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DOCTORAL STUDIES: Massachusetts Institute of Technology (MIT)
PhD, Economics, Expected completion June 2011
DISSERTATION: "Financial Distortions and the Distribution of Global Volatility"

DISSERTATION COMMITTEE AND REFERENCES

Professor Ricardo J. Caballero
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PRIOR EDUCATION 2003-2006 B.A. in Mathematics and Economics, *cum laude*, Hebrew University

CITIZENSHIP USA, Israel **GENDER:** Female

LANGUAGES English (native), Hebrew (native)

RESEARCH & TEACHING FIELDS Primary Fields: International Finance, Macroeconomics
Secondary Fields: International Trade, Theory

TEACHING EXPERIENCE International Economics II (graduate, MIT course 14.582) Fall 2008
Teaching Assistant to Professors Ricardo J. Caballero and Guido Lorenzoni

Intermediate Applied Macroeconomics (undergraduate, MIT course) Spring 2009,

14.05) Teaching Assistant to Professor George-Marios Angeletos Spring 2010

International Economics II (graduate, MIT course 14.582) Teaching Assistant to Professors Roberto Rigobon and Guido Lorenzoni Fall 2009, Fall 2010

The Economics of Energy Markets (undergraduate and graduate, MIT course 14.44/444) Teaching Assistant to Professor Gilbert E. Metcalf Spring 2010

FELLOWSHIPS, HONORS, AND AWARDS World Economic Laboratory Award, 2009
Nominated for Best Graduate Teaching Assistant Award, 2009-2010
MIT Presidential Fellowship, 2006-2008
Dean's Excellence Award, Hebrew University, 2005-2006

PROFESSIONAL ACTIVITIES Referee for *Games and Economic Behavior*

Student coordinator for the Rudi Dornbusch International Breakfast (student seminar) at MIT, 2008-present

CONFERENCE PRESENTATIONS
Bank of Canada Conference on Financial Globalization and Financial Stability, October 2010
NBER Summer Institute, International Finance and Macroeconomics workshop, July 2010
Tournaments, Contests and Relative Performance Evaluation; North Carolina State University, March 2008

SEMINAR PRESENTATIONS
University of Houston Macroeconomics seminar, November 2010
IMF, RES External Seminar organized by the IMF Research Department, June 2010
Hebrew University Theory seminar, December 2009
Haifa Institute of Technology (Technion) Game Theory seminar, January 2007

RESEARCH PAPERS: **“Financial Distortions and the Distribution of Global Volatility” (Job Market Paper)**

A generic feature of financial frictions, whatever their origins may be, is to distort the allocation of funds to projects, causing some less productive projects to be funded while more productive projects are not. I formalize this idea by introducing a log supermodularity condition which requires that, at the margin, the difference in productivity between funded and unfunded projects is smaller in more distorted economies. Using this condition, I then revisit the relationship between financial distortions and macroeconomic volatility. My first set of results establish that financial integration shifts the margin of adjustment to global liquidity shocks disproportionately to financially distorted regions, thereby providing a new and simple explanation for the divergent trends in the volatility of emerging and developed economies up to the recent crisis. My second set of results show that a global environment in which liquidity is cheap is conducive to a deterioration of the financial system in the developed world. While cheap liquidity increases and stabilizes output in that region, it amplifies large adverse shocks.

“The Inefficiency of Financial Intermediation in General Equilibrium”

In the presence of liquidity constraints, there are rents from supplying liquidity to constrained entrepreneurs. In partial equilibrium, when the price of inputs is fixed, a financial system facilitates the efficient allocation of resources by relaxing liquidity constraints. However, in general equilibrium, the presence of a financial sector is associated with two costs: first, intermediation activities absorb productive resources. Second, financial intermediation bids up the price of inputs in terms of liquidity, increasing the economy's dependence on the financial sector and making it increasingly vulnerable to financial crises. Consequently, the presence of a financial sector may reduce equilibrium welfare. I show that an optimal policy is to tilt the tradeoff between production and liquidity hoarding in favor of liquidity hoarding. The optimal policy serves both to relax liquidity constraints and to crowd out the financial sector.

“Tournaments as Optimal Contracts”

There is a rich literature on tournaments demonstrating that various forms of optimal tournaments can help rationalize observed labor contracts. However, there are important negative results stating that tournaments are practically never optimal contracts. In this paper I partially fill this gap by adding an assumption that the principal is liquidity constrained, and deriving conditions under which tournaments are optimal contracts in the two-agent case. The key result is that the optimal contract takes a tournament form if the principal's liquidity constraint is sufficiently binding. I derive this result under the assumption that the aggregate shock to output is large, so that only relative output is informative of effort. Aside from providing a theoretical explanation for the existence of tournaments, the analysis suggests circumstances in which tournaments are more likely to be observed. These are situations in which the aggregate shock to output is large and the principal is credit constrained.

**RESEARCH IN
PROGRESS:**

“Complexity and the Demand for Safe Assets” (joint with Nir Avni, Department of Mathematics, Harvard University)

The subprime mortgage crisis was amplified by the complexity of securitized products. When losses from loans began to realize, many assets were difficult to price because of their complexity, causing them to be essentially untradeable. This is puzzling given that the purpose of securitization is to create safe assets. In this paper, we propose that the collapse in the value of securitized products can be explained by an inherent discontinuity in the level of complexity of financial assets. We employ tools from Statistical Mechanics to argue that the complexity induced by the process of securitization exhibits a phase transition, in which complexity increases discontinuously at some critical level of securitization. In our model, if the demand for safe assets is sufficiently high, the system is drawn to an unstable equilibrium in which agents do not know whether the level of complexity is above or below the critical threshold. The state of complexity can be inferred if the economy is hit by a sectoral shock (such as a shock to housing prices) that calls for the reevaluation of assets. If complexity is revealed to be above the critical level, securitized products become illiquid, resulting in a widespread financial crisis in which banks are both unwilling to lend to each other and unwilling to issue new loans to the productive sector.

“A Balls-and-Bins Model of the City Size Wage Premium” (joint with Matthew J. Notowidigdo, Chicago Booth)

The correlation between city size and wages is typically interpreted as arising from a combination of worker sorting, firm selection, and city-wide agglomeration economies. In this paper, we propose an alternative explanation, which is that part of

this correlation is a mechanical consequence of a highly skewed income distribution. We are motivated by the following statistical principle: if families (“balls”) are randomly assigned to cities (“bins”) of varying size, and the income distribution of families is highly skewed, then with a high probability we will observe a positive correlation between income per capita and city size. Empirically, we interpret “families” broadly as groups of individuals with similar incomes that tend to collocate, such as employees of the same industry or members of the same immigrant group. The correlation implied by the balls-and-bins model depends on the size of these groups. For example, the balls-and-bins model with groups of size 10,000 generates a correlation between city size and wages that can fully account for the lower bound of the existing estimates in the literature. In ongoing work, we are empirically estimating group sizes based on observable characteristics in order to estimate the practical relevance of this mechanism.

“The Week”

The seven day labor-leisure cycle has set the rhythm of economic activity for over a thousand years. However, the division of time into chunks of labor and chunks of leisure is at odds with the standard dynamic model of labor supply that implies that the optimal consumption of leisure is smooth. I add three ingredients to the standard continuous time model: first, any point in time must be spent either on labor or on leisure (and cannot be divided between these two activities). Second, the utility derived from leisure takes the form of increasing a stock of pleasant memories, which depreciates during time spent on work. Third, there is a cost associated with switching between labor and leisure. In this model, a “week” that divides time into a cycle of labor and leisure emerges as an optimal plan. All three modifications are necessary for this result. If either labor or leisure requires widespread coordination, the model has multiple equilibria. It is therefore theoretically possible that the seven day week is a consequence of a coordination failure. In calibrating the optimal labor-leisure cycle, a key parameter is the switching cost between labor and leisure. This parameter depends both on the physical switching costs between the workplace and the “leisure” location, and on the psychological switching costs between work and leisure activities.