Gaul)	Fall 2004

WORK EXPERIENCE

The Boston Consulting Group, Paris, France	May – July 2009
The Boston Consulting Group, Düsseldorf, Germany	June – July 2008
Heraeus Kulzer Dental Ltd., Shanghai, China	April – June 2006
DaimlerChrysler AG, Stuttgart, Germany	April – June 2005
Balzers (India) Ltd., Pune, India	Mar – April 2005

LEADERSHIP

<i>Founder and President:</i> Princeton European Club	2009 – 2011
<i>President:</i> Princeton Graduate Music Society	2009 – 2011
<i>Social Chair:</i> Graduate Economics Club	2008 – 2009

OTHER INFORMATION

Citizenship	German
Languages	Fluent in German and English. Conversational in French, Chinese, Italian, Swedish, and Russian.
IT	Proficient in Microsoft Office, Stata, Matlab, R, Vensim. Basics in Mathematica, Java.
Qualifications	Summer school on ethics in business (Studienstiftung des deutschen Volkes, 2008) Commercial Pilot (FAA: SEL, MEL, IR)

REFERENCES

Prof. Markus Brunnermeier markus@princeton.edu +1 609 258 4050	Prof. David Sraer dsraer@princeton.edu +1 609 258 1638	Prof. Hyun Song Shin hsshin@princeton.edu +1 609 258 4467
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PAPER ABSTRACTS

Managing Human Capital Risk

– Job Market Paper –

Adjustment costs make labor behave like an asset of the firm. Firms use cash to manage the ensuing risk.

Labor adjustment costs make it optimal to retain hard-to-replace employees in bad times, and thus cause an “implicit liability” to pay their wages. The employees' human capital thus behaves like an illiquid asset of the firm that is financed with fixed coupon payments. Firms optimally hold equity-financed cash to insure against the risk of being unable to follow the optimal labor retention policy.

I distinguish my model from existing models of the interaction between corporate finance and labor by identifying the corporate finance response to unionization with a regression discontinuity design. Increased labor adjustment costs due to unionization cause higher cash-to-asset ratios and lower net leverage in financially unconstrained firms. Firms that cannot raise cash “save on risk management,” decrease cash-to-assets and increase net leverage.

Anxiety and Overconfidence in the Face of Risk (with Thomas Eisenbach)

Dynamic inconsistency with respect to risks causes overconfidence and other observed patterns of financial decision making.

We model an anxious agent as one who is more risk averse for imminent than for distant risk. Such preferences can lead to dynamic inconsistencies with respect to risk trade-offs. We derive implications for financial markets such as the well-documented patterns of overtrading and price anomalies around announcement dates. Strategies to cope with anxiety can explain costly delegation of investment decisions. Finally, we model how an anxiety-prone agent can become overconfident endogenously and take excessive risks.

Learning about Covariance (with Sergey Zhuk)

Parameter learning explains asymmetries between up- and downturns in asset pricing and corporate finance.

We model Bayesian parameter learning about the covariance of firms earnings. Risk-averse agents put more weight on observations made in downturns than in upturns, as the behavior of an asset in downturns is more informative about the utility investors derive from holding it. As investors are thus better able to distinguish good from bad firms in declining markets, cross-sectional variance of stock returns spikes, forced CEO turnover increases, and active funds are (only) then able to outperform the index.