THEOFANIS PAPAMICHALIS

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CURRENT POSITIONS

Yale University, Department of Economics *2025 -*
Lecturer in Economics

PAST POSITIONS

University of Cambridge, Faculty of Economics *2022 - 2025*
Assistant Teaching Professor
University of Cambridge, Murray Edwards College *2023 - 2025*
Official Fellow in Economics
University of Cambridge, Murray Edwards College *2023 - 2025*
Director of Studies & Lecturer in Economics

EDUCATION

University of Oxford *Oct. 2016 - 2022*
PhD (DPhil) in Financial Economics
Massachusetts Institute of Technology (MIT) *Jul. 2015 - Jul. 2016*
Master in Finance
University of Cambridge *Oct. 2010 - Jun. 2011*
Master of Advanced Study in Mathematics (Part III)
Essay on: Algorithmic Game Theory (Result: First Class)
Imperial College London *Oct. 2006 - Jun. 2010*
MEng in Electrical and Electronic Engineering
Dissertation on: Robust Model Predictive Control (Result: First Class)

RESEARCH INTERESTS

Macro-Finance, Mathematical Economics, Monetary Economics, Theoretical and Empirical Finance

PUBLICATIONS

"Beliefs and the Net Worth Trap" - *Journal of Economic Theory, Volume 227, June 2025*
(with Seung Joo Lee and Goutham Gopalakrishna)
Abstract: We develop a tractable framework to explore how beliefs about long-term economic growth shape macroeconomic and financial stability. By modeling belief distortions among productive capital users, we provide an analytical characterization of a novel phenomenon termed the "net worth trap", wherein overly optimistic or pessimistic beliefs among productive agents prevent them from rebuilding wealth, causing permanent inefficiencies. A procyclical swing in beliefs reduces or exacerbates the instability, indicating that the type of belief when the economy is vulnerable has important consequences on financial stability and macroeconomic dynamics.

WORKING PAPERS

"Divided Government and the Stock Market" - (Under Review)
(with Dean Ryu and Mungo Wilson)
Abstract: We show that during United governments, where the same political party controls the White House, the Senate, and the House of Representatives, the U.S. stock market earns substantially higher average excess returns and the U.S. economy experiences higher economic growth than during Divided governments. Consistent with a

political gridlock mechanism, the government cycle has a more pronounced impact on small firms, accounting for the recent vanishing of the firm size effect. We examine causal mechanisms through closely contested elections, and show that the government cycle is consistent with theoretical models that link under-performance during Divided-Republican governments to increasing political uncertainty.

"A Macro-Finance Model of Credit Spreads" - (Under Review)
(with C. Christopher Hyland, Dimitrios Tsomocos, and Nikolaos Romanidis)
Abstract: We argue that fluctuations in corporate credit spreads arise from the time-varying risk-bearing capacity of financial intermediaries. Empirically, we show that the primary broker dealers' leverage ratios closely tracks the excess bond premium, highlighting that intermediary balance sheets, rather than firm-level default fundamentals, drive the dominant component of spreads. Guided by this evidence, we build a continuous-time heterogeneous-agent model in which productive experts finance capital with defaultable debt subject to an equity constraint and an endogenous, non-pecuniary default penalty. Three results obtain. (i) The model resolves the credit-spread puzzle: even after conditioning on expected default losses, equilibrium spreads include a sizable wedge that varies with intermediary net worth. (ii) Default is non-neutral: higher default rates raise the user cost of capital, depress investment, and amplify aggregate volatility. (iii) Default penalties have a non-monotonic welfare effect: lax penalties induce excessive leverage ex ante, whereas stringent penalties accelerate fire-sale deleveraging ex post. We characterise optimal policy by solving for the social planner's solution to pin down an interior default penalty schedule.

"From Anomalies to Norms: A Unified Framework for Sentiment, Risk, and Mispricing" - (with Dean Ryu)
Abstract: This paper introduces a novel portfolio construction framework that goes long on safer stocks (less risky or mispriced) and short on unsafe ones. Rooted in limits-to-arbitrage theory, this normative approach provides a strong rationale for cross-sectional anomalies driven by mispricing and helps address well-known asset pricing challenges, such as the low-volatility puzzle and the distress risk puzzle. In addition, our theoretical framework predicts: i) a negative contemporaneous link between aggregate stock market returns and cross-sectional signals, ii) a short-term sentiment-driven effect on expected returns versus a long-term fundamental risk effect, and iii) a decline in returns on both portfolio sides as sentiment rises, with the latter being an unexplored aspect in prior research. Testing 100 U.S. cross-sectional anomalies, we find robust empirical support, highlighting sentiment's role in linking cross-sectional and time-series stock return dynamics.

"The "Matthew Effect" in Asset Returns: Winners and Losers from Entry" - (Under Review)
Abstract: Firms differ in their vulnerability to new entrants to their industries. Recent research has shown the costs of entry to have varied over time, being low before the early 80s and having risen since. In a model with monopolistic competition, fixed costs, and heterogeneous markups, I show that increasing entry costs can give rise to the recently documented reallocation of economic activity towards large high market power firms, a phenomenon known as the "Matthew effect" (Merton (1968)). In particular, when entry costs increase, dominant firms take advantage of their market power and raise markups *asymmetrically* relative to firms with higher vulnerability to new entrants. A straightforward long-short strategy exploiting this effect would have generated 10.8% per annum since the 1980s. Furthermore, this effect can rationalize a number of different puzzles in equity markets, including the high equity premium, the time variation in size and profitability, the empirical relation between returns and markups and why the size effect resurrects when controlling for profitability. My results, thus, reconcile a series of asset pricing phenomena with several macroeconomic stylized facts documented in the literature.

"The Systemic Impact of Debt Default in a Multilayered Global Network Model," IMF Working Paper WP/22/171 *(with Nathan Porter, Camilo E. Tovar, Juan Treviño and Johannes L. Eugster)*
Abstract: The world has become more interconnected over the past few decades. Against this backdrop, economic and financial contagion following adverse shocks can have a severe impact on the global economy. How systemic can the effects of contagion be? What specific transmission channels are involved? What is their relative importance? We address these questions using a multilayered global network model of contagion that simulates the impact of sovereign debt default on the global economy. We also develop a measure of global systemic risk and use bank stress testing techniques to quantify the systemic impact of the shock and the extent of contagion on

the global economy. Our model shows that economic and financial contagion are highly non-linear, and many bystander economies can experience significant negative effects as the initial default is spread through the network. This suggests that many economies might be systemically more important than what conventional measures of size or openness might suggest.

WORK IN PROGRESS

Forward Guidance and Financial Stability *2024*
Democracy and the Gender Pay Gap: An Econometric Exploration *2024*
The Political Economy of the Factor Zoo *2023*

PRESENTATIONS

2025: ASSA Annual Meeting, San Francisco*.
2024: The Asia-Pacific Association of Derivatives (APAD)*; European Finance Association*; FMA Asia/Pacific 2024*; FMA*; Q group Fall seminar*.
2023: University of Bath, Department of Economics; University of Cambridge, Faculty of Economics; ITAM, Department of Economics; Department of Economics, HKUST*; Department of Economics Seminar, Princeton University*.
2022: Warwick MIMA Workshop; Federal Reserve Board of Governors, Financial Stability Division; Charles University, Prague; Said Business School Finance Seminar, Oxford.
2021: Econometric Society, Winter Meetings, Barcelona, Spain; AFL Research Seminar*, University of Bath School of Management; Econometric Society, North American Summer Meetings, Montreal, Canada; EWET 2021, XXIX European Workshop on Economic Theory, Akko, Israel.
2019 & 2020: International Monetary Fund (IMF) SPR Division, Seminar; Econometric Society, Winter Meetings, Nottingham, UK; Econometric Society, Asia Meetings, Xiamen, China; EWET 2019, XXVIII European Workshop on Economic Theory, Berlin, Germany; AEA Annual Meeting Poster Presentation, San Diego; Oxford Inter-Departmental Macro-Finance Doctoral Research Workshop, University of Oxford; Saıd Business School Finance Seminar, Oxford.

INVITED DISCUSSIONS

2022: Oxford Said-– ETH Zurich Macro-finance Conference "Rational Sentiments and Financial Frictions" by Khorrami, P. and Mendo, F. (2021)

TEACHING

Lecturer: *Credit and Financial Development (3rd year Undergraduate course)* *Jan. 2025- Mar.2025*
University of Cambridge
Lecturer: *The International Financial System (3rd year Undergraduate Macro)* *Nov. 2022- 2024*
University of Cambridge
Lecturer: *Empirical Finance (MPhil in Finance and Economics)* *Jan. 2023- 2024*
University of Cambridge
Lecturer: *Macroeconomics of the Short Run (Advanced Diploma in Economics)* *Oct. 2023- Dec. 2023*
University of Cambridge
College Lecturer: *Macro, Micro & Econometrics (Murray Edwards College)* *Oct. 2023- 2025*
University of Cambridge
College Supervisor: *Macroeconomics (King's College, Cambridge)* *Oct. 2022- Mar. 2023*
University of Cambridge
Supervisor: *Econometrics (Advance Diploma in Economics)* *Oct. 2022- Mar. 2023*

University of Cambridge
Supervisor: *Banking and Finance (3rd year Undergraduate course)* *Oct. 2022- Mar. 2023*
University of Cambridge
Graduate Teaching Associate: *Financial Economics (MPhil in Economics)* *Oct. 2021- Jan. 2022*
University of Oxford
Graduate Teaching Associate: *Corporate Finance (MFE)* *Oct. 2019 - Dec. 2019*
University of Oxford
Tutor: *Financial Strategy, Executive Education* *Sept. 2019 - Oct. 2019*
University of Oxford
Graduate Teaching Associate: *Asset Pricing (MFE)* *2017 & 2018*
University of Oxford
Graduate Teaching Associate: *Fixed Income and Financial Derivatives (MFE)* *Mar. 2018 - Jun. 2018*
University of Oxford
Graduate Teaching Associate: *Financial Crises and Risk Management (MBA)* *Mar. 2018 - Jun. 2018*
University of Oxford

AWARDS

2021-22 Saïd Foundation 'Best Finance Paper' *Jan. 2023*
Said Business School PhD Scholarship: University of Oxford *2016 - 2021*
Saıd Business School Doctoral Conference Award, University of Oxford *2018 - 2020*
Dean's Fellowship: Massachusetts Institute of Technology (MIT) *2015 - 2016*
1 Silver and 1 Bronze Medal in the Balkan Mathematical Olympiad *2004 - 2005*
Bronze Medal in the International Mathematical Olympiad (IMO) *2004*

POLICY EXPERIENCE

European Stability Mechanism *Jun. 2020 -May 2021*
Economic and Markets Analysis Department - *PhD Internship*
Bank of Chile *Sept. 2020 - Oct. 2020*
Visiting Position, Financial Policy Division
International Monetary Fund *Jun. 2019 - Sept. 2019*
Strategy, Policy and Review Department - *Fund PhD Internship Program (FIP)*

OTHER PROFESSIONAL EXPERIENCE

Interviewer in undergraduate admissions interviews, Murray Edwards College, Cambridge *2023-2025*
Interviewer in undergraduate admissions interviews, King's College, Cambridge *2022-2023*
Interviewer in undergraduate admissions interviews, Wadham College, Oxford *2017-2019*

IT SKILLS

Python, R, Matlab, STATA, Haver, Latex, Dynare, Bloomberg, Eikon