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R-squared and the Economy

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Many seemingly discordant results are reconciled if firm-specific return volatility is characterized as the intensity with which firm-specific events occur. A functionally efficient stock market allocates capital to its highest value uses, which often amounts to financing Schumpeterian creative destruction, wherein creative winner firms outpace destroyed losers, who can be last year's winners. This elevation in firm-specific fundamentals volatility elevates firm-specific return volatility in a sufficiently informationally efficient stock market. These linkages are interconnected feedback loops, rather than unidirectional chains of causality.

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PRESENTERS: [RAJ CHETTY](#) & [KOSUKE IMAI](#)

SlidesBackground materials on mediationImai, Kosuke, Dustin Tingley, and Teppei Yamamoto. (2013). "Experimental Designs...

A blue rectangular poster with three circular headshots of panelists on the left. The text on the right reads: "International Trade and Macroeconomics, Summer Institute 2025", "Panel on The Future of the Global Economy", "Oleg Itskhoki, Harvard University and NBER", "Paul Krugman, City University of New York and NBER", "Linda Tesar, University of Michigan and NBER", and "July 8, 2025".

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