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INDEX

Financial system dynamics
Elias Bengtsson - Linnaeus University 11
A new macro-financial condition index for the euro area
Claudio Morana Morana - University of Milan-Bicocca 12
The Dark Side of The Bank Levy
Marcin Borsuk - Polish Academy of Sciences
Oskar Kowalewski - IESEG
Jianping Qi - University of South Florida 13
Economic policy uncertainty and bank stability
Gamze Ozturk Danisman - Kadir Has University
Amine Tarazi - Université de Limoges 14
Should Investors Time Their Trading in Volatility Exchange-Traded Products According to the Calendar?
Nahum Biger - University of Haifa
Mahmoud Qadan - University of Haifa 15
Deregulation and the Exchange Rate Exposure of Chinese Non-financial Firms
Yidi Sun - University of Bath
Bruce Morley - University of Bath 16
The Local Discount: Compensation of Locally Educated Executives
Patty Bick - University of Nebraska Omaha
Ryan Flugum - University of Northern Iowa 17
Do Corporate Customers Prefer Socially Responsible Suppliers?
Ran Tao - NEOMA Business School
Hong Zhao - NEOMA Business School
Jian Wu - NEOMA Business School 18
"Less is More": Credit Default Swaps and Firm Cyclicality
Lei Zhao - ESCP Business School
Lars Norden - Brazilian School of Public and Business Administration, Getulio Vargas Foundation
Chao Yin - Durham University 19
Will the Chinese RMB be part of a Multipolar Reserve Currency System. A Panel Data Analysis
Zhifu Xie - Cambridge University
Wei Song - Coventry University
Timothy Rodger - Coventry Univeristy 20
A New Transmission Channel of Global Credit Market Shocks to Credit Cycles in Developing Economies: Can Macroprudential Regulation Attenuate the Virility of the Shocks?
Francois d'Assises Bationo - Laval University
Victor Murinde - SOAS University of London
Issouf Soumaré - Laval University 21
Uncertainty resolution: evidence from the UK syndicated loan market
Junyang Yin - University of Bristol
Neslihan Ozkan - University of Bristol

Sonny Biswas - University of Bristol 22
Employee Diversity and Litigation Risk: Evidence from the Lilly Ledbetter Fair Pay Act
Adrian Tippit - University of Texas at El Paso
Erik Devos - University of Texas at El Paso
He Li - University of Wisconsin, Whitewater 23
Who Invests in and What Drives Equity Ownership Around the World
Yiliu Lu - McGill University
Ines Chaieb - University of Geneva and Swiss Finance Institute
Vihang Errunza - McGill University 24
Do global institutional investors matter for international risk sharing?
Yiliu Lu - McGill University 25
Feasible Implied Correlation Matrices from Factor Structures
Wolfgang Schadner - University of St.Gallen 26
Can Data Envelopment Analysis Enhance the Performance of Mutual Fund Portfolios?
Peihao Zhang - Heriot-Watt University
Bing Xu - Heriot-Watt University 27
Building the bridge: From country crises' probabilities to country risk assessment
Alexandre Siqueira - Brazilian Development Bank 28
Pricing Climate Change Risk in Corporate Bonds
Elsa Allman - Banque de France 29
Does the Delay in Firm-Specific Information Cause Momentum?
Bharat Raj Parajuli - Monash University 30
Learning the Hard Way: Bank Lending and Experience with Financial Crises
Jamus Lim - ESSEC Business School
Geoffrey Minne - Banque Nationale de Belgique 31
Exchange rate exposure and its determinants. An analysis of German companies
Martin Leandro Dutto Giolongo - National University of Litoral
Tung Nguyen - University of Applied Sciences Kaiserslautern
Christian Armbruster - University of Applied Sciences Kaiserslautern 32
Are (Real) Interest Rates Stationary in the Super-Long Run?
Maximilian Ambros - WHU - Otto Beisheim School of Management
Michael Frenkel - WHU - Otto Beisheim School of Management 33
The characteristics of peer-to-peer applicants
Tímea Ölvedi - Corvinus University of Budapest 34
Cash-rich seasoned equity issuers
Mengqian Chen - University of Manchester
Marie Dutordoir - University of Manchester
Norman Strong - University of Manchester 35
Does Common Ownership Encourage Proactive Lobbying? Empirical Evidence from the U.S. Pharmaceutical Industry
Lauren Li - University of Bristol 36
The impact of direct financial market participation on retirement income sufficiency in Australia
Sandra (Xiaobo) Xu - Massey University
Martin Young - Massey University
Liping Zou - Massey University

Jasmine (Jiali) Fang - Massey University 37
The impact of organizational form on the soundness of insurance companies: Stocks vs Mutuals
Benjamin Smet - KU Leuven
Frederiek Schoubben - KU Leuven
Cynthia Van Hulle - KU Leuven 38
Private Equity Acquisitions, Target Characteristics, and Time to Signal
Christian Riis Flor - University of Southern Denmark
Charlotte Sun Clausen-Jørgensen - University of Southern Denmark 39
Volatility forecasting for the coronavirus pandemic using quasi-score-driven models
Szabolcs Blazsek - Universidad Francisco Marroquin
Astrid Ayala - Universidad Francisco Marroquin
Adrian Licht - Universidad Francisco Marroquin 40
A Vicious Cycle: ?inefficient by design? policies, Tail-Risk Strategies, and Asymmetric Payoffs
Marco Guidi - University of Glasgow 41
Asset Pricing Implications of The Mismatch Between Performance Window And Benchmark Duration
Idan Hodor - Monash University
Fernando Zapatero - Boston University 42
Credit Risk Sharing and Credit Market Regulation
AJAY SUBRAMANIAN - Georgia State University 43
Capital Reallocation and Firm-Level Productivity Under Political Uncertainty
Daniel Tut - Ryerson University
Melanie Cao - York University 44
How QE changes the nature of sovereign risk
Leo de Haan - De Nederlandsche Bank
Jan Willem van den End - De Nederlandsche Bank
Dirk Broeders - De Nederlandsche Bank 45
Ownership structure, capital structure and dividend policy on the Iberian markets
Elisabete Vieira - Universidade de Aveiro
Cristina Miranda - Universidade de Aveiro
Anabela Rocha - Universidade de Aveiro 46
The Bright Side of Transparency: Evidence from Supervisory Capital Requirements
Ixart Miquel-Flores - European Central Bank. Frankfurt School of Finance & Management
Nordine Abidi - International Monetary Fund
Quentin Vandeweyer - University of Chicago: Booth School of Business
Livia Amato - University of Chicago: Booth School of Business 47
An analytic study of credit risk problem in a developing country case study
Doris Fejza - Université de technologie de Compiègne
Orjada Kulla - Credins Bank
Dritan Nace - Université de technologie de Compiègne
Zinan Zhou - Université de technologie de Compiègne 48
How do institutional factors and venture capital strategies affect the performance of venture capital-backed companies? Evidence from China
Tianyi Song - Kobe University

Kenji Kutsuna - Kobe University 49
Analyst Forecast Dispersion, Investor Sentiment and the Cross Section of Stock Returns
Guoyu Lin - Clarkson University 50
Incentive Contracting with Multiple Directorships
Guoyu Lin - Clarkson University 51
Celebrity SPACs: SPACtacular or SPACopalypse?
Chaehyun Pyun - University of Georgia 52
Microfinance, Competition and Growth
Asma Boussetta - Laboratoire d'Économie d'Orléans - University of Orléans 53
Corporate tax changes and bank lending
Panagiotis Politsidis - Audencia Business School and European Banking Institute
Yota Deli - University College Dublin
Manthos Delis - Montpellier Business School 54
Maternity Leave Benefits and Firm Value
John Wingender Wingender - Creighton University
Tirimba Oboyno - Creighton University
Sijing Wei - Creighton University 55
ICOs: A new Eldorado for investors and a revolution in startup financing? A survey
Guillaume Andrieu ANDRIEU - Montpellier Business School
Aurélie SANNAJUST - University of Aix-Marseille 56
A Structured Approach to Enterprise Risk Management in Ethiopian Commercial Banks
Tsega Meseret - Bank of Abyssinia 57
The Landscape of Blockchain Innovation: A Textual Analysis of Patent Data
Xian Zhuo - Heinrich Heine University Duesseldorf 58
Banking Industry Dynamics and Size-Dependent Capital Regulation
Tirupam Goel - Bank for International Settlements 59
Corporate ESG Profiles, Matching, and the Cost of Bank Loans
David Shin - Indiana University 60
Attention, Distraction, and the Speed of Information Transmission
Miguel De Jesus - CUNEF University
Ariadna Dumitrescu - ESADE Business School 61
The Dark Side of Globalization: Evidence from the Impact of Covid-19 on Multinational Companies
William Megginson - Price College of Business, University of Oklahoma
Omrane Guedhami - University of South Carolina
April Knill - Florida State University
Lemma Senbet - University of Maryland 62
Capital composition and investor-driven risk-taking in banking
Mami Kobayashi - Ritsumeikan University 63
Banking Across Borders: Are Chinese Banks different?
Catherine Casanova - Bank for International Settlements 64
State Ownership and Post-M&A Innovation Activities: Evidence from Acquirers in China
Jiarong LI - Durham University Business School
Ding Li - Durham University Business School
Jie Guo - Durham University Business School
Xi Li - Newcastle University Business School 65

How are CoCo bonds perceived? Going concern, gone concern, or none of the above?
Mouctar Bah - Ghent University
Koen Inghelbrecht - Ghent University
Koen Schoors - Ghent University
Nicolas Soenen - Ghent University
Rudi Vander Vennet - Ghent University 66
Carbon price returns prediction using a hybrid model
Jesús Molina-Muñóz - Universidad del Rosario, School of Management
Andrés Mora-Valencia - Universidad de los Andes, School of Management
Javier Perote - University of Salamanca 67
Usury law, lending and competition: empirical study of the reversal of usury law in Arkansas
Jiaxuan Wang - University of Bristol 68
Issuance and Valuation of Corporate Bonds with Quantitative Easing
Stefano Pegoraro - University of Notre Dame
Mattia Montagna - European Central Bank 69
DRIVERS OF FINANCIAL INCLUSION AND THE GENDER GAP IN MIDDLE-INCOME COUNTRIES: A DYNAMIC AND STATIC MODEL APPROACH
Portia Akogo - Loughborough University 70
ESG Performance of firms and the relationship with profitability and valuation. Case: Nordic countries
Habeeb Yahya - Turku School of Economics, University of Turku
Mika Vaihekoski - Turku School of Economics, University of Turku 71
How do correlations respond to shocks? Evidence from an impulse response analysis for U.S. stocks, bonds and commodities
Benoît Sévi - Université de Nantes (LEMNA)
Yannick Le Pen - Paris-Dauphine Université 72
Disasters, Large Drawdowns, and Long-term Asset Management
Alexandre Pauli - University of lausanne
Eric Jondeau - University of Lausanne 73
Financial Trilemma and Financial Development in West Africa. Does Policy Choice Matter?
Nana Kwasi Karikari - University of Ghana Business School
Vera Fiador - University of Ghana Business School
Elikplimi Agbloryor - University of Ghana Business School
Agyapomaa Gyeke-Dako - University of Ghana Business School 74
The Impact of Vienna Initiative on the Development of the Financial System in CESEE Region
Judit Burucs - Corvinus University of Budapest 75
Is Flood Risk priced in Bank Returns?
Valentin Schubert - Stockholm School of Economics 76
The Credit Cycle and Monetary Policy in Developing Countries
Maria Elisa Farias - Universidad Federico Santa Maria 77
Debt Equity Swap and the Restructuring of Sovereign Debt Under Incomplete Contracts
Zilong Wang - University of Cambridge
Sanjay Banerji - University of Nottingham 78

Weighted Shapley Values of Efficient Portfolios
Haim Shalit - Ben Gurion University 79
A survey on macroeconomic data and trends in the Eurozone and a control dashboard model based on the KAM and Nekhoroshev theorems and the Hénon attractor
Marco Desogus - Dept. of Economics - University of Cagliari, Italy
Elisa Casu - Unifidi Sardegna, Italy - Practitioner 80
Anti-corruption and Corporate Investment: Evidence from Financial Disclosure Laws
Wendi Huang - The University of Hong Kong
Ye Peng - The University of Hong Kong 81
The Impact of Payday Lending on Crimes
Chen Shen - University of North Carolina at Charlotte 82
A framework for Risk Management in small medium enterprises in developing countries
Huibrecht M van der Poll - University of South Africa Graduate School of Business Leadership
Zodwa Z F Mthiyane - University of South Africa Graduate School of Business Leadership 83
Volatility spillovers of Central and Eastern European currencies
Peter Albrecht - Mendel University in Brno 84
Bank Competition and P2P Lending in Emerging Markets: Evidence from Brazil
Alexandre Reggi Pecora - University of Minnesota
Jose Renato Haas Ornellas - Banco do Brasil 85
The Effect of State-level Corruption on Performance and Risk of Financial Institutions
Maryna Murdock - University of North Georgia
Nivine Richie - University of North Carolina - Wilmington
Thanh Ngo - East Carolina University 86
An Assessment of the Impact of BASEL Accords on the Performance of Indian Banking Sector
Nirmala Velan - Pondicherry University
Vijay Prakash - Department of Commerce with CA, Kongunadu Arts and Science College
Vasant Myil Mohan - Union Bank of India 87
Capital Regulation, Monetary Policy, and the Renegotiation of International Loans
Kerron Joseph - University of Texas San Antonio
Ca Nguyen - University of Arkansas Fort Smith
John Wald - University of Texas San Antonio 88
Does Economic Political Uncertainty impact the Cryptocurrency Market?
Vasudha Mallika Nukala - Olin Business School, Washington University in St. Louis 89
Central Bank Digital Currency in Brazil
Isabella Kanczuk - Milton Academy
Joao Manoel Pinho de Mello - Brazil Central Bank 90
Determinants of advertising expenditures: Role of stock prices in an emerging market
Neveen Ahmed - Institute of National Planning
Omar Farooq - ADA University 91
Funding MSMEs and Female Entrepreneurs in MENA countries: the Microfinance Issue
Philippe Adair - University Paris-Est Créteil
Imene Berguiga - University of Sousse 92
Asset Pricing Implications of Firms' Government Sales Dependency
Bharat Raj Parajuli - Monash University 93

The cultural dimension in companies' leverage. New Evidence using panel data for a European macroeconomic context
Maria Neves - Polytechnic Institute of Coimbra|Coimbra Business School|ISCAC & University of Trás-os-Montes and Alto Douro|CETRAD
Daniela Almeida - Polytechnic Institute of Coimbra|Coimbra Business School|ISCAC
António Dias - UTAD
Elisabete Vieira - Universidade Aveiro-ISCAA 94

To Delegate or Not to Delegate? On the Quality of Voluntary Corporate Financial Disclosure and Its Market Impacts
Yankuo Qiao - Oakland University 95

Risk governance and risk-taking of public commercial banks of OECD
Muddassar Malik - University of Turku
Hannu Schadewitz - University of Turku
Antti Fredriksson - University of Turku
Janne Engblom - University of Turku 96

Monetary and financial perspectives on retail CBDC in the Thai context
Nalin Nookhwun - Bank of Thailand
Thitima Chucherd - Bank of Thailand
Chanokkarn Mek-yong - Bank of Thailand
Passawuth Nuntnarumit - Bank of Thailand
Natta Piyakarnchana - Bank of Thailand
Suparit Suwanik - Bank of Thailand 97

Capital structure, low leverage and monitoring costs in microfinance institutions
Øystein Strøm - OsloMet - Oslo Metropolitan University
Einar Bakke - OsloMet - Oslo Metropolitan University
Sturla Fjesme - OsloMet - Oslo Metropolitan University
Roy Mersland - Agder University 98

Seasonality and Volatility
Mahmoud Qadan - University of Haifa
Nahum Biger - University of Haifa 99

The riskiness of stock versus money market investment with stochastic rates
Dávid Szabó - Corvinus University
Zsolt Bihary - Corvinus University 100

Arbitrage Implications in Pricing of Volatility Futures
Rogerio Batista Adelino - Universidade Presbiteriana Mackenzie
Leonardo Fernando Cruz Basso - Universidade Presbiteriana Mackenzie
Eli Haddad Jr - Universidade Presbiteriana Mackenzie 101

Target Date Funds: Lessons learned?
Bin Chang - Ontario Tech University
Laurence Booth - University of Toronto 102

Uniqueness of Clearing Payment Matrices in Financial Networks
Péter Csóka - Corvinus University of Budapest
P. Jean-Jacques Herings - Maastricht University 103

Market-driven securitization
Eleonora Muzzupappa - King's College London
Leone Leonida - King's College London

Damiano Silipo - University of Calabria, Italy 104
Does ESG Improve Crisis Resilience? Empirical Evidence of Global Equity Markets During the Covid-19 Pandemic
Fanni Dudás - Corvinus University of Budapest
Helena Naffa - Corvinus University of Budapest 105
Long-Horizon Stock Returns Are Positively Skewed
Adam Farago - University of Gothenburg 106
Impact of changes in margin requirements on stock returns and liquidity
Kata Váradi - Corvinus University of Budapest
Kira Muratov-Szabó - KELER CCP Ltd. 107
Determinants of Underpricing for the Russian IPOs, 1996-2017
Didar Erdinc - American University in Bulgaria 108
Shadow Banking in Central and Eastern Europe: definition, measurement, risks, and vulnerabilities
András Bethlendi - Budapest University of Technology and Economics, Faculty of Economic and Social Sciences
Kata Mero - Budapest Business School, Faculty of International Management and Business 109
TOWARDS A FRAMEWORK TO ANALYSE ILLICIT FINANCIAL FLOWS
Huibrecht Margaretha van der Poll - University of South Africa Graduate School of Business Leadership
Ndiimafhi Norah Netshisaulu - University of South Africa Graduate School of Business Leadership
John Andrew van der Poll - University of South Africa Graduate School of Business Leadership 110
Investor attention or remaining in office CEOs can't always get what they want
Mateusz Czerwinski - University of Szczecin
Agnieszka Pre?-Perepeczo - University of Szczecin
Tomasz Wi?niewski - University of Szczecin
Katarzyna Byrka-Kita - University of Szczecin 111
Who's guilty of creating bubbles? a study of explosivity across markets
Rosalie Speeckaert - Durham University 112
The Effect of Bank Competition on Deposit Price Dispersion
Nur Al Faisal - Louisiana State University 113
Managerial Ability and Analysts' Recommendations
Tunde Kovacs - University of Massachusetts Lowell
Don M Autore - Florida State University
Soomi Jang - University of Massachusetts Lowell 114
The effect of option holding on managerial risk taking?A theoretical and empirical literature review
Guoyu Lin - Clarkson University 115
The Evolution of Corporate Social Responsibility in China: Do Political Connection and Ownership Matter?
KienPin Tee - Zayed University
Xihui Chen - Teesside University
Chee Wooi Hooy - University Sains Malaysia 116

The quantity theory of disaggregated credit: A new monetary policy tool for reigniting stagnant economic growth in Mauritius
Amit Achameesing - Stellenbosch University
Meshach Aziakpono - Stellenbosch Business School 117
From cryptocurrency to digital currency
Nikolett Antal-Molnár - PTE KTK 118

Financial system dynamics

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Abstract

This paper argues that the traditional dichotomous and static conceptualisations of financial systems fail explain how financial systems have changed as a result of transformative events (the 2007-2008 financial crisis in particular) and trends in recent decades. To shed light on developments in contemporary financial systems in the EU, this paper presents and analyses an index that seeks to capture the extent to which funding structures in non-financial companies subject them to financial pressures. The index reveals that the EU as a whole is distinctly ?bank-based?, in the sense of private equity and bank credit matter more for funding of non-financial companies than listed equity or market-based credit. However, the EU and its Member States have become more market-based over the last decade. While this trend generally holds true, there is also increasing divergence between European financial systems. Developments in individual countries appears to be determined by competitive advantage specialization as well as how strong the country was hit by the 2007-2008 financial crisis. The paper thereby contributes to the comparative political economy literature on comparative financial systems, as well as the much neglected questions if, how and why institutional transformation in financial systems occur. It also contributes to the literature on how different national financial systems respond to economic shocks.

A new macro-financial condition index for the euro area

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Abstract

In this paper, we introduce a new time-domain decomposition for weakly stationary or trend stationary processes, based on trigonometric polynomial modelling of the underlying component of an economic time series. The method is explicitly devised to disentangle medium to long-term and short-term fluctuations in macroeconomic and financial series, in order to accurately measure the financial cycle and the concurrent long swings in economic activity. The implementation of this decomposition is straightforward and relies on standard regression analysis and general to specific model reduction. Full support to the proposed method is provided by Monte Carlo simulation. In the paper, we also provide a multivariate extension, involving sequential univariate decompositions and Principal Components Analysis. Based on this multivariate approach, we introduce a set of new composite indexes of macro-financial conditions for the euro area and assess their information content. In particular, with reference to the current pandemics, the indicators suggest that most of the GDP contraction has been of short-term, cyclical nature. This is likely due to the prompt monetary and fiscal policy responses. Yet our evidence suggests that the financial cycle might have currently achieved a peak area. Hence, the risk of further, deeper disruptions is high, particularly in so far as a new sovereign/corporate debt crisis were not eventually avoided.

The Dark Side of The Bank Levy

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Abstract

We examine the impacts of a sectorial tax levied on bank assets. Employing unique supervisory bank-level data, we investigate channels through which the tax affects the supply of bank credit and the stability of the banking sector. We find that banks respond to the tax by increasing the cost and decreasing the overall availability of credit to the real sector. We also find evidence that banks engage in ?search for yield? by lending relatively more toward the higher-margin, higher-risk part of the credit market, striving to recover from the profit-reducing effect of the new tax. The changes in the supply and in the composition of bank loans are significantly related to bank-specific profitability and capital adequacy measures with weaker banks changing more than strong competitors.

Economic policy uncertainty and bank stability

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Abstract

We examine the influence of economic policy uncertainty on bank stability post-2007-2008 global financial crisis. We rely on the economic policy uncertainty (EPU) index introduced by Baker et al. (2016). We use 176,477 quarterly observations for US commercial banks over the period from 2011Q1 to 2020Q3 and find consistent and robust evidence that bank stability decreases as the level of economic policy uncertainty increases. We specifically control for demand-side effects which indicates that the decrease in bank stability not only originates from borrowers? and customers? conditions but also from a change in bank behavior. A deeper investigation shows that the negative impact of policy uncertainty on bank stability is stronger for larger banks, and weaker for highly capitalized banks as well as for more liquid banks. Our findings have important implications particularly for the COVID-19 policy implementations.

Should Investors Time Their Trading in Volatility Exchange-Traded Products According to the Calendar?

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Abstract

Recent financial innovations have made investing in the volatility of equity indices, commodities and even the volatility of individual stocks possible for speculation and hedging. In this study, we investigate the price distribution of numerous popular volatility products using a wide range of seasonal and calendar anomalies documented empirically in the finance literature. Our findings indicate consistent and systematic price efficiency in the majority of the examined effects because, in general, the prices of these volatility products remain unaffected by seasonal and calendar effects. However, several calendar patterns are present and significant. Our findings have implications for efficient asset pricing and diversification benefits for these instruments.

Deregulation and the Exchange Rate Exposure of Chinese Non-financial Firms

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Abstract

Over the last few decades, China has become an increasingly important world economy, recently becoming the second largest economy after the US. This has facilitated the need for more developed financial systems and markets in terms of both equity and the foreign exchange markets. The aim of this study is to determine if Chinese stock returns are affected by movements in the exchange rate. In particular it determines which firm specific characteristics affect the size of foreign exchange exposure and whether the exposure is related to the level of foreign trade. Using Chinese data from 2005 to 2016, there is little evidence of any effect over the whole data sample, but when we account for the deregulation of Chinese financial markets in 2011, there is evidence of a significant relationship post 2011, as has been found in the US in earlier studies.

The Local Discount: Compensation of Locally Educated Executives

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Abstract

We identify the location of an executive's university education as a proxy for their geographic preference. Executives whose university education took place near a firm's headquarters are paid 6.90% to 11.20% less than their peers, suggesting the transparency of university education allows firms to use the location of their headquarters as a form of intangible compensation. This geographic preference discount persists across executive subsamples, time periods, and after controlling for opaque measures of where the executive grew up. Our study shows the location of an executive's university education is a consequential component of their geographic preferences that has meaningful implications for their compensation.

Do Corporate Customers Prefer Socially Responsible Suppliers?

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Abstract

This paper studies the way firms' corporate social responsibility (CSR) affects their likelihood of being selected as suppliers. We diverge from previous studies by focusing on firms that produce intermediate goods and face corporate customers. Using a large sample of U.S. public firms with detailed supply-chain and CSR data, we provide empirical evidence that corporate customers prefer socially responsible suppliers, and that the effect is more prominent when the supplier industry is more competitive, the customer's own CSR performance is better, or the supplier and the customer have more similar CSR focuses. Our paper's findings suggest that firms' CSR attracts not only final customers, but corporate customers alike.

"Less is More": Credit Default Swaps and Firm Cyclicality

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Abstract

Firm cyclicality decreases by around 40% after the inception of credit default swap (CDS) trading. The effect is due to CDS firms? lower asset growth-GDP growth sensitivity in good times and stronger for firms facing a more severe exacting creditor problem. The cyclicality-reducing effect of CDS trading cannot be explained with bank lending cyclicality or market beta. Our finding is robust for alternative measures such as outstanding CDS positions, firm employment growth, and state-/industry level cyclicality. Moreover, CDS trading impedes unhealthy growth and enhances profitability and market value. The evidence highlights an important disciplining effect of CDS on corporate growth.

Will the Chinese RMB be part of a Multipolar Reserve Currency System. A Panel Data Analysis

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Abstract

This paper discusses reserve currency and uses panel data-based empirical analysis to determines the size of the economy, the amount of international trading, size of the financial market, are all holding a strong impact on reserve currency?s usage. Furthermore, this paper evaluated the trends of five major currencies (USD, EUR, JPN, GBR and RMB) shares for the reserve currency market by 2035. The results predicted the USD would maintain its position as the dominant world currency whereas that the RMB and the EUR are likely to play significant secondary roles in 2035. By that time, the reserve currency system would be characterised as an oligopolistic market with a dominant player (USD) and a competitive fringe rather than a fully-fledged multi-polar system.

A New Transmission Channel of Global Credit Market Shocks to Credit Cycles in Developing Economies: Can Macroprudential Regulation Attenuate the Virility of the Shocks?

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Abstract

We propose a commodity price cycles channel through which credit market shocks from developed countries are transmitted to credit market cycles in developing economies. We specify plausible econometric models to investigate this new channel. We also test the effectiveness of macroprudential regulation in attenuating possible adverse effects of the shocks. We use panel data from 74 developing countries to estimate plausible econometric models. We uncover new evidence that cross-border bank capital flows impact significantly and positively on credit cycles in developing countries. We also identify commodity price cycles as one main transmission channel. We find that macroprudential regulation can help mitigate possible perverse impacts of cross-border bank capital flows on developing economies.

Uncertainty resolution: evidence from the UK syndicated loan market

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Abstract

In this study, we find that firm-level foreign exposure, measured in terms of foreign sales and foreign subsidiaries, can mitigate the impact of the uncertainty shock by the Brexit referendum on the design of syndicated loan contracts. Overall, the uncertainty shock caused an increase in the cost of loans, but firm-level foreign exposure can mitigate it through international diversification and reduction in information asymmetry, and such mitigation effect is more pronounced for private firms compared with public firms. In addition, lenders use different types of non-pricing terms to manage the exposure to the uncertainty. For the public firms, whose accounting information is more contractible, loan contracts include more performance-based financial covenants; for the private firms, lenders reduce the size of the loan facilities.

Employee Diversity and Litigation Risk: Evidence from the Lilly Ledbetter Fair Pay Act

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Abstract

This article examines the valuation effects related to the passage of the Lilly Ledbetter Fair Pay Act. We find that firms that have relatively fewer women in their workforce exhibit a significant negative stock price reaction of 0.7% around the passage of the Act. In contrast, we find that firms with relatively more women in their workforce do not exhibit a significant stock price reaction. Additionally, firms with lower female representation exhibit more severe increases in their implied cost of capital and greater decreases in their expected cash flows compared to firms with high female representation. We do not find that there are differences in market reactions or analyst forecasts, based on differences in racial diversity in the workforce. We hypothesize that our results are related to potential increases in litigation risk.

Who Invests in and What Drives Equity Ownership Around the World

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Abstract

We exploit the increasing availability of international stock holdings data to examine own- ership by different stakeholders in 46 markets. Home bias varies across countries, investor types, and is still much higher in emerging markets (EMs). Institutions have become more global but remain under-diversified. The country effect in institutional ownership of EM stocks is large and of similar economic significance as country factors in explaining EM stock returns. Institutions of different types and domicile continue to show strong preference for large firms but exhibit significant differences for the other firm characteristics. The prefer- ence of foreign institutions for cross-listed firms continues and is stronger in EMs. The firm characteristics that matter most for US institutions vary significantly across markets and especially in EM countries. Retail investors are mostly present in small and liquid firms.

Do global institutional investors matter for international risk sharing?

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Abstract

To reconcile the growth of global institutional investment with the persistent outperformance of local pricing relative to global pricing, I propose an international asset pricing model in which retail investors invest locally and global institutions channel risk-sharing indirectly by trading a set of securities from each country, namely, institutional securities. All securities earn a local risk premium that accounts for the residual risk that institutions cannot hedge perfectly across countries. Securities excluded from the investment mandate of institutional investors, namely, retail securities, command an additional retail premium. The local risk premium and retail risk premium are economically important, accounting for about 3.5% and 2.1% of annualized risk premium in developed markets and 5.6% and 2.5% of annualized risk premium in emerging markets.

Feasible Implied Correlation Matrices from Factor Structures

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Abstract

Forward-looking correlations are of interest in different financial applications, including factor based asset pricing, forecasting stock-price movements or pricing index options. With a focus on non-FX markets, this paper defines necessary conditions for option implied correlation matrices to be mathematically and economically feasible and argues, that existing models are typically not capable of guaranteeing so. To overcome this difficulty, the problem is addressed from the underlying factor structure and introduces two approaches to solve it. Under the quantitative approach, the puzzle is reformulated into a nearest correlation matrix problem which can be used either as a stand-alone estimate or to re-establish positive-semi-definiteness of any other model?s estimate. From an economic approach, it is discussed how expected correlations between stocks and risk factors (like CAPM, Fama-French) can be translated into a feasible implied correlation matrix. Empirical experiments are carried out on monthly option data of the S&P 100 and S&P 500 index (1996-2020).

Can Data Envelopment Analysis Enhance the Performance of Mutual Fund Portfolios?

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Abstract

We examine whether the data envelopment analysis (DEA) efficiency score can help investors make investment decisions. Using US equity mutual fund data, we show that high DEA score is associated with better returns, lower risk and lower expenses. When regressing DEA scores with future fund returns, we find that the current DEA score positively impacts future fund performance. However, the positive impact does not translate to the real performance as a high DEA-scored fund portfolio failed to deliver outstanding performance. Nevertheless, investors can still utilize funds' DEA score, in conjunction with past performance, to construct a fund portfolio that can outperform the traditional momentum strategy and the market index with positive risk-adjusted returns.

Building the bridge: From country crises' probabilities to country risk assessment

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Abstract

Possibly, the biggest problem about country risk is its miss concept that leads to its misunderstanding and, consequently, its misapplication. This article aims to provide an alternative way to assess country risk, based on quantitative tools where is presented the link between country crises, firms? characteristics, and country risk ratings. This conceptual work performs a review of the literature about country risk?s concepts and develops a theory about the impacts of country risk in the real economy where the outcomes provoked by country crises on firms? assets fit in. A statistical model based on crisis? probability adjusted to firm idiosyncratic exposure to country risk is built in accordance with the type of exposed asset. The proposed assumptions that country risk alone does not exist and that country risk must be combined with the primary source of risk to be measured are rooted in natural science concepts about vulnerability and hazard and are the essence of this article. The model is forward-looking based on probabilities of countries? crises occurrence, looking for an economic foundation to the additional cost of capital that country risk represents. This methodology would provide additional comfort to investors and banks once it does not use past information to be applied for future transactions.

Pricing Climate Change Risk in Corporate Bonds

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Abstract

Using a firm?s geographic footprint to measure its exposure to sea level rise (SLR), I find that corporate bonds bear a climate risk premium upon issuance. A one standard deviation increase in firms? SLR exposure is associated with a 7 basis point premium, representing a 3% increase in average yield spread. This effect is more pronounced for geographically concentrated firms, within industries vulnerable to extreme weather conditions, and after the Paris Agreement. I do not find evidence that credit rating agencies account for SLR exposure at bond issuance. Results are robust to placebo tests and inverse propensity weighting to address possible endogeneity.

Does the Delay in Firm-Specific Information Cause Momentum?

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Abstract

In this paper, I show the evidence that firm-specific information delay (FSID) drives the momentum. I develop a medium-horizon FSID measure using the methodology introduced by Hou and Moskowitz (2005). Unlike the HM measure of the speed of diffusion of US market-specific information in the short horizon (four weeks), FSID measures the speed of diffusion of firm-specific information in the medium horizon (six months). Whereas previous studies including HM found no significant relation between momentum premium and the HM measure, I find that momentum ceases to exist in the cross-section of firms after controlling for FSID. FSID has a symmetrical effect on both loser and winner firms. High-FSID firms are firms with greater uncertainties related to their fundamentals.

Learning the Hard Way: Bank Lending and Experience with Financial Crises

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Abstract

In this paper we consider the question of whether international banks learn from their previous crisis experiences and reduce their lending to developing countries in the event of a financial crisis. Our analysis combines a bank-level dataset of bank activity and ownership with country-level data on the stock of historical crisis events between 1800 and 2005. To circumvent selection and endogeneity concerns, we exploit temporal variations in the relative recency of crises as instruments for crisis experience. We verify that foreign banks with greater crisis experience reduced their lending significantly more relative to other foreign banks, which we interpret as evidence in favor of a learning effect. In robustness checks, we consider alternative measures of crisis experience, additional controls, and decompositions into different types of crises. We also examine the question of learning from the perspective of other measures of bank performance.

Exchange rate exposure and its determinants. An analysis of German companies

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Abstract

As variations in the exchange rate are one of the most critical concerns for export and import oriented companies, as well as for multinationals; exchange rate exposure measurement is essential for the managers of these companies. At this point, the preceding research has been carried out mainly for the United States and the United Kingdom, while for German companies, the literature is scarce and is mainly available in German. Therefore, the present work aims to contribute to fill part of this gap. Thus, to measure the exchange rate exposure on the German companies in the sample, multiple regressions are run using two approaches, the first on the changes in the cash flows of 108 companies in the sample, and the second on the stock returns of 245 companies listed in the German CDAX index. The results, at a significance level of 5%, show that although operating cash flows are more sensitive to changes in exchange rate, total cash flows show lower exposure, which may indicate good use of hedging tools. While according to the equity return approach, larger companies show less sensitivity to changes in the exchange rate than those with smaller market capitalization. ?

Are (Real) Interest Rates Stationary in the Super-Long Run?

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Abstract

The ongoing debate about a decline of real interest rates contradicts the Fisher effect, which postulates that the nominal interest rate moves one-to-one with the inflation rate. Yet, with numerous empirical papers published over the past decades, the evidence on the Fisher effect remains inconclusive. We use a novel dataset collected by Schmelzing (2020) to study the integration properties of the nominal interest rate and inflation rate in eight countries from 1310 to 2018. We find that the real interest rate has always been stationary, but for different reasons. While nominal interest rates and inflation rates were stationary before WWI, which implies stationarity for the real interest rate, both variables have been non-stationary since WWII but cointegrated in such way that the real interest rate has been stationary.

The characteristics of peer-to-peer applicants

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Abstract

In recent years, different forms of social lending have become a widely researched area. One of the most extensive business models is peer-to-peer lending (P2P), an online platform connecting lenders and borrowers. The segment?s rapid growth has attracted the attention of market participants, and demand has arisen for a deeper understanding of this new form of financial intermediation. The purpose of this paper is to contribute to the existing literature by examining the borrower side of P2P lending. The analysis is based on a unique, manually collected dataset from a market leader platform. LASSO regression is used to examine the relationship between applications and a wide range of macroeconomic indicators. Then, k-means cluster analysis is applied to identify borrower groups with similar characteristics. The results indicate there is a strong positive correlation between mortgage delinquency and demand for P2P funding. Furthermore, the platform?s customer base significantly overlaps with bank clients.

Cash-rich seasoned equity issuers

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Abstract

We document that a substantial fraction of seasoned equity issuers has large excess cash holdings and would have been far from running out of cash had they not completed the offering. Cash-rich seasoned equity issuers are not easily reconcilable with prevailing corporate finance theory, nor with recent empirical findings suggesting immediate cash needs as a driver of seasoned equity offerings (SEOs). We find that cash-rich equity issuers are more overvalued than non-cash-rich issuers. They also display more opportunistic uses of SEO proceeds and worse post-SEO operating performance. Moreover, although cash-rich equity issuers do not have more negative stock price reactions to the SEO announcement, they have worse long-term stock price performance than non-cash-rich issuers. Our results imply that investors should place a negative value on issuers? excess cash when assessing an SEO announcement.

Does Common Ownership Encourage Proactive Lobbying? Empirical Evidence from the U.S. Pharmaceutical Industry

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Abstract

This study examines the relationship between common ownership and corporate lobbying activities in the U.S. pharmaceutical industry over the period 1998-2017. We find that common ownership has a negative impact on lobbying. Our results also show that commonly-held firms, unlike those without common owners, tend to lobby via trade associations. These findings suggest that commonly-held firms reduce their individual lobbying intensity by building a coalition and pursuing collective lobbying under common ownership. Further, we find important heterogeneous effects of common owners on lobbying. First, common owners encourage firms? lobbying activities when the lobbying issue is related to copyright, patent, and trademark. Second, common owners increase lobbying when firms apply for brand-name drug approvals from the Food and Drug Administration, but not for generic drug approvals. Third, common owners encourage lobbying activities near patent cliffs. Fourth, common owners target congress bills and experience positive abnormal returns after the legislation of national defense bills. Overall, our results support the view that common owners take a proactive approach towards political lobbying as they attempt to enhance their portfolio firms? competitive position.

The impact of direct financial market participation on retirement income sufficiency in Australia

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Abstract

Using the HILDA 2018 survey data, this paper documents a strong positive relationship between the direct financial market participation and the post-retirement financial welling-being for Australian retirees. We find that participation in the financial market significantly enhances a retiree?s financial well-being through a 4.7% increase in income replacement ratio and a 24% increase in annuitized net wealth. Further analysis reveals that retiree characteristics play certain roles in determining this relationship, including age, gender, living with a partner, living in a major city, eligibility of Age Pension. Several alternative approaches are used to confirm that our baseline results are robust. Our results highlight the importance of financial market participation in helping individuals achieving a more secured retirement. This has important policy implications and provides further support for the active promotion of financial literacy, both in Australia and globally.

The impact of organizational form on the soundness of insurance companies: Stocks vs Mutuals

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Abstract

The insurance literature provides ample evidence that the difference in organizational form between mutual and stock insurers has significant implications for agency costs, moral hazard problems and risk taking. In this paper, we investigate if and how these organizational differences impact insurer soundness. Using a sample of 6,037 stock and 1,045 mutual insurers from 42 countries and three business lines (life, non-life, and composite), we find that mutual insurers appear generally more financially sound. However, this seems mainly due to a positive mutual effect on risk-adjusted capitalization compensating for the generally negative mutual effect on risk-adjusted profitability. Especially for life insurers, these overall mutual effects strongly depend on the business environment. Although the mutual effects seem smallest for life insurers on average, mutual life insurers are particularly disadvantageous in high uncertainty environments or when capital structure flexibility becomes vital. Our results are therefore in line with previous findings in the literature that mutual insurers preferably engage in less risky product categories where managerial discretion is less crucial.

Private Equity Acquisitions, Target Characteristics, and Time to Signal

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Abstract

Private equity funds aim to develop a target and sell it within limited time. Strategic buyers integrate the target without a time friction. We analyze a fund's strategies in a dynamic model with investment and exit. A target with an intrinsic real option attracts a strategic buyer who can fully exploit the value of waiting. In contrast, the fund's time constraint diminishes the value of waiting and hence targets with embedded real options are less valuable. Instead, a fund aims to develop a high-growth option as well as to obtain signals that mitigate information frictions. Both dimensions take time and are thus risky given the time constraint. Our analysis characterizes what makes a target valuable for a private equity fund.

Volatility forecasting for the coronavirus pandemic using quasi-score-driven models

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Abstract

This is the first empirical study in the literature, in which the statistical and volatility forecasting performances of the recent quasi-score-driven EGARCH (exponential generalized autoregressive conditional heteroscedasticity) models are evaluated. Quasi-score-driven EGARCH models are compared with all relevant score-driven EGARCH models from the literature, and the asymmetric power ARCH (A-PARCH) and GARCH models. The following score-driven distributions are studied: Student's t-distribution; general error distribution (GED); generalized t-distribution (Gen-t); skewed generalized t-distribution (Skew-Gen-t); exponential generalized beta distribution of the second kind (EGB2); normal-inverse Gaussian distribution (NIG); Meixner distribution (MXN). All combinations of these distributions are used for (i) the distribution of the dependent variable, and (ii) the distribution which defines the quasi-score function updating term of the quasi-score-driven filters. Daily data are used for the Standard & Poor's 500 (S&P 500) index. We find that quasi-score-driven EGARCH is superior to score-driven EGARCH, A-PARCH, and GARCH. In-sample results are reported for the period of 2000 to 2020, providing evidence in favour of the quasi-score-driven EGARCH model for the last two decades. Out-of-sample forecasting results are reported for the period of the coronavirus pandemic for 2020, providing evidence in favour of the quasi-score-driven EGARCH model for a crisis period.

A Vicious Cycle: ?inefficient by design? policies, Tail-Risk Strategies, and Asymmetric Payoffs

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Abstract

This study investigates how a vicious cycle through the dynamic interaction between institutions? tail-risk strategies and ?inefficient by design? government policies including safety-net subsidies, which generate asymmetric payoffs, i.e. privatize gains and socialize losses. This type of vicious cycle distorts incentives by degrading both equity and debt as governance as well as generates endogenous risk ?misconceptions and ?misperceptions? that increase the unpredictability of the institutions? fields of behaviour. This study develops more fully the idea of taxpayers as de facto shareholders and the impact of asymmetric payoffs from the option-like features of the institutions? assets. This study finds that this type of vicious cycle generates a net loss when considering attributes from wider stakeholders due to looting and capture and thus, does not adhere to the remediableness criterion.

Asset Pricing Implications of The Mismatch Between Performance Window And Benchmark Duration

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Abstract

This paper studies the asset pricing implications of the mismatch between asset managers' performance window and the cash-flow duration of their benchmarks. Our equilibrium mechanism provides the first plausible theoretical foundation for the recent empirical findings showing that the risk premium, volatility, and Sharpe ratio on the short-term asset are higher than the long-term asset. These findings are at odds with the leading equilibrium asset pricing models, such as long-run risk, external habit formation, and rare disaster risk models. Our continuous-time setup admits precise closed-form expressions. We provide novel empirical evidence to support other predictions of the model.

Credit Risk Sharing and Credit Market Regulation

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Abstract

We analyze credit default swap trading and regulation in general equilibrium. The economy without CDS markets features firm default and underinvests when capital is below a threshold. For low aggregate risk, unregulated CDS trading leads to full bondholder insurance and efficient investment. The efficient allocation can be implemented via transfers. For intermediate aggregate risk, the unregulated CDS economy overinvests. A margin requirement on CDS sellers is necessary for efficiency. When aggregate risk is high, the CDS market breaks down. A margin requirement restores equilibrium and efficiency, but it must be maximally stringent and accompanied by a capital requirement on CDS sellers.

Capital Reallocation and Firm-Level Productivity Under Political Uncertainty

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Abstract

Does policy uncertainty affect productivity? Policy uncertainty creates delays as firms await new information about prices, costs and other market conditions before committing resources. Such delays can have real consequences on firms? productivity and corporate decisions. First, we find that economic policy uncertainty has a negative impact on firm-level productivity. Second, debt magnifies the adverse effects of policy uncertainty on productivity, but access to external financing during periods of significant policy uncertainty shocks has a positive impact on firm-level productivity. Third, Policy uncertainty is positively related to cash holdings but this effect is mostly driven by highly productive firms and by firms with higher levels of irreversible investments since these firms face higher opportunity costs in future states. The three findings are robust to various specifications and provide an affirmative answer to the opening question

How QE changes the nature of sovereign risk

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Abstract

We examine the effect of Quantitative Easing (QE) by the ECB on the sovereign bonds of Italy, Ireland, Spain and Portugal. First, outcomes of panel regression models suggest that the market stabilization effect of QE lowered the effect of volatility on sovereign bond spreads by 1 to 2 percentage points. Thereby, in particular the explicit market stabilization programmes most clearly reduced the effect of volatility on spreads, and not the regular bond purchases. Second, panel VAR simulations show that monetary stimulus has reduced bond return volatility since the start of the Public Sector Purchase Programme in 2015. Third, using a contingent claims model (CCM), the values of the implicit put options provided by QE to investors are calculated to be substantial. Our results can guide policymakers on the use of backstop facilities for sovereign bond markets.

Ownership structure, capital structure and dividend policy on the Iberian markets

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Abstract

Purpose - This study analyses the interrelationship among ownership structure, capital structure and dividend policy, considering a sample of Portuguese and Spanish listed firms, for the period between 1992 and 2016. Design/methodology/approach - The paper employs panel data regression, as well as the two stage least squares (2SLS) and the three stage least squares (3SLS) in order to address for endogeneity issues. Different estimation methods are implemented and compared by means of a robust residual analysis. Findings - Overall, we find evidence that managerial ownership has a negative influence on leverage. In addition, the results show a negative relationship between firms? profitability and leverage. Firms size has a positive relationship with the firms payout. Finally, we find evidence that profitability influences negatively the leverage, which is in accordance with the pecking order theory. Research limitations/implications - A limitation of this study is the small size of the Euronext Lisbon and the Stock Exchange of Madrid, which results in a small sample. Originality/value - This paper analyses the interrelationship among ownership structure, capital structure and dividend policy using approaches to remove simultaneous bias and studies the Iberian markets, which are in need of research.

The Bright Side of Transparency: Evidence from Supervisory Capital Requirements

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Abstract

Should regulators disclose private information about the creditworthiness of the companies it supervises? This paper exploits a change in the disclosure policy of the European Central Bank (ECB) in 2020 to make progress on this question. We compare European banks along multiple dimensions before and after the ECB published for the first time bank-by-bank information on Pillar 2 requirements (P2R). We show that bond prices and cross-border holdings of debt securities are sensitive to new regulatory information as well as to rating gaps between the ECB and private credit rating agencies. Overall, our results support the view that supervisors have specific, distinctive, and valuable knowledge of the banks they supervise.

An analytic study of credit risk problem in a developing country case study

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Abstract

Crediting is one of the biggest risk in the banking sector, especially for commercial banks. In literature, there have been many studies concerning Credit Risk Management, mainly in developing a Credit Scoring system by implementing di?erent Machine Learning (ML) methods. Still, the problem remains complex as it depends on the speci?city of the dataset. In this study we deal with a speci?c dataset manifesting two drawbacks which are not simultaneously encountered in the conventional datasets treated in the literature. So, the ?rst important question to be dealt with is the level of imbalances. In reality, the number of good clients is ten times or even dozens of times that of bad clients, making the impact of the unbalanced data on the classi?cation models an important element to be considered. Indeed, the second question raised above is related to the bias or incompleteness of information received from the clients. This second aspect is strongly connected to the origin country of the clients, given that the typology of the clients from developed countries with well established ?nancial system and economy, di?ers in several aspects from the topology of the clients from emerging and developing countries where the economy exhibits a high level of informality. After a short presentation of the state of art, we focus more on the Random Forest (RF) and Support Vector Machine (SVM) based methods, which have been proved as e?cient by several works found on literature. Then, we present in detail a case study using data from a bank in Albania, where several tests have been performed. We show that this kind of dataset can be better dealt with an improved version of Random Forest. Numerical results illustrate our ?ndings.

How do institutional factors and venture capital strategies affect the performance of venture capital-backed companies? Evidence from China

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Abstract

This paper examines how venture capital (VC) investment and institutional factors affect the performance of VC-backed companies in China. We conduct empirical analysis using a sample of companies listed on China?s Growth Enterprise Market (GEM) from 2009 to 2015. Our results show that, compared to non-VC-backed companies, VC-backed companies have higher market value but underperform in terms of profitability. We also document evidence that while VC investment does not help companies mitigate the negative impact of institutional factors on profitability, it does convey beneficial effects that help companies moderate the negative impact of institutional factors on market value.

Analyst Forecast Dispersion, Investor Sentiment and the Cross Section of Stock Returns

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Abstract

This paper explores the role investor sentiment plays in the relationship between analyst forecast dispersion and stock returns. With short sale constraints, stock prices are determined by the optimistic investors. During the high sentiment periods when investors suffer more from psychological bias, there are more optimistic investors. I find that following the high sentiment periods, stocks with the most analyst forecast dispersion are overpriced, earning significantly negative returns, while those with the least analyst forecast dispersion are not overpriced as the degree of belief dispersion is low. However, following the low sentiment periods, both are not overpriced. A portfolio which longs the least dispersed stocks and shorts the most dispersed stocks yields significantly positive returns only following the high sentiment periods. My findings can potentially reconcile the puzzling risk effect and mispricing effect in the literature. The risk (mispricing) effect suggests a positive (negative) relation between analyst forecast dispersion and future stock returns. Presumably, the magnitude of the mispricing effect depends on the proportion of irrational investors and their bias, which is positively related to investor sentiment. During the high sentiment period, the mispricing effect takes over and the overall effect is negative. During the low sentiment period, the percentage of irrational investors is mediate, and the mispricing effect and the risk effect counter each other, leading to insignificant relation.

Incentive Contracting with Multiple Directorships

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Abstract

A unique feature of the outside director market is that a director usually simultaneously works for several companies. To the best of knowledge, this paper is the first to analytically model the optimal contracting for a director with multiple directorships and document that the relationship between optimal incentives (pay-performance sensitivity) and the number of directorships is always positive, no matter efforts across directorships are substitutive or complementary. The results are innovative to the literature and offers important policy implications in the regulations of director market. It has been argued in the policy debate that busy boards may be detrimental as directors have limited time and efforts. However, this paper highlights another potential deadweight loss for the society. For directors with many directorships, the companies need to offer too high incentives to compete for directors? efforts, leading to higher risk premia and welfare loss.

Celebrity SPACs: SPACtacular or SPACopalypse?

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Abstract

Not only was the year 2020 a record year for Special Purpose Acquisition Companies (SPACs), Wall Street and Hollywood also seem to be closer than ever before. In this study, I investigate celebrity-backed SPACs, i.e., SPACs endorsed by celebrities, and deal with two broad questions. First, are investors betting on the company, or are they betting on the celebrity? Second, do celebrities add value to SPACs? This study is expected to contribute to the retail investing skill and informed trading literature by providing a clear answer to whether or not the celebrity factor makes investors chase after even bad investments. This topic is also important for policymakers due to distinct risks associated with SPACs: possible conflicts of interest between celebrities and shareholders. Therefore, this study will also provide a better understanding of the structure of SPACs and shed light on the growing literature on SPAC IPOs.

Microfinance, Competition and Growth

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Abstract

This paper analyzes the relationship between microfinance, competition and growth in a sample of 119 countries over the period 1999-2018. Our results are fourfold. First, we show that microfinance increases economic growth. Second, we identify investment as the main channel explaining the positive effect of microfinance on growth. Third, our study highlights that the conventional financial sector and microfinance are substitutes and not complements in emerging and developing countries. Finally, we show that competitive microfinance markets allow increasing the positive effect of microfinance on growth.

Corporate tax changes and bank lending

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Abstract

This paper examines the effect of corporate taxation on the cost of credit. We employ corporate income tax rate changes across the U.S. states as a quasi-natural experiment to examine their implications on the pricing of syndicated loans. We find that changes in the state corporate tax rates have an asymmetric effect on the cost of credit: loan spreads decrease by approximately 5.9 basis points in response to a one percentage tax cut in the borrower?s state, but they are insensitive to corporate tax rises. We show that the easing effect of tax cuts comes from changes in credit demand by firms and is primarily concentrated in firms with greater reliance on debt and own funds. The transmission of corporate tax cuts to loan spreads depends on the firm?s access to alternative financing sources as firms with access to bond financing benefit to a greater extent.

Maternity Leave Benefits and Firm Value

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Abstract

Paid maternity is a voluntary corporate decision. The benefit is to help retain competent employees, to increase corporate morale and to benefit employee and business operations. There is an obvious cost to employees taking off work with pay for delivering and caring for their newborns or newly adopted children. The question is whether investors consider the policy of paid maternity leave as a positive net present value investment for long-term shareholder wealth maximization or as an expense. This research is the first study to examine the stock price reaction to the announcement that a firm will initiate paid maternity leave benefits. We use data for the 180 companies who offer paid maternity leave. (Fairygodboss, 2019) in an event model and find the Day 0 abnormal return is a negative .51%. It is highly significantly significant at the 1% level with the z test statistic (Z = -2.651). In fact, all the CARs around the event date are statistically significantly negative. On the other hand, regression results indicate that paid maternity leave programs that are longer have better results for firm value.

ICOs: A new Eldorado for investors and a revolution in startup financing? A survey

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Abstract

Initial coin offerings (ICOs) are a new financing source for startups based on the pillars of the blockchain ecosystem. ICOs are regarded as a disruptive way to raise funds digitally, ensuring speed, low cost and safety. ICOs have significantly increased in number and size in recent years, and emerging research has described facts about ICOs and their supposed safety. We offer a comprehensive discussion of the ICO ?revolution? paradigm. We also compare ICOs with other financing sources available to startups. We show that ICOs require regulation and clear governance models and processes to ensure their long-term benefits.

A Structured Approach to Enterprise Risk Management in Ethiopian Commercial Banks

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Abstract

The study aims to develop a structured approach to enterprise risk management (ERM) for Ethiopian banks, which is appropriate to the country?s economic growth as well as the Ethiopian banking industry. Risk management is becoming a very vital function for financial institutions. Notwithstanding, it is observed that the risk management systems and practices in Ethiopian banking industry are poor and need to be strengthened. Presently, the risk management function of Ethiopian banks does not provide relevant and timely information to the management and board of directors in order to help them make informed decisions. The risk management function of Ethiopian banks is also not integrated with other functions, let-alone risk appetites and tolerances are not properly defined. These issues point to the fact that there is no structured approach to ERM in Ethiopian banks. It is trite to highlight that it is important to manage all types of risks within banks in a holistic manner by integrating them with other banking functions in order to create value. A structured approach to ERM will arguably enhance the risk management systems and practices and foster the soundness and stability of the banking system

The Landscape of Blockchain Innovation: A Textual Analysis of Patent Data

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Abstract

This paper empirically analyzes blockchain-related patent filings to gain insight into the technology's applications. Using Latent Dirichlet Allocation topic modeling on titles and abstracts of patent data from major patent offices globally, I identify and describe twenty representative topics from blockchain innovations and discuss topic evolution and distribution over time. In addition, I incorporate identifying information of patent applicants and link particular innovation themes to specific types of entities. This study helps to guide researchers to identify and select research areas of interest and highlights business opportunities in sectors with potential for blockchain integration.

Banking Industry Dynamics and Size-Dependent Capital Regulation

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Abstract

I develop a model of a heterogeneous banking industry to examine the impact of size-dependent capital regulation on industry-turnover (entry-exit), size-distribution, and welfare. Deposit insurance and limited liability lead to inefficiently capitalized banks. Capital regulation limits this externality. By constraining leverage, regulation reduces bank failures and related industry-turnover costs, but also restricts credit. Yet, a counteracting force is that aggregate capital increases as lower failure-rate increases banks' mean age and equilibrium count, and shifts their capital-distribution rightwards. A hump-shaped welfare profile determines the optimal regulation, which is tighter for large banks due to diminishing scale economies and risk concentration.

Corporate ESG Profiles, Matching, and the Cost of Bank Loans

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Abstract

I examine the impact of corporate Environmental, Social, and Governance (ESG) profiles on the matching between lenders and borrowers and loan pricing. High ESG firms are more likely to obtain loans, which come with lower interest rates. These effects are driven by low ESG banks that attempt to improve their ESG profiles by lending to high ESG firms at lower rates. I support these findings using the FTSE4Good US Index rebalance events as shocks to borrowers? ESG reputation. I also find that borrowers improve their ESG ratings while seeking a loan and reduce that effort after obtaining it.

Attention, Distraction, and the Speed of Information Transmission

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Abstract

Investor attention accelerates the incorporation of information contained in 10-Q, 10-K, and 8-K reports into prices. Quantifying news-level attention using the activity on the SEC's EDGAR server, we establish that the count of the IP addresses visiting a filing is positively related to the speed of price discovery. We then find that the attention disclosures from other industries attract has the opposite effect. This attention is thus a proxy for how distracted a firm's investors are, as it appears to reduce the time and effort investors dedicate to interpret the news about the company. By looking at the submenu of filings each IP address chooses to be attentive to, we confirm that the explanatory power of the distraction measure even when direct attention is accounted for is due to investors still needing to allocate their limited cognitive capacity among the reports in their submenus. Our results provide the first evidence for this two-step process of information acquisition and hence suggest that attention does not necessarily imply the production of information.

The Dark Side of Globalization: Evidence from the Impact of Covid-19 on Multinational Companies

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Abstract

The COVID-19 pandemic has led to economic and health crises (?twin crises?) worldwide. Using a sample of firms from 74 countries over the period January to August 2020, we examine stock price reactions of multinational corporations (MNCs) and purely domestic companies (DCs) to the crisis. We find that, on average, MNCs suffer a significantly larger decline in firm value relative to DCs during the stock market crisis caused by the pandemic, with their significant post-crisis recovery not fully offseting the decline. The relative underperformance of MNCs holds across all regions, except North America and Latin America & the Caribbean, and across all Fama?French industries, except chemicals, healthcare/drugs, and finance. We then examine the effect of government responses on the valuation gap and find that stronger government responses exacerbate the MNC under-performance. Finally, we show that a stronger financial system mitigates negative crisis returns, especially under stronger government responses, while real factors, such as the firm?s supply chain, investments in human capital, and research and development spending exacerbate negative crisis returns. Our findings have important implications for managers of MNCs and government policymakers alike and contribute to studies on the international diversification?performance relation by demonstrating a dark side of internationalization during a tail-risk event.

Capital composition and investor-driven risk-taking in banking

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Abstract

Banking regulations recognize debt-like hybrid claims as capital, partly because their payment subordination promotes the market discipline elevated by investors? vigilance. This study challenges this argument, showing that agency problems from the duality of investors searching for yield as capital providers and receiving predetermined fixed payments as creditors induce their banks to take risks. We model investors whose determination of the interest rate can influence their banks? choice of investment assets to derive the conditions under which they gain more from their banks? risk-taking, achieving a large repayment that offsets an increase in their bank's default risk. In particular, low credit spreads among assets promote investor-driven risk-taking, suggesting the requirement of stringent restrictions on hybrid-claim capitalization during accommodative monetary conditions. When applied to non-financial firms, the findings suggest that the increased issuance of subordinated debt during the COVID-19 pandemic will encourage corporate risk-taking, which the government's policy of purchasing commercial paper and highly rated corporate bonds will facilitate.

Banking Across Borders: Are Chinese Banks different?

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Abstract

We explore the global footprint of Chinese banks and compare it with that of other bank nationalities. Chinese banks have become the largest cross-border creditors for almost half of all emerging market and developing economies (EMDEs). Their global reach resembles that of banks from advanced economies (AEs). We take a nationality approach as international banks, and Chinese banks in particular, grant a substantial share of their cross-border loans from affiliates located abroad. But differences remain. Using a gravity model with a novel measure of distance capturing the role of foreign affiliates across all bank nationalities, we find that larger distances deter cross-border bank lending to EMDEs more than to AEs. For Chinese banks, however, distance deters lending to EMDEs less than for peer EMDE banks. We show that for all banks combined, bilateral economic interactions like trade, FDI and portfolio investment, positively correlate with lending. Chinese banks? lending to EMDEs also strongly correlates with trade, but not with FDI and, unlike other banks, it correlates negatively with portfolio investment.

State Ownership and Post-M&A Innovation Activities: Evidence from Acquirers in China

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Abstract

In this study, we examine the role of state ownership in post-M&A innovation activities, taking into account the heterogeneity in firm?s innovation orientation (i.e., the responsible innovation orientation). Using patent-merger dataset over the period from 2009 to 2015 for 1128 Chinese domestic M&A deals, we find that state-owned acquirers (SOE acquirers) invest more in R&D and generate more patents following M&A than private-owned counterparts. Meanwhile, we find that the increase of R&D investment following M&A is likely to happen in SOEs that are oriented to responsible innovation, whereas the increase of patent counts subsequent to M&A is often observed in other SOE acquirers. These results suggest that state ownership in China does drive the acquirers? post-M&A innovation and that responsible innovation orientation plays an important role in differentiating the growth patterns of R&D spending and patent publications. We also find that the market tends to negatively react to the acquisition announced by responsible-innovation-oriented SOE acquirers (RIOSOE acquirers) in the short term. In the long term, both market and operational performances are showing an upward trajectory for RIOSOE acquirers subsequent to M&A.

How are CoCo bonds perceived? Going concern, gone concern, or none of the above?

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Abstract

We investigate the effectiveness of CoCo bonds as a credible recapitalization or resolu-tion tool for distressed banks in Europe. Using yields on CoCo and senior bank bonds,we construct a CoCo risk premium to capture bank stress and we analyze whether ornot this premium is related to bank systemic risk, captured by the marginal expectedshortfall (MES), as well as individual bank risk. We find that increases of the CoCospread are positively associated with both bank systemic risk and bank default risk.These results suggest that market participants do not consider CoCo bonds as ?goingconcern? capital. Since we also find that senior and subordinated bondholders perceivethe probability of a bail-in as higher during times of an elevated CoCo premium, thisimplies that CoCo bonds are not considered as a credible recovery or resolution toolunder the BRRD regime. Furthermore, the impact of CoCo bonds is not limited tobank-specific systemic and credit risk but also affects the risk profile of other banks.Our results suggest that policy actions are needed to render the European bank bail-inregime more credible.

Carbon price returns prediction using a hybrid model

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Abstract

In the current context of global warming, the prediction of carbon prices has acquired a prominent role since carbon price constitutes a powerful tool in the operation of artificial carbon markets and the design of mechanisms oriented to mitigate climate change. A major challenge for carbon price forecasting is the modeling of non-linear effects in the time series, for which the use of hybrid models seems to be an appealing alternative to explore. This paper studies the performance of a hybrid model which weights the results from the exponential smoothing model, nonlinear autoregressive neural network, and the autoregressive integrated moving average model. These weights are determined by (i) assuming equal weights, (ii) cross validated errors, and (iii) using a neural network to optimize the individual weights. The results confirm the importance of modeling the non-linear effects of time series and the capacity of hybrid models in predicting carbon prices.

Usury law, lending and competition: empirical study of the reversal of usury law in Arkansas

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Abstract

This paper investigates the effect of the reversal of usury law on bank lending, bank soundness level and bank competition through the passage of Gramm-Leach-Bliley Act. I find that the deregulation of usury law in Arkansas leads to a reallocation of bank lending among different categories of loans for Arkansas-chartered banks. Additionally, bank soundness is adversely affected, implying the potential cost relating to the deregulation. This paper also revealed an unintended effect of the deregulation in increasing the marginal cost of Arkansas-chartered banks. The results of this paper provide an insight for the impacts of adjusting the usury ceiling.

Issuance and Valuation of Corporate Bonds with Quantitative Easing

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Abstract

After the announcement of the European Central Bank?s corporate quantitative easing program, non-financial corporations timed the bond market by shifting their issuance toward bonds eligible for the program. However, issuers of eligible bonds did not increase total issuance compared to other issuers; nor did they experience different economic outcomes. Instead, the announcement produced substantial spillover effects on risk premia. Credit risk premia declined, both in the corporate bond market and in the default swap market, whereas the valuation of eligible bonds did not change relative to comparable ineligible bonds. Firms took advantage of reduced risk premia by issuing riskier bond types. Using a novel and comprehensive dataset of corporate bonds in the euro area, we document how firms substituted across bond characteristics, and we find evidence of their intention to time the market. Our model indicates corporate market timing is instrumental in allowing quantitative easing to produce spillover effects.

DRIVERS OF FINANCIAL INCLUSION AND THE GENDER GAP IN MIDDLE-INCOME COUNTRIES: A DYNAMIC AND STATIC MODEL APPROACH

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Abstract

Financial inclusion is globally recognised as having a significant impact on economies, it is seen as a powerful tool for poverty reduction and enhancing welfare of individuals. Applying the panel fixed effect and dynamic panel system generalised methods of moments (GMM) models, the paper examines the drivers of financial inclusion of 58 middle income countries over the period 2008-2018. The findings reveal a gender gap exists in accessing finance, additionally, the paper reveals GDP per capita, rural population, education, access to internet and control of corruption are the socioeconomic and institutional determinants necessary for explaining financial inclusion. Using depositors credit unions as a proxy for financial inclusion, the gender gap disappears, this affirms that proximity to financial services is critical for an inclusive financial system. It is therefore advantageous to investigate the determinants of financial access with the purpose of undertaking pertinent policy measures.

ESG Performance of firms and the relationship with profitability and valuation. Case: Nordic countries

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Abstract

This study uses Nordic firms? sample data between 2010 and 2019 to explore the impact of firm environmental, social and governance (ESG) performance on financial performance using panel regression approach. Generally, the value enhancing theory is superior to shareholder?s expense theory in our study. Specifically, our study suggests that the governance practice of ESG decreases profitability while the environmental and social practices of environmental sensitive industries do not improve profitability either. However, firm value is enhanced in all ESG practices, and we found financial slack to foster firm?s investment in sustainability practices. Our findings provide useful information to all stakeholders including the shareholders, customers, policymakers, and employees.

How do correlations respond to shocks? Evidence from an impulse response analysis for U.S. stocks, bonds and commodities

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Abstract

The correlations between stock, bond and commodity returns are of utmost importance for asset allocation but are also informative about the flight-to-quality issue. We estimate these correlation for a sample of US indices with the DCC-MIDAS model of Colacito et al. (2011). This model distinguished between the long run and a short run component in the dynamics of conditional correlation. We extend the initial DCC-MIDAS to include an asymmetry effect of negative shocks on conditional standard deviations and correlations. In the next step we apply the definition of impulse response function in nonlinear models of Koop, Pesaran and Potter (1996) following Hafner and Herwartz (2006). In particular, we compute correlation impulse response functions (CIRF) in periods of high and low volatility as well as in periods of market downturn and upturn. Our findings point to ...

Disasters, Large Drawdowns, and Long-term Asset Management

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Abstract

Long-term investors are often reluctant to invest in assets or strategies that can suffer from large drawdowns. A major challenge for such investors is to gain access to predictions of large drawdowns in order to precisely design strategies minimizing these drawdowns. In this paper, we describe a multivariate Markov-switching model framework that allows us to predict large drawdowns. We provide evidence that three regimes are necessary to capture the negative trends in expected returns that generate large drawdowns, and we correctly predict conditional drawdowns. In addition, investment strategies based on these models outperform model-free strategies based on the empirical distribution of drawdowns. These results hold within and out of the sample.

Financial Trilemma and Financial Development in West Africa. Does Policy Choice Matter?

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Abstract

This study examines the effects of the financial trilemma policy tradeoff choices on financial sector development across 15 West African economies over a twenty-eight-year period from 1990 to2017. We use fixed effects, applying robust standard error estimations, to explore the trilemma-financial development nexus. The study uses Aizenman, Chinn and Ito (2015) measures of financial trilemma and considers credit to private sector and IMF?s measures of financial development, capturing financial institutions and markets? depth, access and efficiency as aspects of financial sector development. Our empirical results indicate that the choice of a particular tradeoff will either dampen or improve a particular sector of financial development. The positive effect of the trilemma tradeoffs is largely seen on equity markets. Our results suggest that financial openness levels promote credit to private sector but reduces financial sector development when considering aggregate financial institutional development. We also find evidence that the choice of pursuing exchange rate stability and financial openness has adverse effect of financial development in West Africa. The choice of exchange rate stability and monetary policy autonomy or monetary policy autonomy and financial openness as a pair promotes the equity market but dampens banking sector development. With currency unionization, a consensus in policy choices in the West African region is needed to better select regimes to compete with other regional blocs in terms of trade and financial integration.

The Impact of Vienna Initiative on the Development of the Financial System in CESEE Region

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Abstract

Vienna Initiative is an informal co-ordinational forum that was launched to help the Central and Eastern-South-Eastern European (CESEE) countries maintain liquidity in the banking system and overcome the effects of the global financial crisis in 2019. The Vienna Initiative's participants are EU-based banking groups with subsidiaries in CESEE region, international financial institutions, the European Commission, the European Central Bank as well as the financial authorities of the countries concerned Since 2009, VI has ensured a framework to safeguard the financial stability and support the financial development of the CESEE region. The research aims to assess the impact of the Vienna Initiative on the development of the financial market in the CESEE region and prove that Vienna Initiative is part of the global financial governance. This research proposal starts with a literature review. Based on the neo-liberal version of global governance, the public good plays a central role in international financial governance. Some scholars proved that financial stability is a public good. The key question is whether a government is able to produce this public good when the financial market became global. After the global financial crisis, the idea of macroprudential regulation became the central element of the new Basel Consensus. The institutional architecture of global financial governance contains informal and formal modes of cooperation. The main institutions are G-7, G20, Financial Stability Board, and Basel Committee on Banking Supervision. Regional financial governance plays a complementary role in the global financial market, they serve as channels for better articulating the voice of smaller countries. The EIB and the EBRD have an important role in regional governance in Europe. After the crisis, the European Union's macroprudential policy and the institutional system changed. The last part of the literature review focuses on the measurement of financial stability and development. The research formulates three hypotheses: (i)Thanks to globalization, countries in the CESEE region needed external support to overcome the financial crisis. (ii) The VI contributed to overcoming the effect of the financial crisis and the development of the financial (banking and the capital market) sector in the CESEE region, (iii) VI is part of the global financial governance. The research proposal gives an overview of which qualitative and quantitative methods will be employed based on the literature and what are the main challenges.

Is Flood Risk priced in Bank Returns?

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Abstract

Climate change related disasters are projected to increase considerably over our lifetime, and flooding is by far the most expensive. Using a comprehensive future flood risk measure matched to bank holding companies in the United States, I find that a higher exposure to future risk results in higher realised excess returns. This is consistent with bank stock prices reacting to flood risk, and is in line with standard asset pricing theory. Furthermore, I construct a Flood Risk Factor with significant predictive power even after controlling for the conventional factors.

The Credit Cycle and Monetary Policy in Developing Countries

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Abstract

This article is devoted to analyzing monetary policy in developing countries to the light of the international credit cycle. Understood like comovements of risky asset prices, credit growth, leverage, and financial aggregates around the world (Rey, 2016), my concern is how small open economies can deal with this cycle and the capacity of governments to continue applying autonomous monetary policy for pursuing national objectives. By utilizing the framework of Bernanke et al. (1999), I develop a theoretical model that represents the case of a small open economy exposed to domestic and foreign shocks. Among other results, I find that periods of high international liquidity (low interest rates) could lead the government to the trade-off between openness and national stability.

Debt Equity Swap and the Restructuring of Sovereign Debt Under Incomplete Contracts

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Abstract

The paper discusses the restructuring of sovereign debt problem when the debt overhang problem from inherited debts, together with the presence of incomplete contracts preventing new lenders from controlling the efforts of sovereign citizens in delivering new projects, act as barriers to successful renegotiations between multiple stakeholders. In this context, we show that a debt equity swap, whereby old creditors exchange their past debts for fresh equity in new projects, could resolve such conflict among stakeholders in debt renegotiation, if the new equity consists of two components: (a) a commitment part consisting of preferred shares, which is meant to compensate old creditors' expected loss of seniority inherent in such a swap, and (b) a contingent part in the form of ordinary shares, which allows all stakeholders to benefit from the upward potentials. If the sovereign lacks a commitment instrument and issues only ordinary shares, the conflict could still be resolved if the outstanding debt exceeds a threshold value, which is shown to depend on the average and volatility of the output of the debtor country. The primary contribution of this paper is thus underscoring the role of financial instruments in resolving the commitment issues present in problems of debt restructuring.

Weighted Shapley Values of Efficient Portfolios

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Abstract

Shapley value theory emerges from cooperative game theory to measure the exact contribution of agents playing the game. A few years back, the Shapley value was used to decompose the risk of optimal portfolios, attributing to the various assets their exact contribution to the portfolio risk and return. In the present paper, I extend the Shapley value results of Shalit (2020) by using weighted Shapley values to decompose the risk of optimal portfolios. The concept as axiomatized by Kalai and Samet (1987) provide a solution to cooperative games when player's symmetry cannot be justified. I present the weighted Shapley value theory and I apply the model to optimal mean-variance portfolios. I compute the weighted Shapley values for the 13 most traded US stocks in 2020 and compare the results with the regular Shapley values.

A survey on macroeconomic data and trends in the Eurozone and a control dashboard model based on the KAM and Nekhoroshev theorems and the Hénon attractor

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Abstract

Starting from the examination of the main macroeconomic parameters that have characterized the structure of the Eurozone in the last decade ? and their systemization ? our aim was to apply a model suitable for describing its dynamics. In particular, the Kolmogorov-Arnold-Moser theorem was adapted to the question, up to low level perturbations caused by negative economic conditions, the first symptoms of financial or exogenous crises, and other turbulence affecting the economy. We then applied Nekhoroshev's theorem to represent the phenomena characterized by the occurrence of stronger resonance as well as the reactions of the system to the control and recovery measures implemented by the ECB Governing Council. The goal of the paper is to propose the adoption of a systemic stability planning and control dashboard ? also suitable for the support and stimulation of growth cycles ? with attention to optimal performance, which can be identified in compliance with (or restoration of) the macroeconomic trajectories determined in the model by the Hénon Attractor. The proposed scheme may find useful application ? both for evaluation and operational purposes ? in the current period, characterized by the complex and compromised scenario brought about by the SARS-COVID2 pandemic emergency, which has obviously imposed structured measures to support the economy.

Anti-corruption and Corporate Investment: Evidence from Financial Disclosure Laws

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Abstract

We exploit the adoption of global financial disclosure laws to study the effect of anticorruption regulation on corporate investment and find that following the adoption of these laws, corporate investment rate decreases while investment efficiency improves. Our results indicate that anti-corruption laws effectively restrict firm?s excessive investment caused by government subsidies in more corrupt environment. Our analysis sheds light on the benefits of anti-corruption laws and have important policy implications.

The Impact of Payday Lending on Crimes

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Abstract

Police departments located in states allowing payday lending report 14.34% more property crimes than the police departments located in states not allowing payday lending. I also find that the police departments located in counties bordering with states allowing payday lending report more property crimes. Those results are driven by the financial pressure induced by payday loans. Furthermore, the impact of payday lending concentrates in areas with a higher proportion of the minority population.

A framework for Risk Management in small medium enterprises in developing countries

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Abstract

Previous studies conducted on the subject of RM in SMEs have been reviewed. These studies argue the challenges of successful implementation of ERM in SMEs and proposed different ways to address these challenges. All the studies reviewed confirmed that limited resources are a barrier for SMEs to successfully implement ERM. The common ground reached by these studies is that there is a need for the simplification of ERM in SMEs. Furthermore, they stress the need for more research on tools, models, and frameworks to guide the implementation of RM in SMEs. The observation from these studies is that they advocate for an integrative approach for RM in SMEs. The current study researched information governance as the missing piece that might contribute to the simplification of ERM in SMEs and unpack its connectivity to business strategy and monitoring. In the current study, the conceptual Small Medium Enterprises Risk Management Framework (SMERMF) is presented. The limitation of the study is that an empirical study has not been conducted as yet to present the results that will be compared to the theory and conclude the research.

Volatility spillovers of Central and Eastern European currencies

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Abstract

This paper aims on the volatility spillover effects and the interdependence between the Central and Eastern European (CEE) foreign exchange rates (Czech Republic, Croatia, Hungary, Poland, and Romania) and Eurozone from November 2013 to May 2021. The volatility spillovers are identified by the measure proposed by Diebold and Yilmaz (2009). We find significant spillovers mostly in periods of economic-policy shocks.

Bank Competition and P2P Lending in Emerging Markets: Evidence from Brazil

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Abstract

We document that Peer to Peer (P2P) lenders attend smaller and riskier firms, and provide cheaper credit than traditional banks. P2P clients used to find higher interest rates in banks compared to similar clients. Once they borrow from P2Ps, they do find a lower interest rate on subsequent bank loans, indicating an improvement in their bargaining power. Using a time and geographical discontinuity in internet quality as an exogenous shock to Fintech lending activity, we also find that credit unions more exposed to Fintech competition decrease their average interest rate after the shock, in comparison to non competitor credit unions. The results indicate that for credit markets highly concentrated on banks, Fintech lending can play an important inclusive role by increasing credit access and decreasing funding costs to marginalized companies.

The Effect of State-level Corruption on Performance and Risk of Financial Institutions

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Abstract

We study the effect of public corruption in the U.S. on commercial banks? performance and risk, using the DOJ district-level reports to proxy the level of corruption in bank headquarters? states. We find that public corruption negatively affects banks? risk-adjusted performance. We also find that public corruption does not affect financial institutions? liquidity and capital ratios. We anticipate a decline in banks? ability to make credit decisions and to maintain control over extended loans in corrupt environment. Banks? response to the expected increase in credit risk depends on their asset size. Smaller banks respond by reducing the amount of most risky category of loans, with larger banks taking over that share. Both small and large banks experience higher default rates in corrupt districts.

An Assessment of the Impact of BASEL Accords on the Performance of Indian Banking Sector

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Abstract

The study makes an assessment of the impact of Basel norms on the growth of performance indicators of Indian banking sector during 1971-72 to 2018-2019. It also examines the capital adequacy and risk sensitivity levels of banks, besides analyzing the banking sector development and economic growth nexus in India. Data are collected from various secondary sources. The results reveal that implementation of Basel norms have contributed to improved growth, strengthening and development of banking activities. Overall, the country?s banking institutions have been safer, due to adequate level of payout ratio, maturity period of shares, supervisor audit frequency, capital adequacy ratio, and maintenance of reasonable risk levels. The risk levels of private sector banks show that they make higher investments at higher risk levels for better returns.

Capital Regulation, Monetary Policy, and the Renegotiation of International Loans

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Abstract

We analyze which macroeconomic factors cause international lenders to drop out of syndicated loans. Increases in capital requirements in the lender country and decreases in borrower country policy rates imply a greater likelihood that foreign lenders will stop supplying capital in international syndicated loans. These results are robust to the inclusion of borrower country, lender country, and borrower round fixed effects. Using lender country capital regulations as instruments, we find evidence of significant economic spillover effects as international lender exits imply smaller loan amounts and shorter maturities.

Does Economic Political Uncertainty impact the Cryptocurrency Market?

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Abstract

We study the impact of economic and political uncertainty on the financial market for digital currencies. Using a novel data set on the demand and prices of 21 cryptocurrencies, we find that in times of global uncertainty, cryptocurrency markets experience increased transactions and trading volume. We observe similar effects of country-specific fiscal uncertainty on the trading volumes, suggesting that global uncertainty and local fiscal uncertainty attract users to these digital markets. A country's political uncertainty does not affect demand, which underscores the global nature of cryptocurrrencies and the absence of a government's role in their supply. Despite increased demand, the impact of uncertainty on return in these markets is insignificant, plausibly due to the dominance of retail investors and high volatility. Our study provides insights into how these unique global markets behave relative to traditional financial markets in the face of uncertainty.

Central Bank Digital Currency in Brazil

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Abstract

We calibrate to the Brazilian economy a model of means of payment choice, where households have different preferences over anonymity. Financial sector is monopolistically competitive and may break the link between borrowing and lending rates. A sufficiently attractive digital currency reduces holdings of both cash and bank deposits. Since cash use is costly, the digital currency may increase welfare. However, if banks are liquidity constrained, the digital currency may result in less loans and output, and then reduce welfare. The digital currency interest remuneration can be set and be adjusted overtime to optimally balance this trade-off.

Determinants of advertising expenditures: Role of stock prices in an emerging market

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Abstract

This paper documents the sensitivity of advertising expenditures to firm?s own stock prices and its peer?s stock prices in India during the period between 2000 and 2018. Our results show that advertising expenditures of a firm are positively related to its stock prices and its peer?s stock prices. We also show that this relationship depends on the extent of product market competition. The sensitivity of advertising expenditures to firm?s peer?s stock prices only holds when product competition is high. At lower levels of product competition, the affect of peer?s stock prices on advertising expenditures is insignificant.

Funding MSMEs and Female Entrepreneurs in MENA countries: the Microfinance Issue

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Abstract

The paper is devoted to the funding of Micro-, Small and Medium-size Enterprises from six non-oil exporting countries from Middle East and North Africa, with a focus on female entrepreneurs and the microfinance industry. Funding theories display contrasted outcomes. On the demand-side, the capital structure of firms, size and collateral have a positive impact on leverage, in line with trade-off theory, whereas profitability and growth opportunities exert a negative effect, consistent with pecking-order theory. On the supply-side, credit rationing from banks harms female entrepreneurs. Discrimination of female entrepreneurs proves non-existent according to the World Bank Enterprise Surveys, whereas self-selection takes place. However, this is inconsistent with the importance of females borrowing from microfinance institutions (henceforth MFIs). There is mixed evidence that MFIs cope with the dual challenge of ensuring both financial self-sustainability and social performance (poverty alleviation). The same applies to Islamic microfinance. MFIs are no panacea in as much as they target poor people rather than the very poor, and funding small business has no visible macroeconomic impact. Nevertheless, microfinance promotes inclusive growth, supports female entrepreneurship and job creation. Following the COVID recession, MFIs face a dilemma regarding defaulting clients, conducive to short-term liquidity and longer-term solvency issues. JEL: G21; G32; O17.

Asset Pricing Implications of Firms' Government Sales Dependency

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Abstract

This paper studies the firm-level, asset-pricing implications of government spending. A higher government sales dependency (GD) significantly predicts positive future returns for a firm, and a GD-weighted portfolio substantially improves the Sharpe ratio of the tangency portfolio. Higher returns do not stem from political connections or political and regulatory risks. The underlying economic channel is higher expected cash flow, and higher cash flow comes from increased profitability and a higher probability of winning future government contracts. Conditionally, results are stronger during Republican presidencies. Atypical provisions of government contracts and information asymmetry are likely driving higher profits. Risk versus mispricing analysis suggests a mispricing-based explanation for the abnormal returns.

The cultural dimension in companies' leverage. New Evidence using panel data for a European macroeconomic context

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Abstract

Decision-making about the firm capital structure depends on the macroeconomic, religious, and cultural environment. Thus, we intend with this work to show empirically that in addition to the traditional specific factors of the companies, also the cultural and religious factors in the different macro environments, can influence the leverage of the companies. To achieve this aim, we have used data from 1.568 firms from seven European countries between 2010 to 2016 and we estimated our models by using panel data methodology, specifically the Generalized Method of Moments (GMM) estimation method by Arellano and Bover (1995) and Blundell and Bond (1998). Overall, the empirical results point out that the cultural moderating factors are essential in determining companies' capital structure, regardless of the countries legal origin. Our results also show that traditional variables, intrinsic to management, macroeconomic environment, and religion, have a central role in capital structure, namely for the civilian countries.

To Delegate or Not to Delegate? On the Quality of Voluntary Corporate Financial Disclosure and Its Market Impacts

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Abstract

This study investigates the impact of delegation structure of the top management team upon the quality of corporate voluntary disclosure on financial outcomes. The paper develops two competing hypotheses pertaining to the functional relationship between the degree of delegation and the management forecast accuracy. On the one hand, as indicated by the literature on internal governance, the efficacy of the top management team is optimized when neither the CEO nor the subordinate managers are dominant. On the other hand, an extensive literature has documented the importance and centrality of the CEO as well as the relevancy of the subordinate managers to the voluntary disclosure activities. The empirical findings are in support of an inverted hump-shaped relationship between the degree of delegation and the quality of voluntary information provision, suggesting that an internal optimality of responsibility sharing between the CEO and her immediate subordinates does not exist for internal information production and external information dissemination. Partial delegation and mixed executive duties lead to deteriorating quality of voluntary disclosure. In particular, the paper analyzes several aspects of managerial earnings forecasts (MFs), the most influential type of voluntary financial disclosure. The documented curvilinear forms are generally persistent across multiple quality metrics for MFs. Consistent with the literature on executive horizon and risk propensity, the curvilinear relation is more significant when the top management team is led by an older CEO. The paper utilizes an identification strategy of structural equations, which controls for selection bias and reverse causality. To theoretically underpin the arguments and empirical findings, a model of internal information production is developed in the framework of Bayesian Nash Equilibrium. The paper further documents that when the delegation structure is clear, namely either the CEO or subordinates are in charge, the liquidity of the company?s stock improves. The empirical evidence also suggests that the variation of liquidity driven by delegation structures is not actively incorporated in stock prices.

Risk governance and risk-taking of public commercial banks of OECD

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Abstract

This research paper examines the impact of risk governance on the risk-taking of public commercial banks of Organization for Economic Co-operation and Development (OECD). Risk-taking is central to the banking industry. Risk-taking by banks goes back to several centuries. Risk-taking also brought forward several tough challenges over the time. The challenges confronting risk-taking are more noticeable since the Great Depression of 1930. There have been notable efforts to curb negative outcome of excessive risk-taking, however, thus far there has not been profound resolution to address and channel risk-taking in banks. Since the end of 1900 the term risk governance was introduced which was later incorporated into banking industry in the most recent decade to curb and channel banks? risk-taking. In this research several risk governance characteristics are studied which are central to banks? internal risk governance. The core risk governance consists of Risk Committee (RC), Chief Risk Officer (CRO), and Chief Financial Officer (CFO). An additional supportive layer has been added to the core internal risk governance which includes director?s ownership, directors with PhD degrees, directors between the age of 65-75, and independent directors. Risk-taking is measured by leverage, ? (ROA), Equity Asset Ratio (EAR), and Z-score. Our results suggest that there is an association between risk governance and risk-taking of banks and this association between risk governance intensity and risk-taking is stronger during the Global Financial Crisis of 2007-08 (GFC). This research provides insights to internal risk governance of public commercial banks and its impact on their risk-taking which is relevant to related authorities and personnel.

Monetary and financial perspectives on retail CBDC in the Thai context

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Abstract

This paper explores three monetary and financial issues of retail central bank digital currency (CBDC) in the Thai context. The first insight shows that opportunities in the digital age may arise for Thai citizens and businesses to reap the benefits of a more efficient form of public money and financial innovation. It is possible for Thai citizens to quickly adopt unremunerated CBDC for transactional use within a decade. Second, we point out that there are several ways to utilize retail CBDC for enhancing monetary policy effectiveness, namely, through the bank rate channel and the introduction of new monetary policy tools. Nevertheless, monetary policy should not be the first and foremost objective for the central bank to issue CBDC as there are other factors to consider. These included impacts on the central bank balance sheet and monetary operations, especially for remunerated CBDC. Disintermediation and liquidity risks for Thai financial institutions are also key concerns, which are discussed in the third part. We assess that the risks to the banking sector are low in normal periods, but the well-designed CBDC features are necessary to prevent mounting liquidity risks in distressed periods.

Capital structure, low leverage and monitoring costs in microfinance institutions

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Abstract

Is the comparatively low debt ratio of 63.1\% on average in microfinance institutions (MFIs) related to high monitoring costs? Low debt ratios prevent MFIs from fulfilling their social mission to provide formal inancial services to poor people. Instrumental variables regressions on a unique, unbalanced panel data set show that operational costs, local banking regulation of MFIs, deposit accepting MFIs, and a local founder cause the debt ratio level. The regressions also confirm findings from general capital structure literature. The results withstand robustness tests. We conclude that the high monitoring costs in the microfinance sector drive debt ratios down. The implication is that improved external monitoring of microfinance institutions would help more people out of poverty.

Seasonality and Volatility

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Abstract

Recent financial innovations have made investing in the volatility of equity indices, commodities and even the volatility of individual stocks possible for speculation and hedging. In this study, we investigate the price distribution of numerous popular volatility products using a wide range of seasonal and calendar anomalies documented empirically in the finance literature. Our findings indicate consistent and systematic price efficiency in the majority of the examined effects because, in general, the prices of these volatility products remain unaffected by seasonal and calendar effects. However, several calendar patterns are present and significant. Our findings have implications for efficient asset pricing and diversification benefits for these instruments.

The riskiness of stock versus money market investment with stochastic rates

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Abstract

To efficiently assess the performance of investing in stocks rather than in a bank account for the long run, stochastic interest rate modelling is essential. We introduce a correlated stochastic interest rate model that addresses this problem. We derive analytic formulas for general spectral risk measures in our setting, and apply our results to Value at Risk, Expected Shortfall and GlueVaR. We characterize the short- and long term behaviour of these risk measures. We fit our model to financial markets, perform an empirical study and evaluate risk numbers for realistic scenarios in the future. Our results reveal sizeable sensitivities on parameter estimation, but we may conclude that holding stocks for less than a few decades bears significant risk.

Arbitrage Implications in Pricing of Volatility Futures

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Abstract

The paper depicts pricing mechanisms for volatility Futures when arbitrage constrains are present, and in a case where underlying is not tradable asset. A relevant difference in price dynamicity is found, confirming the theoretical importance of arbitrage in Futures pricing. As the analysis is performed, volatility Futures reveals a contango term structure, in regards to spot VIX, a non-naïve reversal to mean, and a dynamic surface. These findings imply in relevant information for investors designing hedging strategies.

Target Date Funds: Lessons learned?

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Abstract

Target Date funds are mutual funds with a date in their description. The date signifies the retirement date for whom the mutual fund is designed. The basic proposition is that the fund will dynamically adjust the fund?s composition as it evolves toward that date and relieve the investor of the asset allocation problem. These funds received a significant boost in 2006 as they became the default choice of many defined contribution plans. However, Booth and Chang (2011) showed that many funds significantly increased their allocation toward equities immediately prior to the 2008 financial crisis and saw significant losses. Since this was only shortly after they became a significant component of the mutual fund market this research is directed toward assessing the maturation of target date funds and their performance during the current coronavirus pandemic, when again there were significant market losses. Overall, the assessment is that target date funds largely met their designation and there is no evidence of them similarly gaming their asset allocation as occurred prior to 2008.

Uniqueness of Clearing Payment Matrices in Financial Networks

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Abstract

We study bankruptcy problems in financial networks and allow for general bankruptcy laws. The set of clearing payment matrices is shown to be a lattice, which guarantees the existence of a greatest and a least clearing payment. Multiplicity of clearing payment matrices is both a theoretical and a practical concern. We present a new condition for uniqueness that generalizes all the existing conditions proposed in the literature. Our condition depends on the decomposition of the financial network into strongly connected components. A strongly connected component which contains more than one agent is called a cycle and the involved agents are called cyclical agents. If there is a cycle without successors, then one of the agents in such a cycle should have a positive endowment. The division rule used by a cyclical agent with a positive endowment should be positive monotonic and the rule used by a cyclical agent with a zero endowment should be strictly monotonic. Since division rules involving priorities are not positive monotonic, uniqueness of the clearing payment matrix is a much bigger concern for such division rules than for proportional ones. We also show how uniqueness of clearing payment matrices is related to continuity of bankruptcy rules.

Market-driven securitization

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Abstract

How, and how much, does the performance of the stock market affect banks? securitization activity? Our analysis of a panel of EU and US banks shows that the former shapes the latter both directly and by interacting with some balance-sheet items. We find that the impact of the stock market performance upon the bank?s securitization, the channels with which it interacts with the balance sheet items and the sign that these impacts take depend upon the market discipline, that shapes both the bank?s business model of securitization, and the condition of the financial market.

Does ESG Improve Crisis Resilience? Empirical Evidence of Global Equity Markets During the Covid-19 Pandemic

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Abstract

We examine the role of ESG metrics in explaining crisis resilience during the Covid-19 pandemic and examine whether ESG leaders were proved more crisis resilient. ESG refers to Environmental, Social, and Governance aspects of companies, collectively known as ESG factors, and has gained popularity in investments. Our empirical tests cover a database of 971 companies that are members of the MSCI World Index and examine the Covid Crisis period from January 2020 ? May 2020. We calculate a Financial Resilience Index (FinRI) similarly to the literature, and introduce a novel enhanced resilience index complemented with ESG metrics that we name the Sustainability Resilience Index (SRI). Our findings showed that the SRI is superior in explaining the resilience of the equities during the Covid Crisis. We also find evidence that companies with better ESG management were more crisis resilient. This may indicate investor perception that ESG management is a proxy for corporate management quality.

Long-Horizon Stock Returns Are Positively Skewed

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Abstract

At long horizons, multiplicative compounding induces strong-to-extreme positive skewness into stock returns; the magnitude of the effect is primarily determined by single-period volatility. Consequently, at horizons greater than five years, returns -individual or portfolio- will be positively skewed under reasonable parametrizations. From an investor perspective, the strong positive skewness implies that the mean compound return will serve as a poor guide for typical long-horizon outcomes. Moreover, the large effects of compounding on higher-order moments are shown to affect the validity of Taylor expansions used to approximate preferences for skewness, when applied to returns of annual or longer horizons.

Impact of changes in margin requirements on stock returns and liquidity

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Abstract

Regulatory changes over the since the global financial crises of 2007-2009 have gradually increased the role of central counterparties. To fulfil its role of clearing and settlement of trades, central counterparties needs to maintain financial resources to cover losses due to customer defaults. One element of these resources is the initial margin requirements. In our paper we have analyzed whether the change in the value of the margin changes have procyclical effect on the market, namely whether margin changes have effected the return or the liquidity of the stocks. This was tested by event analysis between the time period of 2014-2018 on the Hungarian market. Our main result is that the procyclical effect of the margin is questionable, very low. This may be explained by the prudent methodology used by the analyzed central counterparty or by the simple fact that there is no such feedback effect on the market.

Determinants of Underpricing for the Russian IPOs, 1996-2017

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Abstract

This paper investigates the determinants of underpricing for the Russian IPOs during 1996-2017. Historically, The Russian IPO market has been one of the least underpriced markets in the world. Using a unique sample of 104 companies undergoing IPOs, we test the relevance of ex-ante uncertainty, the signaling hypothesis, and the partial-adjustment theories based on OLS, Weighted Least Squares, and Logit/Tobit models. Although average underpricing of Russian IPOs is one of the lowest by international standards, there exists a substantial amount of dispersion in its degree depending on industry type, capitalization and the amount of market volatility at the IPO date. Our empirical findings suggest that underpricing is significantly related to the proxies of ex-ante uncertainty such as stock return volatility, ROA, oversubscription, underwriter?s prestige and the price revision index of the partial adjustment theory. Logit and Tobit estimations also confirm that Russian firms signal their quality to potential investors through underpricing so as to generate better terms in their seasoned equity (SEOs). These results can be of interest to potential investors, academics, and the policy makers.

Shadow Banking in Central and Eastern Europe: definition, measurement, risks, and vulnerabilities

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Abstract

The paper analyses the specialties of the shadow banking system of 11 Central and Eastern European EU member states. Firstly, we compiled a unique database for CEE shadow banking. Secondly, we analyze the structure and found that the size of CEE shadow banking is much smaller, and its structure is significantly different from that of developed European countries. Thirdly, from a risk aspect, CEE shadow banking systems are not as significant, but they could cause disruptions in the financial system. We found a parallel story with developed countries: shadow banking contributed to risky lending activities before GFC due to the relative under-regulation and supervision. Finally, using a panel regression, we explore some influencing factors of shadow banking development: the economic development of the countries and their banking systems under review; the rate of domestic ownership in the banking sector; the level of capital market capitalisation.

TOWARDS A FRAMEWORK TO ANALYSE ILLICIT FINANCIAL FLOWS

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Abstract

Aim/Purpose: The purpose of this study is to develop a framework to analyse illicit financial flows (IFFs). Background: Financial opacity creates a conducive environment for IFFs to flourish. Methodology: Our methodology follows an interpretive philosophy, an inductive research approach, a qualitative methodological choice, a cross-sectional time horizon all through data collection through review of scholarly literature. Contribution: IFFs emerged as a challenge to good financial practices. This work develops a framework to address the said IFFs, consequently, it is envisaged that the framework may encourage good corporate governance, provide insights and identification of possible characteristics of IFFs perpetuated in the financial statements of companies and which would discourage entities to engage in IFFs. Findings Illicit financial flows (IFFs) turn out to be prohibitive factors with respect to harmful effects for both developing and developed economies. These compromise transparency through complex transactions. A framework to analyse illicit financial flows is developed. Recommendations for Practitioners: The study recommends that Practitioners should be able to identify characteristics of IFFs and use the framework to address IFFs. Recommendation for Researchers: Researchers could exercise the framework through case studies in industry by spending time in companies to determine the feasibility of the framework in addressing IFFs. Within the finance dimension, it is important to study the specific mechanisms on how IFFs may damage a company?s reputation and going concern of entities. Impact on Society: The study provides insights on financial reporting, encourage good corporate governance, identifies possible characteristics of IFFs and addressing of IFFs. The framework could be used as a control measure to eliminate IFFs. Future Research: Further research is needed to enable more safeguards in financial reporting to discourage illicit transactions. The framework could be strengthened to embed more safeguards in financial reporting to discourage illicit transactions. Among these endeavours, qualitative surveys among stakeholders in industry could be conducted, thereby adding a deductive component to the research methodology.

Investor attention or remaining in office CEOs can't always get what they want

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Abstract

Even if some ?business professors and writers believe that the American obsession with who sits at the top of the organizational chart has gone much too far? (Collingwood, 2009), there are many reasons for agreeing with Finkelstein et al. (2009) who claim that CEO appointments could be a critical (momentous) corporate event. We investigate the influence of investors' attention on trading volumes around CEO appoint announcements. Using a hand collected sample of stocks listed in the Polish capital market over the period 2000?2015, we proved the differences in trading behaviour around CEO appointment announcements. Our findings confirm results of the previous studies demonstrating that investors generally neglect the appointment of the current CEO for the next term of office. We contribute to the existing literature identifying an important moderating effect of investor trading strategy and providing the evidence that price movements and shocks before the CEO reappointment influence trading volumes. Our paper highlights the impact of calendar anomalies on trading volumes on the days when CEO appointments are announced, which to our best knowledge was a previously ignored factor. We suggest that the 'Sell in May and go away' trading strategy can be included in the future studies analysing the phenomenon of investor attention. Finally, a CEO remaining in office after the long-term rise in stock price ends is a sufficient cause to create trading pressure in investors.

Who's guilty of creating bubbles? a study of explosivity across markets

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Abstract

This paper seeks to understand the reasons behind explosive events in financial markets. This question is crucial as bubbles are extremely damaging not only to the stock markets but to the economy as a whole. Three markets will be tested for bubbles and compared to establish if the structural differences between the markets make them less or more resilient to explosivity. The choice of those three markets is motivated by the difference in the share of institutional investors among their participants. Most behavioral finance bubble models present rational arbitrageurs facing irrational or uninformed investors. Most explain bubbles as the incapacity of the first group to stop the second. Even though empirical evidence is mixed, the noise traders are often explicitly or implicitly assumed to be individual investors, while rational traders are institutional investors. In the literature, they have been depicted as more rational and less likely to fall into the trap but recent papers have thrown a different light on the matter (Choi et al., 2015). Evidence has been found that institutional investors can also be found chasing the trends. This suggests that if trend-chasing creates bubbles then institutional investors could be also to blame. This paper contributes to the literature in three ways. It uses advanced econometric bubble testing in order to understand the causes of bubbles. It compares its results on different types of markets (oil, bitcoin, and carbon). This leads to understanding how institutional and individual investors do not act so differently as previously thought, joining the conclusion of (Choi et al., 2015). The three markets are the European carbon market, the WTI oil market, and the bitcoin market.

The Effect of Bank Competition on Deposit Price Dispersion

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Abstract

We examine the effect of the local market?s bank concentration on the price dispersion of the deposit products. By using the Interstate Branching Deregulation status of a region as the Instrumental Variable for the bank concentration, we show that the local market?s bank concentration has a negative effect on the price dispersion of the deposit products. We further points out that this negative effect holds for the different types of deposit products (e.g. Certificate of Deposit, Money Market deposit). However, this negative effect of the the local market?s bank concentration on the price dispersion attenuates with the increase of the maturity period of the deposit products. The negative effect of the bank concentration on the deposit price dispersion hints about the existence of the price inelasticity in the deposit market and implies that depositors might prefer other factors (e.g. distance, convenience) over pricing in their decision making about choosing a bank.

Managerial Ability and Analysts' Recommendations

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Abstract

We find evidence that sell-side analysts recommend companies with higher managerial ability more favorably, indicating that analysts (1) recognize the value-generating ability of management and (2) believe managerial ability is not fully priced by the market. Moreover, the investment profitability of analyst recommendations increases when the recommendation accounts for managerial ability. Overall, our results suggest that managerial ability is a distinct and important attribute of firms in explaining analysts? stock recommendations and the value of these recommendations for investors.

The effect of option holding on managerial risk taking?A theoretical and empirical literature review

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Abstract

Option grant, as a form of equity compensation, has been increasingly popular and important in motivating managers to work hard and mitigating the agency problem. More specifically, how does options affect managerial risk-taking? In terms of shareholder value, is it value-enhancing? The answers to these questions are not only important in academic research but also can potentially shed some light on policy and regulation reforms. This literature review provides a synthesis of the prior theoretical and empirical research on the effects of option holding on corporate risk-taking. Although it is an important and interesting topic, this line of inquiry is still underexplored to some extent. Finally, some potential future research questions are considered.

The Evolution of Corporate Social Responsibility in China: Do Political Connection and Ownership Matter?

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Abstract

The rising CSR awareness globally has influence CSR development in China but unlike anywhere in the world, the central government is always the main driver of CSR here, making it a unique case study. Under this political state, this study examines how a firm?s political connections and foreign ownership affects its CSR reporting. We study a long sample over 4 different stages of CSR development in China over 2006-2019 with panel regression analysis. Our results show that CSR reporting and participation have increased over the sample period, but firms with political connection and foreign ownership are associated with lower levels of CSR reporting. The findings contradict theories of political cost and legitimacy that fit well in other countries. We propose crony relationship to explain the phenomena of low CSR compliance in the political linked firms in China. We further study Xi Jinping (XJP) regime and finds that CSR reporting in China improved significantly in this regime but XJP regime moderates the state and foreign owned firms differently. Under XJP government, crony relationship has reduced following the improvement of CSR reporting political connected firms, but CSR activeness has declined in foreign owned firms, implying they have become more opportunistic to cut business cost and seek profit.

The quantity theory of disaggregated credit: A new monetary policy tool for reigniting stagnant economic growth in Mauritius

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Abstract

The study explored the quantity theory of disaggregated credit (QTDC)3 to investigate the effects of bank credits on GDP in Mauritius. First, following the QTDC approach, the paper disaggregated bank credits to credits for GDP transactions (Cr) and credits for non-GDP transactions. Next, we select the best performing proxy of Cr, and tested its statistical significance and predictive value on nominal GDP in Mauritius from 1970 to 2019 using the time varying coefficient (TVC) estimation approach of Swamy and Von Zur Muelhen4 (2020). Our conclusions are the following. The QTDC, tested in Mauritius using a proxy of Cr ?which contains bank lending for primary, manufacturing and tertiary and trading sectors, to individuals and professionals, government and construction ? performs very well in predicting nominal GDP. This paper adds empirical support to this promising yet unknown QTDC. The empirical results also suggest that policies that guide bank lending towards GDP transactions notably gross fixed capital formation (GFCF) can be potentially very effective in stimulating GDP growth and much more so than conventional interest rate policies, to which credit guidance can act as a complement and not necessarily as a substitute. Monetary policy, irrespective of the specific tools used, should encourage commercial banks resident in Mauritius to lend primarily to activities that involve GDP transactions, and more specifically to public and private investment including SMEs. The results of this paper have profound implications for how to reignite economic growth in the country during and after the COVID-19 pandemic

From cryptocurrency to digital currency

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Abstract

Nowadays, with the rapid development of electronic devices and the Internet, cash and debit card payments are beginning to be replaced by mobile and Internet payment methods. Its appearance, and advances in technology have hastened the spread of cryptocurrencies and created digital currencies. The cryptocurrencies ? and Bitcoin is the best known of them ? are accepted at many places as a means of payment, but its decentralized system does not allow to be a generally accepted currency, rather as a risky form of investment. On the other hand, a digital currency that would have all the characteristics of a traditional currency, except for the tangibleness, could be the currency of the future. These would also be currencies issued and controlled by central banks ? like fiat money -, an example of which is DC/EP (Digital Currency / Electronic Payment). The first part of my presentation introduces the differences between cryptocurrency and digital currency. In the second part, I talk about their role as a means of payment. And finally, I conclude the presentation by introducing the benefits of digital currencies.