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Investigating the impact of auto loans on unemployment: the US experience

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Abstract

This paper explores the impact of automobile loan debt balance on US unemployment. The approach explores exogenous factors that influence automobile loan consumption and distinguishes demand during unemployment by incorporating endogenous influences. Individuals with heterogeneous economic positions deem automobiles as necessary durable goods for unemployment exit and expected wage increases. The analysis responds by providing an alternative theoretical understanding to interest rates and unemployment. The methodological approach makes use of an autoregressive distributed lag (ARDL) model to confirm the results both in the short- and the long-run. The findings depict that credit supply is strong when interest rates are low for automobile loan consumption and when unemployment is high then correspondingly the demand for consumer credit is positively high.

Mental Temporal Accounting

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Abstract

In the ample literature on mental accounting in the finance domain, the scarce resource time has not been tested. Regarding monetary gains, individuals were shown to hold mental accounts dependent on a reference point but also in regards as to how to allocate money to causes individuals care about. This article builds on the behavioral economics idea of mental accounting, which is then tested in the domain of time with special attention to the reference points of age and parenthood. This paper examines whether people report differently perceived uses of time when averaging at differences frequencies and whether different frames of mind may lead to discounting preferences. After a meta-analysis of the American Time Use Survey of the Bureau of Labor Statistics that found that there is no clear account of how much time individuals spend in social, economic and environmental conditions; three studies were conducted using Amazon Mechanical Turk (MTurk) online that tested 565 subjects from around the world. Over all subjects, time is reported to be used differently for social, economic and environmental purposes. The social, economic and environmental time use varies over mental temporal accounting compartments of a day, week, month, year and decade. Social time was defined as time spent with other people and engaging in social interaction, communication or activities with others. Economic time was meant as time spent using one?s labor power and productive capacity, likely to earn money and be or prospectively be a productive part of the labor force. Environmental time was given as time spent ourdoors in the open environment. While there are no gender differences to report; age groups and parenthood make a difference when it comes to time allocation perceptions in the social sphere and the environmental domain. Time allocation depends on the economic, social and environmental context. In the environmental frame, time use is reported as highest over all categories. Then follows time use perception of those subjects in economic mindsets. Lastly, in the social condition, time use is perceived to be the lowest, even lower than the neutral baseline condition. All results hold invaluable insights on incentives to nudge individuals into benevolent time use and use external cues to motivate positive change. Elucidating how contexts and experiencing critical life stages influence temporal activity allocation choices holds manifold implications to improve decisions on education, health, asset management, career paths and common goods preservation throughout life. The found differences of social, economic and environmental cues impacting on temporal discounting but not social, economic and environment monetary allocations demand for future investigations of the relation of mental temporal discounting and financial allocation preferences.

Product Market Competition and the Value of Diversification

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Abstract

This paper examines how industry concentration affects the value of diversification and explores the strategic value of agency problems in product markets for concentrated conglomerates. I find that conglomerates that operate mainly in concentrated industries have higher diversification values. Consistent with agency theories, agency problems, on average, lead to greater diversification discount. In contrast, agency problems in concentrated conglomerates create strategic advantage and lead to greater diversification values consistent with the notion that these conglomerates can credibly commit to their industries in case of competitive threats. Using import tariff reductions as exogenous competitive shocks, I show that concentrated conglomerates experience significant decline in their valuations when they are hit by competitive shocks and they respond more aggressively to competitive shocks in order to defend their market positions in less-competitive industries.

Goal congruence contract between the manager and the loan officer in microfinance

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Abstract

The objective of the paper is to provide an incentive compatibility contract between the manager and the loan officer of a microfinance institution to sort out the moral hazard issue at the heart of their relation. Based on a model that captures the specificity of the microfinance industry, we derive the optimal components of the contract that are solely related to the loan officer?s skill level and degree of risk aversion. Furthermore, we show that there exists a threshold reservation utility that always guarantees a positive net profit. Finally, through the implementation of a three-step algorithm, we show how to numerically compute the paper?s keys results.

Operating Performance and Sequence of Convertible Bonds

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Abstract

This paper studies the relationship between the sequence of convertible bond issues and the issuing firms? operating performance. The results show that firms that issue convertible bonds multiple times have higher operating performance compared to firms that issue these bonds once. The operating performance for the first issue of multiple issuers is also higher than the performance of single issuers. The results also indicate a negative relationship between convertible bond sequence and operating performance.

Credit supply and house prices in Italy: a quasi-experimental evidence from the abolition of banks' maturity transformation limit

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Abstract

In this paper we estimate the elasticity of house prices to credit in Italy. First, we demonstrate that the abolition in 2006 of banks? maturity transformation limit affected the supply of mortgages of the non-cooperative banks, but not their interest rates. Then, we explore the relationship between expansion in credit and house prices by exploiting the repeal of the prudential rule as an instrument for a credit supply shock. We find that the effects of the mortgage supply shock on house prices are heterogeneous across Italian provinces. A semi-elasticity of about 1/3 percentage point increase in house price growth following a 1 percent increase in credit supply is estimated for the regional capital provinces, while no effect is found for the other provinces.

The Market Structure, International Banking and New Technology: case from Loan Markets in the EU

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Abstract

The aim of this research is to investigate the impact of market structure and new technology on the grow of bank loans in EU in the context of microprudential capital regulation and macroprudential policy instruments. Furthermore, we try to investigate the impact of Fintech on the level of competition in the in the European Union (EU) banking sector and further for credit grow. The resent ten years after the crisis saw the development of electronic technology which has an impact on changes in the EU banking industry. Advances in information technologies have transformed banking practices and products. Entities creating new business models based on Fintech (including technology based on distributed ledger or artificial intelligence) completely redefine the way consumers meet their financial needs which has impact on the credit grow. In the era of a dynamically changing world, the young generation of consumers is receptive and open to digitization, freely using innovative solutions with electronic channels that allow remote access to financial services (internet, mobile devices). The Internet has created a world of new challenges and threats in banking services and sales potential. Electronic banking became an additional distribution channel of products and services. Furthermore, electronic money became an important element of electronic banking. This category relates to settlement instruments such as payment cards and electronic access channels. In consequence, new markets emerged that did not require direct confrontation of parties to transactions, using network connections instead. These services enable customers to access their bank accounts electronically, via computer or telephone. The customers take a growing interest in telephone banking, which includes account services and the purchase of banking products through the phone, as well as in mobile banking, which combines telephone banking with Internet banking, with the use of access to the Internet via the WAP protocol. Via ATMs, the customer may have access to the following banking services: cash deposits and withdrawals, placing deposits, checking the account balance and the account history. The offering of virtual banks includes attractive terms and conditions of bank accounts, such as free of charge account maintenance, free payment cards, free bank transfers, and free of charge ATM services. Moreover, the interest rates on funds on current accounts are higher than in traditional banks. To sum up, technical solutions have also become one of the important internal factors enabling banks to streamline their management system, improve work quality and create new distribution channels. Appropriate use of the new technologies enabled banks to rise their competitiveness what in consequence enhanced the level of competition in the banking industry.

The Market Reaction to Earnings Announcements in Public Family Firms

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Abstract

This paper investigates the market reaction to earnings announcements in public family firms and whether this type of announcements affect firm?s return, liquidity and cost of capital, providing also evidence on whether family businesses differ from non-family ones in what concerns the earnings announcements effects. To do so, we analyse a sample of Portuguese listed firms for the period 2000-2013, using the event study and a panel data approach. Overall, we find no support for the earnings-signalling hypothesis and for the efficient markets hypothesis. In addition, we find no significant differences between family and non-family firms in what concerns performance. We conclude that ROA appears to fit better than ROE or MB to relate earnings and firm performance. The results show that firm?s size and age contribute positively to the firm?s performance. Finally, we find no evidence of a significant relationship between earnings changes and both the firm?s liquidity and weighted average cost of capital, giving no support for the pecking order theory. This study is of interest to scholars and practitioners in the finance field, namely the information content of earnings and the differences between listed family and non-family firms in what concerns the earnings announcements effects.

Real Estate Depreciation and Corporate Cash Policy: A Perspective of R&D Smoothing

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Abstract

Abstract: During the housing bust period, real estate depreciation tends to weaken a firm?s access to external funds; to buffer R&D from this negative shock, an innovative firm is expected to turn to its cash reserves. By examining the U.S. listed high-tech firms during the housing bust period 2008-2012, we find that a $1 decrease in real estate value leads a high-tech firm to reduce its cash holdings by $0.37. We also find that this effect is more pronounced among financially constrained high-tech firms and among high-tech firms initially holding more cash. In contrast, this effect is insignificant among non-high-tech firms in which buffering capital investment is not an urgent need.

Adaptive market hypothesis and predictability of emerging stock indices

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Abstract

This paper examines the Adaptive Market Hypothesis (AMH) in three of the emerging markets indexes as Eastern Europe, Latin America and Asia. To this end, we test for stock return predictability using daily data from January 1995 to December 2018. Besides, with the aim of deepening the study of one emerging market group, this research presents as further results the analysis of the most important Latin-American stock indices. Our results suggest that predictability of stock returns vary through time, and the market efficiency is not an all or nothing condition, since the AMH suggests that market efficiency and market anomalies to co-exist and allows market efficiency to evolve over time in capital markets. Furthermore, we find that every market evolves and behaves differently over time. This is found performing Variance Ratio Tests, as well as for the Brock-Dechert-Scheinkman test for nonlinear predictability. Similar results are obtained after applying Dominguez-Lobato and Generalized Spectral tests for the Martingale Difference Hypothesis. All in all, the analyzed emerging market indices satisfy the AMH due to the switching behavior between periods of efficiencies and inefficiencies in these financial markets.

Why can't investors pick the right index fund?

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Abstract

Despite the dramatic growth of index funds over the past decades, I find that investors leave large amounts of money on the table when investing in this product. I show that fees are a remarkable predictor of future fund performance and yet investors have little sensitivity to fees when choosing in which funds to invest. Most of the puzzling behavior comes from the retail segment where investors seem to prefer funds with higher costs. Search frictions and fund marketing efforts can only partially explain this. I also find that regulatory efforts to make fees more salient have no effect on investor's sensitivity to fees while at the same time finding mixed evidence that client's trust in their investment managers can help explain this puzzle.

Board-level Employee Representation and Corporate Social-Environmental and Financial Performance: Cross-country Evidence

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Abstract

This study examines the impact of board-level employee representation on corporate social, environmental, and financial performance, taking into account self-selection bias. We test this relation using an international sample of 3,450 firms across 29 countries from 2012 to 2017. We differentiate between settings where employee representation is the result of voluntary agreements versus imposed by law. When firms freely opt into labor directorships, we find better social and environmental performance which, interestingly, does not at all come at the expense of operating performance; actually, we see a gain in both short-term and long-term financial performance (ROA and Tobin's Q). Mandatory employee representation, in contrast, not only brings no clear social and environmental performance benefits, but even harms financial performance. Our study provides more insight into the theoretical predictions of Jensen-Meckling agency theory as well as stakeholder theory. The stakeholder view holds when board-level employee representation is the result of free choice, while mandatory representation has the effects predicted by Jensen and Meckling. In addition, our study contributes to the voluntary versus regulated governance debate: board-level employee representation works best when entered into on a voluntary basis. Regulation that imposes labor representation on the board is less likely to achieve improved social and environmental performance and may backfire financially. In short, voluntary adoption seems to be good at making a pre-existing cooperative spirit more effective, while mandatory adoption shows that, in itself, ERB spoils collaboration.

Currency Crisis as a Consequence of the Inflation Targeting

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Abstract

This paper analyzes the unanalized topic in macroeconomic (monetary) politics, which is the emergence of the foreign exchange crisis as a result of targeting inflation. Many central banks adopted inflation targeting under pressure of IMF. Sudden depreciation of exchange rate which results from the fall of foreign exchange reserves to critically low level (below optimal level) leads to currency crisis due speculative attack. The simulation was performed using Matlab and additional tools IRIS, which contains a package of functions for solving the model and perform various calculations based on them. The most widely used model in the decision of creating process of monetary policy on inflation targeting is a macroeconomic model of a small open economy from the group New Keynesian model. The main feature of this model is to define the target (inflation target) and the instrument (in this case, the reference interest rate) that the central bank wants to achieve. As the inflation targeting central bank more transparent, it means that market participants have access to more information, making future central bank actions more predictable. Therefore, it is an advantage of this type of model, as compared to the classical models based on Keynesian economy, the role of the active rational expectations. In this sense, this study is the first in the literature and thus is expected to fill an important gap.

Agreement is boring: Market and regulatory bank-risk perceptions and corporate lending

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Abstract

We quantify differences between market and regulatory assessments of bank portfolio risk and show that larger differences significantly reduce corporate lending rates. Specifically, banks reduce spreads by more than 11 basis points in an attempt to entice borrowers, following a one-standard deviation increase in our measure for asset-risk differences. This amounts to a USD 3.62 million interest income loss on loans of average size and duration. Hence, our study reveals a disciplinary-competition effect in favor of corporate borrowers when there is discord between investors and bank regulators. This effect is contingent on the syndicate?s structure and eases in line with market uncertainty during election years.

Target Selection Preferences and Takeover Premiums: Public versus Private Acquirers

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Abstract

We investigate how the takeover target characteristics and target shareholder wealth effects differ for takeovers by private and public acquirers using a comprehensive sample of acquisitions of publicly traded US target firms from 1990 to 2018. Among the private acquirers, the motivations for the takeovers of different types may be different, which may lead to differences in the preferences for takeover target characteristics and the target shareholder wealth effects. We therefore explore whether the different types of private acquires, namely, private equity, private financial and private corporate acquirers, exhibit different preferences for takeover target characteristics and whether they are associated with differing target wealth effects. We also test whether the target characteristics preferences and shareholder wealth effects are different among the different types of private bidders. Bugeja and Sinelnikov (2012) examine the above questions across various classes of bidders using a sample of Australian stock exchange listed targets. Osborne et al. (2012) look at the takeover target preferences of publicly listed bidders versus private equity bidders for the U.S. from 2000 to 2009, but they do not examine other private bidders such as private corporate bidders and private financial bidders. And Bargeron et al. (2008) explore the differences in target shareholder wealth effects across public and private bidders for the U.S. over 1990 to 2005. Our study is the first one to investigate the target characteristics preference of non-private equity private buyers for the U.S. and test whether these preferences are different from those of public and private equity bidders. On target shareholder wealth effects, we update the results of Bargeron et al. (2008) from 2006 to 2018 and test whether the target wealth effects differ among the different classes of private bidders. Like Bugeja and Sinelnikov (2012), we use logit regression to examine how target characteristics differ between acquisitions undertaken by public versus different types of private bidders and test whether the cumulative abnormal returns (CARs) surrounding merger announcements are significantly different for acquisitions by public versus private acquirers. However, we employ much recent and longer data, 1990 through 2018, in the much larger U.S. market and we provide comprehensive evidence on the target characteristics preference and target wealth effects with respect to different types of bidders for the U.S. market.

Jumps in VIX futures market

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Abstract

We study jumps in a newly emerged asset class of volatility instruments ? futures on VIX (a volatility index). More specifically, we conduct a series of parametric/model-free statistical tests (e.g., Sahalia and Jacod (2009) and Lee and Mykland (2008) and etc.) to examine the presence of jumps in the dynamics of VIX futures returns during the sample period. Supported by the empirical evidence on jumps in the VIX futures market, we further investigate the jump features in VIX futures with a proposed nonparametric framework which is rooted in the GMM approach and the extreme value theory (EVT). Building on new extreme value theory and the model-free variation measures, we investigate the difference between the behavior of VIX options prices and the VIX futures prices through the estimation of the expected jump tails under both physical and risk-neutral measures. The obtained futures risk premium and variance risk premium reveals the compensation required for jumps risks in price level and variation of price level in VIX-products market.

Empirical Evidence of the Lending Channel of Monetary Policy under Negative Interest Rates

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Abstract

Does the lending channel of monetary policy operate under a negative interest rate policy (NIRP)? The purpose of this study is to shed light on the existence of a lending channel of monetary policy under NIRP. To do so, we aim to provide an in-depth analysis of the relationship between NIRP and bank-lending behavior. To achieve this, we employ a large panel dataset of 4072 banks operating in 54 countries over the period 2009-2018 and a Difference-in-Differences methodology. We find that banks located in countries affected by negative interest rates have adjusted their bank-lending behavior by increasing lending activities. Our findings suggest that in response to negative interest rates, banks have reduced their lending cost, and increased lending supply, especially for loans longer than 3 months. Finally, we also find that the transmission of monetary policy under negative interest rates to the real economy depends on banks' specific characteristics such as reliance on retail deposits and size.

The Effects of Product Type and Societal Expectations on the CSP-CFP Relationship Through Revenue Mediation

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Abstract

In this paper, we investigate the conditions shaping the corporate social performance (CSP) and corporate financial performance (CFP) relationship. Revenue, product type and societal expectations are examined as contingencies to provide a more nuanced view currently lacking in the literature. Fixed effects regressions are used with a sample of over 5000 firms worldwide from 2002 to 2017. The findings indicate that the positive effect of CSP on operating income is stronger for firms selling credence goods and weaker in developed countries, while both effects are transmitted through revenue. The diminishing returns in highly developed regions reversed for companies related to credence goods. Such goods are likely associated with high information asymmetry due to consumers? lack of technical knowledge in product quality assessment. Our findings imply that CSP could lower this asymmetry and enable firms to overcome the diminishing returns of CSP despite greater societal expectations from high country development.

Consumptio Smoothing, Risk-Sharing and Financial Integration

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Abstract

Theories indicate that financial integration should allow economies to better share risk by improving consumption smoothing. We construct two widely used priced-based measures of financial integration, i.e., the standard correlation and the adjusted R-squared, and test whether consumption volatility declines as financial integration rises. Pooled and panel estimates for three different groups of countries (i.e., G7, G20 and EU) provide no significant evidence of improved consumption smoothing following higher financial integration. Main results are supported by a battery of robustness checks and hold over time. Taken together, our results suggest that convergence in international equity prices does not necessarily represent the channel through which risk-sharing opportunities increase.

Impact of corporate governance characteristics on earnings management

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Abstract

The main objective of this study is to analyse the impact of corporate governance characteristics on the levels of earnings management, with reference to British companies listed on the London Stock Exchange between 2014 and 2017. A linear regression model was used, based on discretionary accruals, calculated using Kothari et al. (2005) and corporate governance features. The main results show that the greater the long-term remuneration of the board members, the higher the level of earnings management and the greater the presence of women on this board, the greater the proportion of non-executive members in the audit committee and so the greater the fees paid to external auditors. The findings presented in this study contribute to a better understanding of the relationship between corporate governance and earnings management in UK listed companies.

AI Based Portfolio Selection on Futures Market in China

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Abstract

This paper uses SVM method to conduct empirical analysis on daily data of China?s major futures contracts from October 2017 to September 2019. The result shows that linear SVM has the best prediction effect in the cross-validation set, with the maximum accuracy and AUC. Therefore, we use the prediction results of linear SVM to predict return and construct futures portfolio. The final portfolio investment returns are far greater than the CSI 300 index. Moreover, the VaR and the maximum drawdown rate are also at a low level. In other words, the portfolio obtained by using the linear SVM method has a high return and low risk. Therefore, it can be concluded that the SVM method has a good prediction effect on futures returns and also performs well in the construction of a futures portfolio.

Drivers of Bank Default Risk: Banks, the Sovereign and Monetary Policy

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Abstract

In this paper we empirically analyze the determinants of bank default risk (measured by the banks? CDS spreads) for 60 European banks during the post-crisis period 2008-2018. We examine the effect of (1) bank business model characteristics, (2) sovereign default risk (country CDS) and (3) ECB monetary policy (estimated with an SVAR). The inclusion of monetary policy is an important contribution given the pervasive influence of unconventional ECB policies on banks in the post-crisis era. We carefully disentangle the effect of monetary policy in a direct channel and an indirect effect operating through a sovereign risk channel. In terms of business model variables, we find that the capital ratio and the reliance on stable deposits lowers the perceived default risk of banks, while non-performing loans significantly increase the CDS spreads. Hence, the CDS markets distinguishes resilient banks from risky banks. In terms of monetary policy, we document that accommodative ECB actions in general lower bank default risk. We also show that the effect of monetary policy on bank risk is mainly transmitted through the sovereign risk channel. Our findings confirm the importance of the Basel 3 capital and liquidity rules and the usefulness of crisis resolution mechanisms and they suggest policy implications in terms of bank business model choices as well as approaches to tackle the bank sovereign loop in Europe.

Forecasting Extreme Downside Risk

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Abstract

Measuring and forecasting extreme downside risk have become of highest importance to the stability of financial markets. This paper proposes two alternative measures for forecasting extreme downside risk based on downside realized semivariances and cumulative returns estimated on a large sample of U.S. stocks between 2000 and 2017.The proposed measures have better in- and out-of-sample performances over a short-term (one-month) and long-term (six-month) forecasting horizon. We also compare the performance of an investment strategy that precludes stocks with a high extreme downside risk. Irrespective of the forecasting horizon, the new measures earn the highest risk-adjusted returns. This strategy may serve, therefore, as a tool for financiers to efficiently time the market over shorter time horizon.

Local IPO Waves, Local Shocks, and the Going Public Decision

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Abstract

We classify IPOs not only as ?on? or ?off? an industry IPO wave, but also as ?on? or ?off? a regional IPO wave: the subsample of IPOs on-the-wave by industry only partially overlaps the subsample of IPOs on-the-wave by region. Consistently with extant research on industry IPO waves, early-in-the-wave IPOs, either by industry or region, are more underpriced than late-in-the-wave IPOs. We also find that the listing decision is highly sensitive not only to high valuations of firms in the same industry, but also to high valuations of firms out of the same industry but in the same region. Finally, we show that industries and regions hosting an IPO wave will have better economic ratios post-wave, and that early- and late-in-the-wave IPOs equally underperform off-the-wave IPOs. Overall, our results support rational local IPO waves, mainly originated by positive local shocks.

Inefficiencies of Technology Acquisitions

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Abstract

M&As are frequently motivated by obtaining specific knowledge or technology, which acquiring companies consider as strategic advantage to maintain their competitiveness. However, merged firms exhibit mixed performance after acquisition of the technology. In this article, we proposed a new approach for assessment of efficiency of technology acquisition by employing data envelopment analysis (DEA). We discovered that the substitutive effect prevails in M&As from 2008 to 2017 and cross-border deals showed poorer performance in terms of efficiency than domestic M&As. Moreover considering different types of M&As we demonstrated that horizontal deals are the least efficient.

House Price Expectations, Boom-Bust Cycles and Implications for Monetary Policy

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Abstract

This paper examines household expectations about future house prices and their implications for boom-bust cycles and monetary policy in a DSGE model. Our findings are as follows. First, waves of optimism and pessimism about future house prices generate boom-bust cycles in housing, financial and economic activities. Second, we find that inflation declines during a housing market boom and increases during a housing market bust in which the standard monetary policy rule amplifies booms-busts. Third, we find that monetary policy reacting to household credit growth reduces the magnitude of boom-bust cycles thereby improving household welfare. Fourth, we find that the case for taking into account household credit growth becomes stronger in an economy that has a weak bank capital regulation, a highly leveraged household sector or flexible interest rates.

The printed media's impact on fund flows by class

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Abstract

This study investigates how the tone of daily print media affects the aggregate flows to and from different classes of mutual funds (government bonds, corporate bonds, stocks, and money market instruments). Using a proprietary data set, we find that the tone of print media has a significant positive (negative) impact on the mean returns of net flows (conditional variances), except for the safer money market instrument funds that appear as a mirror image to other, riskier fund classes. These effects are primarily driven by outflows from these funds caused by extremely negative tone especially in non-business newspapers. Using daily fund flows allows us to observe 'flight to liquidity', as money flows from high-risk funds such as corporate bonds and stocks to safer funds, such as money market instruments when the tone is negative. We are also able to observe 'risk taking' and 'risk attenuation' as money flows between high-risk funds and moderate risk funds, such as government bonds, partially in response to changes in media tone.

On the monetary causes of inequality

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Abstract

The analysis undertaken began from the ?Econophysics? observation that wealth is unequally distributed among agents in an economic system. The literature has consolidated the concept of ?systemic entropy? as the degree of endogenous ?disorder? that occurs with the succession of interactions/transactions among its elements, leading to a stabilization in equilibrium that is no longer modifiable by spontaneous perturbations, even though there is clear evidence of profound inequality in individual wealth. The contribution offered here proposes an in-depth investigation into the causes that have led and continue to lead to the genesis and exacerbation of these socio-economic differences, which also convey an exclusion of the less wealthy sectors of the population from the most significant transactions. This ordains the impossibility, at the current state of the art, of achieving a neg-entropic practice, which is instead fundamental to the evolution of organisms. The point of arrival is in the negation of the monetary structure as currently perceived and organized. This research re-examines the relations between production, money and income and arrives at a need for reform, through a contemporary money theory, with the same foundations that endow the system of the numerical entity that measures the economy.

What if dividends were tax?exempt? Evidence from a natural experiment

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Abstract

We study the effect of dividend taxes on the payout and investment policy of publicly listed firms. To do so, we exploit a unique setting in Switzerland where some, but not all, firms were suddenly able to pay tax-exempt dividends to their shareholders following the corporate tax reform of 2011. Using a difference-in-differences specification, we show that treated firms permanently increase their payout by around 30% compared to control firms after the tax cut. The rise in dividends is not compensated by an equally-sized reduction in share repurchases. In the cross-section, the impact on payout is much less pronounced in firms where the controlling shareholders have more voting rights than cash-flow rights. However, reducing dividend taxes does not boost investment. The tax-inelasticity of investment is due to a significant drop in retained earnings and to the fact that equity issuances do not surge after the tax cut. Overall, we interpret our findings as evidence for the distortive effect of dividend taxes on the allocation of capital across firms.

Credit Union and Bank Subprime Lending in the Great Recession

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Abstract

We develop a theoretical model that predicts that credit unions will offer relatively less risky loans (e.g., fewer ?subprime? mortgages) compared to similar commercial banks due to credit unions? focus on member utility as nonprofit financial cooperatives. The model also predicts that banks will increase subprime lending more than credit unions during economic expansions and decrease subprime lending more than credit unions during recessions. We use the financial crisis and Great Recession period of 2007 ? 2009 to test our model and find that, as predicted, commercial banks engaged in approximately five times more subprime lending relative to credit unions during the period leading up to the financial crisis (2003 ? 2006). Banks also had delinquency and charge-off rates that were two to three times higher during and immediately following the crisis. We also find that banks were about two-and-a-half times more likely to fail and were significantly more likely to receive TARP government assistance funds. The results are robust to controlling for important differences between credit unions and banks besides structure and incentives, including asset size, portfolio concentration, market share, earnings, liquidity, leverage, mortgages sold to the secondary market, core deposits, and state-level indicators of economic performance and housing prices.1 We argue that the findings explain why credit unions often appear more risk averse relative to commercial banks, and hold important implications for researchers, policymakers and regulators.

Heterogeneity in Corporate Debt Structures and the Transmission of Monetary Policy

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Abstract

We study how differences in the aggregate structure of corporate debt financing affect the transmission of monetary policy. Using high-frequency financial market data to identify monetary policy shocks in a panel of euro area countries, we find that: bond finance dampens the overall response of firm credit to monetary policy shocks in economies with a high initial share of bond- relative to bank-based finance; this effect weakens, and may even reverse, in economies with a low share of bond financing; and the dampening effect of a larger bond financing share also attenuates the ultimate impact of monetary policy on economic activity. These findings are consistent with theories that view corporate bond markets as a ``spare tire'' in situations when bank lending contracts.

Improving the audit report: a consensus between the perceptions of auditors and users

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Abstract

Audit report is the only information stakeholders have about the audit carried out. It is also a key instrument used in their economic and financial decisions. Improving the audit report should be, therefore, a priority of regulators and auditors. The authors solicited perceptions from auditors and audit report users about the value for decision making of audit reports and improving options regarding its form and content. An analysis of the responses suggests that the value for decision making of audit reports is high. Nevertheless, adding information on the audit and on the annual accounts and client?s information systems, without significant changes in the form, improves the decision usefulness of audit reports. The growing sophistication of markets and reporting standards make new information necessary in the audit report. The study is useful to regulators of audit activity, auditors? corporations, academics, and audit report users and contributes to the current audit literature by examining the perceptions of auditors and users with regard to improving options of the audit report. Regulators of audit activity should take into account users? and auditors? preferences when evaluating possible future changes to the audit report. This study provides academia with evidence on consensus between auditors and audit report users with regard to the form and content of the audit report. The study, based on a survey, complements existing work based mainly on interviews.

CEO Incentives, Asymmetry and the Allocation of Managerial Effort to Macroeconomic Fluctuations

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Abstract

In this paper we address how CEO remuneration schemes affect incentives to allocate effort to manage two types of shocks - firm-specific and macroeconomic, which may differ in terms of volatility, serial correlation and performance effects of effort. We develop a model for how managerial effort is divided optimally from the point of view of shareholders. Incentives to allocate effort to these shocks depend on their impact on remuneration, which depends on shareholder value as well as more short-term performance variables. Based on a sample of 2795 CEOs in the US for the period 1993-2014 the empirical analysis reveals that remuneration, measured as the change in CEOs? firm-related wealth, depends on both firm-specific and macroeconomic shocks through both short-term and long-term performance measures. We find support for our hypotheses that changes in remuneration are asymmetric in shocks and that compensation schemes including short-term performance measures (like changes in sales) create excessive incentives for management to exert effort to manage macroeconomic shocks relative to the shareholder wealth maximizing effort.

Betting on the horse or on the jockey? The signals for venture capital financing of healthcare startups from India

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Abstract

Innovation has received unprecedented interest in recent times, thus factors that contribute to successful innovation should be important from policy perspective. Financing is crucial for innovation to persevere, as such in this study, we formulated hypotheses linking the factors that impact venture capital financing of technological startups in healthcare sector from India and innovation being one of them. Based on the sample of 204 startups drawn from unique dataset combining multiple sources, we find that network (investor syndicates), degree from prestigious educational institutions; startups age, and size on internet (monthly average visits on website) serve as positive signals for more rounds of financing while innovation and business models do not show any impact on financing. Contributions, policy, and managerial implications, and future extensions are discussed.

Identifying leaders among IPO firms: A content analysis of analyst coverage reports

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Abstract

We examine whether firms that go public to gain a first- or early-mover advantage (?FMA? hereinafter) display stronger operating performance ex post than other IPO firms. Using financial analysts? perception of the FMA in IPO firms in initial coverage reports, we find that firms with FMAs generate higher operating performance ex post than IPO firms without FMAs. Furthermore, firms identified as FMAs by unaffiliated analysts are more likely to generate higher operating performance than firms as FMAs identified by affiliated analysts. We find that lead underwriters and co-managers do not appear to be more optimistic than unaffiliated analysts to identify their IPO clients as first- or early-movers and that the Global Analyst Research Settlement reduces the FMA identifications in both affiliated and unaffiliated analysts. Although analysts? FMA perception helps investors to pick up first mover firms with superior performance, it only works in the pre-GARS period. The FMA identification tends to becoming less informative after the GARS. One possible explanation is that during the 2000 internet bubble period, there are more technology firms going public and these high-tech firms are more likely to be perceived as FMAs by affiliated and unaffiliated analysts. After the GARS, less high-tech firms go public and therefore less firms are perceived as FMAs.

Challenge to Finalize Post-crisis Reforms (Basel III) Through HR Leadership Development Networking

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Abstract

One of the financial community concerns in the finalization phase of post-crisis reforms (Basel III) is the ability to supplement the skills of the operational units of the MBA programs of pre-professional classes and executive education classes as well as to complete in-company training through truly operational transversal skills. This phase of financial security started with the context of the 100% LCR in which all companies operate since January 2019 for working capital requirements and investment financing. Putting business fields side by side, i.e., business disciplines silos, as is normally the case in MBA programs, is not enough to create the transversal interaction dynamic needed for firms to achieve expected financial performance goals. As a result, few graduates today have the cross-cutting or vertical skills required to act, in real time, from their workstation in accordance with the pyramid shape of the organization chart as an organization team based on the risk appetite threshold to create value. The proposed webcast purpose is to provide a solution this problem: The issue is to work with Human Resources Management within the framework of the School-Business relationship to comply with the legal constraints which, in line with SOX Act, has been required since January 2019, CEOs and Boards of Directors to provide stakeholders with the human capital management data that was previously lacking in governance and financial reports. This constraint has been reinforced since July 1, 2019 by the update of the SEC Guidance on Non-GAAP reporting. The HR function is an eminently transversal (cross-cutting) function of business accounting. We use the terms Enterprise Risk Management Accounting or Human Capital Management Accounting in this proposal.

Financial Development, Financial Performance & Democracy:Methodological Issues and New Estimates

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Abstract

This paper investigates the long-term e?ect of financial development on economic growth using annual data for 67 countries over the period 1971 to 2007. Both autoregressive distributed lag (ARDL) and cross-sectionally augmented autoregressive distributed lag (CS-ARDL) models are applied to count for cross-country heterogeneity and error cross-country dependence. The results uphold a positive and significant e?ect of financial development on long-run per capita output. There is also some evidence of a non-linear relationship between financial development and growth. However, the analysis also reveals that the results derive primarily from non-democratic countries.

Optimal Timing of Venture Capital-Backed IPO

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Abstract

This paper investigates the optimal exit time for a venture capitalist (VC) through an initial public offering (IPO). We use a real options approach and develop a model based on the uncertainty of the VC-backed firm?s cash flows. We assume that the VC sells his stake in two stages, i.e., at the IPO date (taking underpricing into account) and at the expiration of the lock-up period. We find a closed-form solution of the threshold at which it is optimal for the VC to exit and determine the expected first hitting time. Our main results show that more risk averse VC brings firms public earlier even if firm?s cash flows are negative; the IPO is more rapid if the VC required rate of return and firm cash flows? volatility are high. However, underpricing does not play an important role in the VC decision regarding exit timing.

E?ects of monetary policy news on the behavior of ?nancial assets: evidence from Brazil before and after the global crisis based on a bivariate VAR-GARCH model (2006-17)

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Abstract

The impact of news releases about the in?ation targeting regime on the ?nancial market is analyzed by estimating a bivariate VAR GARCH-BEKK-in-mean model. We use daily data, from January 2006 to May 2017, of stock prices index (IBOVESPA), exchange rate (BRL/USD) and interbank deposit rate (DI360). We developed a positive and negative news index to measure the impact of news releases based on Caporale, Spagnolo and Spagnolo (2016) and Caporale, Spagnolo and Spagnolo (2018). Although the literature on the subject is vast, this paper ?lls relevant gaps in three ways. First, we investigate the bidirectional relationship between monetary policy related news releases and the behavior of asset prices before and after the 2008 crisis in Brazil. Second, we consider the relationship between the second moments of the variables of interest, using the conditional volatility as a proxy for uncertainty. Third, we provide a time series approach to measure the e?ect of macroeconomic related news releases on ?nancial asset returns. The results indicate that there are mean spread e?ects from news for exchange rate and the Brazilian stock index: (i) the GARCH-in-mean parameter is signi?cant for positive and the di?erence of news for the DI360; (ii) monetary policy and external shocks are signi?cant as expected with exception of external shocks for the Brazilian stock index; and (iii) there are volatility spillovers and changes of this volatility after the crisis for stock index and DI360.

Effects of ETFs on Underlying Stock Prices: Evidence from Japan

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Abstract

In the paper, we investigate empirically the effects of ETFs on the stock market. In particular, we focus on the effects of Nikkei 225 ETFs on underlying stock prices. Nikkei 225 ETFs give good opportunity to examine the effects of ETFs on underlying stock prices because there are large divergences between underlying stock ownership by Nikkei 225 ETFs. We also investigate the effect of the purchases of Nikkei 225 ETFs by Bank of Japan (BOJ), Japanese central bank. BOJ has started to purchase equity ETFs as one of the instruments of unconventional monetary policy since 2010. Large and longstanding purchases of equity ETFs by a central bank are unique phenomena in the world. We found that larger fraction of underlying stock ownership by Nikkei 225 ETFs derive overvaluation of Nikkei 225 stocks compared to other stocks with same industry. Similarly, purchases of Nikkei 225 ETFs by Bank of Japan also have the same effects.

Structural Interdependence of Price and Demand in the Foreign Exchange Market: Evidence from High-frequency Data

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Abstract

We assume that the variations of the EUR/USD exchange rate depend on the current net demand of the base currency as a consequence of market making, and that the current net demand of the base currency depends on current and past deviations of EUR/USD exchange rate as a consequence of how future price expectations are formed by bounded rational agents. We achieve identification of our model with simultaneous effects supposing that price and demand shocks follow a GARCH process. Using high-frequency transaction data on the EUR/USD market in 2016, provided by Nex, we estimate the model showing that the simultaneous effects of price on demand and viceversa are both significant and positive. Furthermore, we verify that heterogeneity matters since the coefficients of the mean equations are not stable over time. Finally, our results suggest that one important source of heterogeneity in demand might be missing from our model.

Tailor-made reorganization: How choosing between procedures affects efficiency

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Abstract

Following international trends, the 2009 reform of the Belgian insolvency system aimed to increase flexibility in corporate reorganizations, adding distinct procedure choices and the option to switch between procedure types. We evaluate which factors drive a firm?s decision when it can choose from different procedures to handle distress. In a system where managers receive a large degree of discretion in their decision-making, correct self-selection forms an important prerequisite for the well-functioning of the insolvency system. Although we find that within the subset of reorganizations, the most promising firms indeed target their reorganization at reaching settlements, while the liquidation-like transfer procedure is more popular among firms in less favorable shape, the financial health of firms entering reorganization is very poor even when compared to firms filing for liquidation. Cognitive biases disturbing rational decision-making by distressed firms? management and the law?s potential for abuse could explain this suboptimal situation. With a lack of incentives to intervene timely, limited assistance and guidance to distressed debtors and insufficient admission requirements, pre-entry screening and discriminatory power for judges, some critical prerequisites for a flexible reorganization system appear to be absent. Major revisions to the system may be required to justify the existence of a (flexible) dual-chapter reorganization system in a bank-oriented economy like Belgium.

The Expected Loss in Buyout Private Equity Investments: a risk measure

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Abstract

In this paper we propose the Expected Loss as a measure of risk of PE assets. We assume that at any given point in time there exist alternative investment opportunities that can be classified into a limited number of non-overlapping types. Using the Preqin dataset, we study the distribution, by type, of the deals? annualized rates of return, ARR, and Public Market Equivalent indexes, PME. Focusing on the left tail of the distribution, we compute the expected shortfall values by investment type, given that ARRs are negative or PME are less than 1. We find that it is possible to identify idiosyncratic features of each investment type and that the patterns and degrees of riskiness differ quite significantly among them. We then estimate the probability of negative returns by deal in each investment class. These predicted probabilities together with the historical expected shortfalls by investment type, yield the Expected Loss by deal, the measure of pure risk we propose in this paper.

Foreign firm ownership and its effects on wages

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Abstract

In this study, we examine how foreign ownership of companies affects the wage setup. We assess to what extent the unexplained part of the differences in wages across domestic and foreign firms can be explained by foreign ownership. Our methodology involves studying differences in gross wages between workers in foreign- and domestic-owned firms in Poland. To prove our hypothesis, we employ an innovative methodological approach, where we combine two methods: Oaxaca-Blinder decomposition and modified reweighting approach. We confirm that firms? ownership (domestic or foreign) does influence the wage distribution of workers in the sense that worker employed in a foreign-owned firm earns on average 5% more than a matched worker of domestic-owned firm with similar characteristics.

VALUE AND GROWTH STOCK RETURNS: INTERNATIONAL EVIDENCE

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Abstract

The returns obtained from companies that have strong growth potential (growth stocks) and from companies with quite low share prices but with high value (value stocks) were analyzed in this study. The sample considered contains monthly data, from January 2002 to December 2016, from seven countries. The results indicated that the performance of value and growth stocks differs from economic cycles. In fact, for six countries, value stocks outperformed growth stocks in the period that precedes subprime crisis, and, during the crisis, this tendency remained only for France, Portugal and Japan. This trend changed completely in the period following the crisis. Strong evidence was found supporting that investor sentiment has a robust significance in value and growth stock returns, mostly in the period before the crisis, highlighting that the sentiment is more significant in the moments that the value stocks outperformed.

A Profit Elasticity Approach to Measure Banking Competition in Italian Credit Markets

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Abstract

As in other industries, competition in banking is potentially beneficial to efficiency and social welfare. Unfortunately, the task of measuring such competition is not straightforward: according to the empirical literature, traditional metrics to measure competition may fail because they do not correctly account for entry barriers, product substitutability, or the concentration and reallocation of market shares among banks. In this study we explore new measurements of competition, based on the Profit Elasticity, which can limit previous drawbacks, in order to assess the significant changes in the Italian banking market over the last two decades (1994-2013), when the most serious crisis occurred. We focus on competition dynamics over time, across bank clusters and geographical areas. Our main findings suggest that deregulation and M&A activity increased the extent of competition, while the financial turmoil reduced it, in line with other international evidence. Moreover, mutual banks faced relatively less competitive local markets, mostly owing to the informational barriers that they can impose on non-local intermediaries, and banking competition is heterogeneous across Italian macro-regions.

Project valuation and risk assessment in new food product development. Evidence from multi-factor sensitivity analysis and fuzzy real option valuation

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Abstract

In order to survive in today's competitive environment, companies must continuously develop and offer customers new products. In order to increase the probability of a successful business case of investing in the development of a new product, careful attention must be paid to risk analysis in terms of the present value of future potential income. The article considers an example of the research work of the Latvian University of Life Sciences and Technologies, in the framework of which a technical and technological project was developed for the production of a new product, similar to Mediterranean anchovy, from cheaper Baltic sprats. The multivariate analysis of the sensitivity of the financial model of the greenfield production project described in this article revealed the main risk groups, as well as their degree of influence on the assessment of the Net Present Value of the project by a potential investor. The use of Fuzzy Real Option Valuation made it possible to evaluate the project with uncertain parameters, as well as to calculate the potential upside from preliminary refinement of parameters to eliminate negative scenarios. The described approach is applicable to risk assessment of new food product development and allows investors to make a more informed decision about participation in such projects.

The propagation of corporate failure and banking tie

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Abstract

Using supplier-customer relationship data on private firms, this study examines the corporate failure propagates through supply chain networks and banking ties. The study finds that the probability of a supplier?s subsequent bankruptcy after its customer went bankruptcy increases if they share a same main bank. This effect is pronounced when a supplier depends heavily on bank borrowing and a customer goes bankruptcy during financial crisis periods. This effect is economically significant compared to demand loss channel and trade credit loss channel, documented in prior studies. This paper appears to be the first to document empirically the channel of subsequent bankruptcy related to the banking ties.

Credit Default Swaps, the Leverage Effect, and Cross-Sectional Predictability of Equity and Firm Asset Volatility

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Abstract

We investigate the informational content of credit default swap (CDS) spreads for future volatility of (firm) assets and equity. In the cross-section, CDS spreads are significantly more informative about future asset than about future equity volatility. The informational content of historical and option implied volatilities is generally lower than that of CDS implied volatilities, but exhibits the same pattern. We argue, both theoretically and empirically, that such common pattern reflects a fundamental difference in the cross-sectional predictability of asset and equity volatility. This difference rests on the leverage effect in equity volatility, and the interconnection between leverage and asset volatility.

Volatility Momentum

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Abstract

High idiosyncratic volatility (IV) stocks follow predictable return pattern: a period of underreaction and low returns is superseded by persistent high returns. This pattern is robust and economically significant; it may be interpreted as informationally inefficient arrival of risk premia. Short-term negative IV-return relation is plausibly related to profit taking by informed investors. Initial underreaction is linked to boundedly rational asset pricing story: uninformed investors hold on to underperforming high IV stocks in anticipation of recovering losses in turn-of-the-year trading. Consistently with the information hypothesis of the January effect, returns of stocks high in lagged IV are shown to be an important driver of this anomaly. High returns to high momentum stocks are shown to be related to lagged IV rather than IV as previously postulated.

The Asymmetric Impact of Positive and Negative Stock Market Changes on Investment Portfolios

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Abstract

This study examines portfolios returns following markets large price movements and finds that large initial price increases are followed by price continuation and mixed stocks reactions to large initial price decreases. Despite the result suggesting that retail investors are unlikely to profit from such phenomenon after considering the relevant transaction costs, it is still possible for institutional investors to exploit the profit opportunities. In addition, the result shows that both bid-ask spread and market liquidity cannot explain the price reversal observed in this study.

Volatility Smile in Currency Options : Comparative Evidence from Developed and Emerging Markets

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Abstract

In this paper we model the shape of the implied volatility curve for currency options. While the extant literature rigorously study the volatility smile and smirk in equity and interest rate options, few studies investigate currency options and emerging markets. We develop a parsimonious and robust model for the shape of the implied volatility curve. The model uses a latent factor approach. We estimate implied volatility curves for EUR/USD, GBP/USD, USD/CHF, USD/JPY USD/CAD, USD/TRY, USD/BRL, USD/MXN, USD/ INR, and USD/ZAR exchange rate series between 2005 and 2018. We compare the in-sample and out-of-sample performance of our model to the benchmark models of Malz (1997), Dumas et al. (1998) and Daglish et al. (2007). The out of sample pricing errors of our model are signi cantly lower than the benchmark models. Furthermore, compared to benchmark models our model better predicts the changes in the implied volatility curve. Our results provide important implications for institutions and market players hedging and managing currency risk.

Predictive Power of Macroeconomics Variables on Asian Stock Markets Returns

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Abstract

This report will attempt to confirm the existence of shared macroeconomic risk factors to be used in APT models for different Asian emerging markets. The report should be able to support existing market research, providing evidence that selecting variables for the APT is not purely an ambiguous process, and that specific APT models could be established for predicting stock returns in geographically or economically similar locations. To do so, the report carried out a regression analysis on three selected countries, South Korea, Indonesia, and Malaysia, and identified the existence of relationships between the dependant variable, aggregate stock market index, and five independent macroeconomic variables: exchange rate, inflation rate, money supply (M1), producer price index, and short-term interest rates. In addition, the Granger causality test also identified that across the examined and researched countries, the exchange rate and money supply Granger-caused stock returns most consistently, suggesting two potentially shared predictor across Asian emerging markets; it also indicates that other such variables may exist in the Asian market and across others markets. The positive results warrant similar research on a larger selection of countries and macroeconomic variables in order to properly confirm or deny the findings.

Herding behaviour in the Latin American Integrated Market

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Abstract

Purpose: This investigation is among the firsts to analyze the herding behavior in MILA stock markets (Chile, Peru, Colombia, and Mexico). Each market maintains its independence and regulatory autonomy and not merged. Methods: This study used return dispersion models to investigate financial herding behavior by examining daily MILA index return data. The sample period is from January 03, 2002 to May 07, 2019. Findings: We found significant herding behavior from full sample. Chile and Peru demonstrated strong herding behavior during specified markets conditions, such as in up/down markets and high-low market volatility states. A week evidence was found in Mexico. It shows that there is a strong asymmetric herding behavior in MILA markets.

Monetary Policy and Regional Inequality

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Abstract

We study the impact of monetary policy on regional inequality using granular data on economic activity at the city- and county-level in Europe. Our estimates point to pronounced heterogeneity in the regional patterns of monetary policy transmission: the output response to monetary policy shocks is stronger and more persistent in regions with low versus high GDP and the difference becomes particularly pronounced in the extreme tails of the distribution. For instance, the peak impact in the bottom 5 percent of the distribution is more than a third higher than in the top 5 percent; and, while GDP in the upper part of the distribution returns to its pre-shock level after four to five years, the output response in the lower percentiles does not reverse over this period. As a consequence, monetary policy easing shocks mitigate and monetary policy tightening shocks aggravate regional inequality.

The effect of family ties on investment in financial literacy and individual financial behavior

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Abstract

We present an inter-temporal consumption model that integrates the effect of family ties on an individual?s investment in financial literacy. We posit that individuals with strong family ties tend to seek financial advice from their family network instead of improving their financial decision-making by investing in financial literacy. Thus, allows individuals with strong family ties substitute the costs of investing in financial literacy with consumption or saving. The result is a sub-optimal financial literacy level for individuals with strong family ties as opposed to ones with weaker family ties. Also, based on the assumption that a higher financial literacy level allows the individual to make better financial decisions and thus earn a higher return on savings, individuals with strong family ties will have a lower return on savings which in turn requires them to optimally save more than ones with weaker family ties. The model drives our empirical approach to the analysis of the effect of family ties on financial literacy, and the joint effect of financial literacy and family ties on financial behavior. Using micro-economic panel data from SHARE WAVE 5, 6 and WAVE 3 SHARELIFE, we find strong support for the model?s predictions. After controlling for endogeneity, a strong level of family ties shows a significant negative effect on financial literacy. On the other hand, strong family ties show a significant negative effect on savings, investment in complex financial instruments, wealth and debt accumulation. In compliance with prior research, there is a positive effect of financial literacy on financial behavior. However, the effect weakens once we introduce family ties to our empirical model.

Hedging with Futures: A Second Generation Review

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Abstract

The first generation research on futures hedging covered various theoretical approaches to the determination of optimal future hedge ratios, such as minimum variance, mean-variance, expected utility, mean-extended-Gini coefficient and semi variance. It also highlighted alternative econometric methods of estimating hedge ratios ranging from simple ordinary least squares to different variants of sophisticated GARCH model. In this second-generation survey, we expand our horizon and illustrate how the existing literature is handling critical issues including structural breaks, information asymmetries, basis convergence, and maturity effects, cross and crack hedges, bid-ask spread and mispricing, multi-period hedging and selective hedging. It also surveys recent developments in estimation techniques that have greatly contributed to the conventional and dynamic hedging literature.

Corporate Social Responsibility and Foreign Institutional Investor Heterogeneity

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Abstract

We investigate the nexus between corporate social responsibility (CSR) and ownership of foreign institutional investors (FII). Using a quasi-natural experiment setup of mandated CSR regulation in India, the aggregated examination shows that firms complying with mandated CSR activities (CSR firms) attract more FII ownership (FIO) compared to firms which do not comply. However, relative to all other legal origins, FII from civil law origin countries seem to invest more in CSR firms. Evidence also suggests that independent and long term FII tend to be more drawn towards CSR firms, relative to all other types of FII. Results further indicate that host firms spending more on educational projects as part of their CSR engagement seem to attract higher FIO. Finally, firms which attract greater FIO, as a result of complying with mandated CSR activities, appear to attain higher market valuations.

SEIGNIORAGE, CENTRAL BANKS? FINANCIAL RESULTS AND THE CRISIS

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Abstract

What has been the relationship between seigniorage and central banks? financial results in recent years? In this paper we study the development of seigniorage of seven central banks (of the euro area, Japan, Poland, Sweden, Switzerland, the United Kingdom and the United States) in the context of their financial results and transfers made to the government during the period of 2003-18, with a special emphasis on the crisis period (2007-14). We put forward three more detailed questions. First, how to define and measure seigniorage? Second, what was the impact of the crisis on seigniorage as a source of central banks? financial results and the following transfers to respective governments? Third, what has been the influence so far and what are the challenges of the currently discussed issues of exit policies and the normalization process? Contrary to other academic attempts at measuring seigniorage, we rely on a direct analysis of central banks? annual financial statements, i.e. their balance sheets and profit and loss accounts. We show that during the period studied seigniorage tended to diverge considerably with respect to central banks? financial results and payments made to the government, implying important consequences for the normalization process.

Ambiguity and Risk Factors in Bank Stocks

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Abstract

The determinants of banks? cost of equity are not well understood. Prior work, including the recent financial-intermediary literature, assumes rational expectations. We test a large list of potential asset pricing factors with special focus on the possible impact of Knightian uncertainty or ambiguity on banks? cost of equity. We find that ambiguity is an important determinant and that investor?s lack of confidence in both the drift and correlation structure driving bank stock returns affects banks? cost of capital. We also investigate the economic relation between ambiguity and intermediary-based risk factors, which reveals the channels through which investors? ambiguity aversion may increase the probability of a systemic crisis. Our findings have implications for economic policy and regulation.

Profit-Based Credit Model with Risk-Averse Lending

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Abstract

The objective of this paper is to consider credit scoring models that address the profit maximization objective and risk aversion on part of the lender. A review of the literature on credit scoring models suggests that the focus of most of the studies has been on estimating/predicting the credit default risk and on actions to mitigate the potential loss due to default. This emphasis has shifted in recent years with credit models that take into account the profit motive of the lender. The results of the credit model discussed in this paper show that the profitability approach yields better results compared to the model that considers only the default risk. We find that this is valid even when the lender exhibits risk aversion.

A Prudential Paradox: The Signal in (not) Restricting Bank Dividends

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Abstract

By restricting dividends in the weakest banks, prudential government regulators actually induce more capital pay-outs in marginal banks. The potential for bank runs exacerbates the incentive to signal strength through dividend payments. Regulatory restrictions on those payments can be used to achieve the first-best outcome, but only if the prevailing capital requirements are sufficiently high. In a crisis, the optimal dividend policy is more restrictive, since it allows the weak ? but still solvent ? banks to pool with the strong. Finally, we show that the optimal release of regulatory bank information depends critically on the regulator?s information and dividend restriction policies.

Mining Meaning from Conference Calls

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Abstract

Research proposal: Quarterly earnings conference calls (QECC) are an important tool to reduce information asymmetries and thus bridge the gap between managers and investors (Frankel et al., 1999; Tasker, 1998). QECC have become increasingly popular. Most publicly traded firms host QECC during which managers describe the performance and strategy of the firm and face a question-and-answer session (Q&A) with analysts afterwards (Kimbrough, 2005, Price et al., 2012). The unparalleled open nature of conference calls makes them a powerful tool for disclosing information to investors and analysts. However, they represent a double edged sword: while its open nature allows managers to evaluate and justify particular decisions and actions in depth, it may also backfire, for example, in case of unintended disclosure of bad news (Hollander et al., 2010; Larcker & Zakolyukina, 2012; Li et al., 2014; Matsumoto et al., 2011). The aim of this research project is to develop guidelines for companies to design QECC and help to prevent common pitfalls. Thus, QECC can be an important tool for reducing information asymmetries and lead to cost of capital reduction, better analysts? recommendations and positive cumulative abnormal returns (CARs).

Do bank stress tests reduce the reliance on credit rating downgrades?

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Abstract

Applying event study methodology on the US stock market, we present evidence that investors rely more on credit ratings for banks relative to non-financials and attribute this to a higher level of opacity. This effect is even reinforced during the financial crisis as bank opacity generally increases during stress periods. In response to the crisis, stress tests were introduced by the Federal Reserve in 2009 to alleviate the negative effects of bank opacity. We show that the stress tests have reduced the reliance on rating downgrades for stress-tested banks, and hence conclude that the tests succeeded to reduce bank opacity. However, we also find that the effect starts to decrease 6 months after the stress test disclosure. Moreover, stress tests do not affect the reliance on credit ratings for non-stress-tested banks, indicating that stress tests do not resolve potential negative effects of bank opacity for non-stress-tested banks. Our results suggest that policy makers should consider increasing the frequency of stress tests and extending the sample of stress-tested banks.

A tail dependence based MST and their topological indicators in modelling systemic risk in the European insurance sector

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Abstract

In the present work we analyze the dynamics of indirect connections between insurance companies that result from market price channels. In our analysis we assume that the stock quotations of insurance companies reflect market sentiments which constitute a very important systemic risk factor. Interlinkages between insurers and their dynamics have a direct impact on systemic risk contagion in the insurance sector. We propose herein a new hybrid approach to the analysis of interlinkages dynamics based on combining the copula-DCC-GARCH model and Minimum Spanning Trees (MST). Using the copula-DCC-GARCH model we determine the correlation coefficients in the distribution tails. Then, for each analysed period we construct MST based on these coefficients. The dynamics is analyse by means of time series of selected topological indicators of the MSTs. Our empirical results show the usefulness of the proposed approach to the analysis of systemic risk in the insurance sector. The times series obtained from the proposed hybrid approach reflect the phenomena occurring on the market. The analysed MST topological indicators can be considered as systemic risk predictors.

A non-linear heterogeneous agent model of a futures oil price bubble

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Abstract

We investigate short-term futures oil pricing over the 2003-2019 time-period in order to analyze the bubble-like dynamics, which characterizes the 2007-2009 years according to a large body of recent literature. Our research, based on a flexible three-agent model (hedgers, fundamentalist speculators and chartists), confirms the presence of a bubble price pattern, which we attribute to the strong destabilizing behavior of fundamentalist speculators (e.g. hedge funds). The inclusion of the 2009-2019 sub-period, in spite of sharp and unexpected fluctuations in oil prices and a significant increase in the influence of geopolitical factors, fails to invalidate our financial interpretation. Keywords:

Analysis of a complex network effects of volatility among commodities in the long term

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Abstract

The main objective of this article is to generate a complex network from the data of volatility spillovers among agricultural commodities (cotton, arabic coffee, sugar, soy, wheat, oats, maize and rice) and energy commodities (natural gas and crude oil). We use the spillovers indices developed by Diebold and Yilmaz (2012). We also calculated the complex network' statistics and analyzed the Force Atlas 2 layout algorithm. The results show that there is a concentration in the main cluster and that there are also two cycles. The main cluster is denser and has thicker (heavier) edges, reflecting the most relevant volatility transmissions between corn, wheat, soybeans, oats and rice. In the two cycles, with thinner edges than those of the main cluster, are the oil-gas and coffee-sugar binomials. Cotton is the only asset that does not belong to both cycles or to the main cluster. But even so, statistics show that it transmits and receives volatility from that cluster (especially from rice, whose edges are a little thicker).

Does index arbitrage distort the market reaction to shocks?

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Abstract

We show that ETF arbitrage distorts the market reaction to fundamental shocks. We confirm this hypothesis by creating a new measure of the intensity of arbitrage transactions at the individual stock level and using an event study analysis to estimate the market reaction to economic shocks. Our measure of the intensity of arbitrage is the probability of simultaneous trading of ETF shares with shares of underlying stocks estimated using high frequency data. Our approach is direct, and it accounts for statistical arbitrage, passive investment strategies, and netting of arbitrage positions over the day, which the existing measures cannot do. We conduct several empirical tests, including the use of a quasi-natural experiment, to confirm that our measure captures fluctuations in the intensity of arbitrage transactions. We focus on oil shocks because they contain a large idiosyncratic component which facilitates identification of our mechanism and interpretation of the results. Oil shocks are identified using weekly oil inventory announcements.