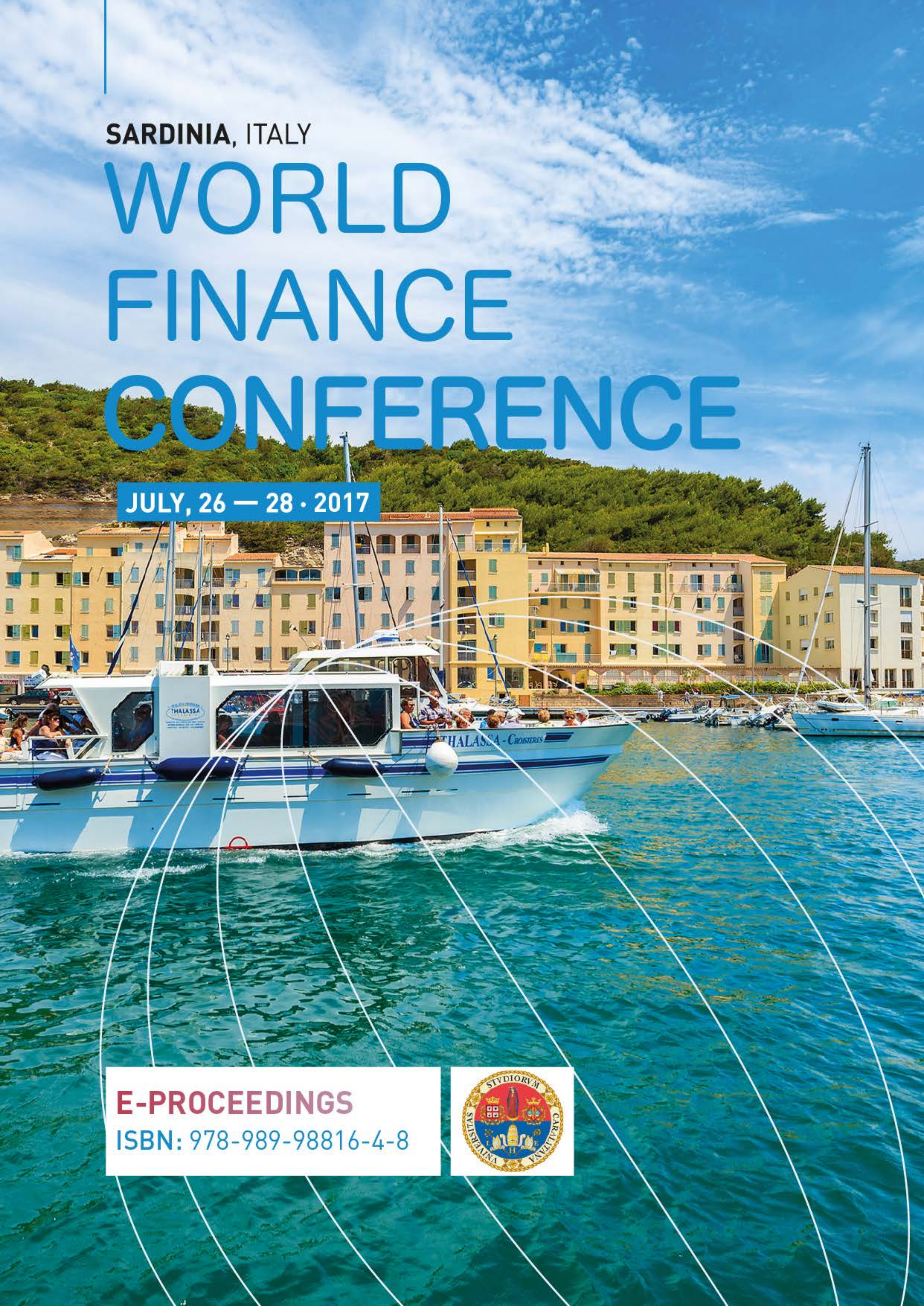

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Are U.S. Analysts' Recommendation Changes for Cross-Listed Stocks More Informative than Local Analysts'?

Amir Amel-Zadeh
University of Oxford, United Kingdom
amir.amelzadeh@sbs.ox.ac.uk

Antonio Carlo Francesco Della Bina
University of Bologna, Italy
antonio.dellabina@unibo.it

Abstract

We investigate stock return and trading volume reactions to analyst recommendation changes issued by local and foreign analysts for international stocks from 40 countries cross-listed in the U.S. We find that recommendation changes by analysts based in the U.S. lead to significantly higher abnormal returns and lower abnormal volumes in the home market of the cross-listed firm, compared to changes made by local analysts. Our results are robust to various controls, stronger for upgrades, and strengthened by an identification strategy that relies on analysts that move locations. We do not find supporting evidence of U.S. analysts facilitating a bonding mechanism for cross-listed stocks as we find a stronger effect for firms from countries with stronger legal, governance, and reporting environments. We also do not find evidence of a certification role of US analysts. Our results are further robust to timing differences in recommendation changes, geographical distance and analysts' specialization.

A Behavioral Model of Risk Factors Affecting the Returns of Global Macro Hedge Fund categories

L. Mick Swartz
University of Southern California, United States
mick.swartz@marshall.usc.edu

Abstract

This paper has four contributions to the literature. First, it analyzes the risk characteristics for 11 HFRX Global Macro hedge fund strategies. Second, the paper introduces three families of factors, the D family, the L family, and the R family. These new factors assume investors use historical data from each hedge fund category to assess the risk. This historical information, when included with asset pricing models, is more powerful in explaining hedge fund returns than previous models. Third, using a pool of 20 macroeconomic variables, this study provides evidence that researchers should expand their use of other macroeconomic factors in their analyses of hedge fund returns. According to SIC criterion, the Global Macro category results for the Behavioral Model, the Macroeconomic Model, and the Combination Models outperform the Fung and Hsieh (2004) seven-factor model in all 11 strategies. Fourth, unlike the previous literature, these strategy-specific generated models are corrected for time-series assumptions violations and heteroscedasticity and are more parsimonious and efficient than the Fung-Hsieh seven-factor model in all 11 strategies.

Seemingly Unrelated Stock Market Anomalies: Profitability, Distress, Lotteryness and Volatility

Lenos Trigeorgis
U. Cyprus, King's College London and MIT,
lenos@mit.edu

Neophytos Lambertides
Cyprus Unive. of Technology, Cyprus
n.lambertides@cut.ac.cy

Luca Del Viva
Esade Buiness School, Spain
luca.delviva@esade.edu

Turan G. Bali
Georgetown University,, United States
turan.Bali@georgetown.edu

Abstract

We examine how various stock market anomalies are related, namely whether idiosyncratic skewness arising from growth options is related to the profitability anomaly, the distress anomaly, demand for lottery-like stocks and the idiosyncratic volatility puzzle. We find the part of expected idiosyncratic skewness derived from growth options is negatively related to future returns and that a newly proposed skewness factor based on future growth options xplains the aforementioned anomalies. We show that well-known cross-sectional relations etween profitability, distress, lotteryness and idiosyncratic volatility with stock returns are inked to the positively-skewed return profile of high growth-option firms.

The Fellowship of LIBOR: A Study of Spurious Interbank Correlations by the Method of Wigner-Ville Function

Peter Lerner
Wenzhou Kean Business School, China
pblerner@syr.edu

Abstract

The manipulation of the LIBOR by a group of banks became one of the major blows to the remaining confidence in the finance industry (e.g. Department of Justice, 2012). Yet, despite an enormous amount of popular literature on the subject, rigorous time-series studies are few. In my paper, I discuss the following hypothesis. If, as we should assume for the statistical null, the quotes, which were submitted by the banks were true, the deviations of the submitted quotes from the LIBOR must have been entirely random because they were determined by idiosyncratic conditions of the member banks. This hypothesis is amenable to statistical verification. Serial correlations of the rates, which cannot be explained by the differences in credit quality of the banks or the domicile Governments, are subjected to correlation tests. A new econometric method—the analysis of the vector Wigner-Ville function borrowed from the quantum physics and signal processing—is used and explained for the statistical interpretation of regression residuals.

Corporate governance compliance of family and non-family listed firms in Latin American emerging markets

Guadalupe del Carmen Briano Turrent
Universidad Autónoma de San Luis Potosí, Mexico
guadalupe.briano@uaslp.mx

Jannine Poletti-Hughes
University of Liverpool, United Kingdom
jpoletti@liv.ac.uk

Abstract

Based on agency theory, this study analyzes whether family firms are more compliant with corporate governance recommendations than non-family firms in the context of emerging markets. Using a unique sample of 826 observations of the highest ranked companies on the stock exchange indices of Argentina, Brazil, Chile and Mexico during the period 2004-2010, we hypothesize that family firms may adopt better corporate governance practices to substitute the absence or inefficiency of a regulatory framework, and to mitigate the agency problem between majority and minority shareholders. Additionally, we propose a corporate governance compliance index considering the legal and institutional framework of the region. The empirical results indicate that family firms report a higher corporate governance index. We find that family firms do not moderate the effect of board composition (independence, size and COB-CEO duality) on the corporate governance index but rather such effect is direct to all firms. This study extends the international literature on corporate governance and family firms, filling a gap in the Latin American context, where comparative international research is non-existent. The findings provide useful information to assist investors, managers and policy makers in the development and implementation of corporate governance practices.

Correlation between the 2014 EU-Wide Stress test and market based measures of systemic risk

Sonia Dissem
Université de Lille, Skema Business School, France
sonia.dissem@univ-lille2.fr

Fréderic Lobez
Université de Lille, France

Abstract

In this paper, we compare the EBA stress test results done in 2014 to market based measures of capital losses which are the Marginal Expected Shortfall (MES), the Systemic Risk Measure (SRISK) and the Delta Conditional Value-at-Risk (?CoVaR). These measures allow us to estimate the expected capital shortfall in case of a crisis. Our sample uses 57 European banks over 22 countries. We find that SRISK is the best predictor of systemic risk among the three systemic risk measures since it is the most correlated with stress test results. Indeed, we run some linear regressions between the stress test capital shortfall expected in 2014, 2015 and 2016 and the systemic risk measures introduced chronologically (MES in 2010, ?CoVaR in 2011 and SRISK in 2012) and found that the independent variable SRISK is highly significant. Furthermore, we focused on the realized outcomes (realized loss, realized return and realized volatility) and compared them to the 2014 EU stress test results.

Real options and asymmetric volatility

Roi D. Taussig
Ariel University, Israel
taussigroi@hotmail.com

Abstract

This study offers a real options explanation for the asymmetric volatility phenomenon. The rationale is through the mechanism of real options exercise. Real call options add to the volatility of the underlying stock because they are equivalent to a leveraged buy of the stock. Real put options reduce the volatility of a stock because of their hedging effect. In a positive shock to returns, real call options are exercised, causing volatility to decrease. In a negative shock to returns, real put options are exercised, causing volatility to increase. We provide empirical evidence for our theory using Book-to-Market portfolios.

Multivariate Momentum Model in Risk Investment Management

Juan Mascareñas
Universidad Complutense de Madrid, Spain
jmascare@ucm.es

Fangyuan Yan
Universidad Complutense de Madrid, Spain
Linda85612@hotmail.com

Abstract

In order to optimize the expected return of an investment portfolio, the authors intend to design a momentum strategy for stock investment by applying a multivariate model. The following variables are included: investment period(months/days), investment market type (Chinese/European stock market), investment business cycle (bull/bear/normal market) and investment company capital scale (small/medium/big). By comparing with the average market return, the multivariate momentum investment portfolio is more profitable and dynamic. To completing this momentum model, we also introduce a latent variable (one year interest rate change) in our investment portfolio. By applying the time series estimation model - Autoregressive Integrated Moving Average Model (ARIMA), we proved that the "one year interest rate change" variable can affect the stock price trend.

Board of Directors Characteristics and Performance in Family Firms under Crisis

Elisabete Vieira
GOVCOPP Unit, University of Aveiro, ISCA-UA, Portugal
elisabete.vieira@ua.pt

Abstract

This paper examines the relationship between board of director characteristics and performance in family businesses, providing evidence on whether family firms differ from non-family ones and focusing also on the possibility of asymmetrical effects between periods of stability and economic adversity. To fulfil this objective, a sample of Portuguese listed firms was analysed for the 2002-2013 period, using a panel data approach. The results show that family firms are likely to have lower proportion of independent members and higher gender diversity on their boards than non-family firms. Family firms' performance is positively related with ownership concentration and gender diversity. There are performance premiums for family businesses with more gender diversity relative to their counterparts. These effects also depend on whether the economy is in recession or not. The evidence suggests that the presence of women on board and the firms' leverage and size impact more significantly on family firms' performance in periods of economic adversity. The obtained results make this paper useful for researchers and managers, and provide academic implication in the context of corporate governance and family firms. The role of board of directors is crucial to understand the corporate behaviour and to set the policy to regulate corporate activities.

Dynamic asset allocation with event risk, transaction costs and predictable returns

Jean-Guy Simonato
HEC Montréal, Canada
jean-guy.simonato@hec.ca

Abstract

Dynamic asset allocation problems with event risk have been examined in frictionless environments with continuous trading opportunities. In these frameworks, the events take the form of sudden unexpected jumps in returns and analytical solutions to the investor's problem can be characterized for portfolios with many assets. However, the typical investor faces many frictions such as transaction costs and trading restrictions and can condition his decisions on variables with some predictive power about the returns. We thus examine here the interplay between event risk, transaction costs and predictability on the dynamic asset allocation of the investor in a discrete time setting. The model is calibrated to the U.S. stock market and a Gauss-Hermite quadrature approach is used to solve the investor's dynamic optimization problem. Various numerical scenarios are examined to show the impact of event risks on the asset allocation, no-trading regions and certainty equivalent. It is found that the hedging demands of an investor taking into account event risk are generally smaller than those of an investor who neglects this risk. It is also found that the trading frequency can have an impact on the optimal allocation and hedging demands. Neglecting event risk can also lead to non-negligible annualized certainty equivalent losses, which get larger as the investment horizon of the investor increases and/or as the rebalancing frequency is lowered.

Shadow Banking System: A complement to other regular financial systems? Evidence from International Data

Zeinab SAID
Université Grenoble Alpes, France
zeinab.said@univ-grenoble-alpes.fr

Abstract

We examine empirically the linkage of the shadow banking system and other financial sectors using a sample of 29 countries over the period 1990 to 2013. Even though the shadow banking system is different across these countries, the linkage between new and old financial sectors is generally common across most of the countries studied. We use one of the main growth drivers of the shadow banking system which is "shadow banking as a complement" to account for the linkage between the shadow banking system and other financial sectors. Our results confirm the complementary theory of the shadow banking system. Indeed, it can also be viewed as a source of diversification. Banks are not the only main actors in the financial system anymore; shadow banks are also playing an essential role in raising funds as well. Hence, the shadow banking system should be considered as the new parallel system; a system which is a complement to and not a substitute for other financial sectors.

Bank Lending Margins in the Euro Area: Funding Conditions, Fragmentation and ECB's Policies

Helen Louri
Athens University of Economics and Business, Greece
elouri@aueb.gr

Petros Migiakis
Bank of Greece, Greece
pmigiakis@bankofgreece.gr

Abstract

In the present paper we study the determinants of the lending margins paid by euro-area non-financial corporations (NFCs) for their bank loans on top of the rates they earn for their deposits. Across two separate groups of euro-area countries (distressed and non-distressed) we examine whether lending margins have been affected by structural changes in the banking sector, the credit and liquidity position of banks as well as by the costs of funding in the corporate and sovereign bond markets. The role of ECB's non-standard monetary policies with respect to narrowing down the fragmentation in the bank lending channel is also enquired.A structural panel VAR model is used on data from eleven euro-area countries for the period 2003:1 to 2014:12separated with reference to the global financial crisis. We find that significant heterogeneities existed before and remained after the crisis. Market concentration and the prudence of banks' management increase the lending margins NFCs pay for their loans in non-distressed countries, pre-crisis, while there is evidence of substitution effects between financing obtained from banks and corporate bond markets in distressed countries. The post-2008 provision of ample liquidity from the ECBis found to be effective only in non-distressed countries, suggesting that further policy actions are needed in order to reduce financial fragmentation. Such a finding confirms indirectly the necessity of the asset purchases program that the ECB started in 2015.

Rational Functions: An Alternative Approach to Asset Pricing

Nilanjana Chakraborty
Self Employed, India
dr.nila.chakraborty@gmail.com

Mohammed Elgammal
Qatar University, Qatar
m.elgammal@qu.edu.qa

David McMillan
University of Stirling, United Kingdom
david.mcmillan@stir.ac.uk

Abstract

This paper considers an alternative approach for asset pricing, in which asset prices are modelled as linear polynomials of their underlying explanatory factors including index price, index volume, asset volumes, preceding asset prices, time trends and other market factors. Consequently, asset returns are rational functions that do not add linearly in a portfolio, especially when averaged out over multiple time intervals. Nonetheless, for time series data, the continuous returns may be treated as approximately linear and modeled directly. Thus, this paper distinguishes between two kinds of returns – average and continuous, and models them separately. Our approach is empirically substantiated through preliminary testing of the models developed here. This test compares the accuracy of the linear models like the Capital Asset Pricing Model (CAPM), the Fama French three-factor (FF3F) model and the Fama French five-factor (FF5F) model against our Rational Function (RF) model estimates. The RF estimates for both average and continuous returns are found to be more accurate than the estimates obtained through the CAPM, the FF3F and the FF5F models. Thus, the RF models approach can be used to obtain more accurate mean-variance efficient portfolios for investment and is hoped to be of interest to academics and practitioners alike.

The Effects of Commodity Price Shocks on Fiscal Aggregates in Latin America

Leandro Medina
International Monetary Fund, United States
lmedina@imf.org

Abstract

This paper analyzes the effects of commodity price shocks on fiscal revenues and expenditures in Latin American countries quarterly from 1995 to 2013. Results indicate that Latin American countries' fiscal aggregates rise in response to positive shocks to commodity prices, yet there are marked differences across countries. Fiscal variables in Venezuela display the highest sensitivity to commodity price shocks, with expenditures responding significantly more than revenues. At the other end of the spectrum, in Chile expenditures respond very little to commodity price fluctuations and the dynamic responses of its fiscal indicators are very similar to those seen in high-income commodity-exporting countries. Results suggest that this heterogeneity may relate to the enactment of fiscal rules, as dynamic panel estimations show that government expenditures in countries with fiscal rules respond less to shocks to commodity prices.

Quantitative Easing and Liquidity in the Japanese Government Bond Market

Kentaro Iwatsubo
Kobe University, Japan
iwatsubo@econ.kobe-u.ac.jp

Tomoki Taishi
Osaka Exchanges, Japan
145e506e@gmail.com

Abstract

The “Quantitative and Qualitative Monetary Easing” enacted immediately after the inauguration of Bank of Japan Governor Kuroda brought violent fluctuations in the prices of government bonds and deteriorated market liquidity. Does a central bank’s government bond purchasing policy generally reduce market liquidity? Do conditions exist that can prevent such a decrease? This study analyzes how the Bank of Japan’s purchasing policy changes influenced market liquidity. The results reveal that three specific policy changes contributed significantly to improving market liquidity: 1) increased purchasing frequency; 2) a decrease in the purchase amount per transaction; and 3) reduced variability in the purchase amounts. These policy changes facilitated investors’ purchase schedule expectations and helped reduce market uncertainty. The evidence supports the theory that the effect of government bond purchasing policy on market liquidity depends on the market’s informational environment.

Optimal and Coherent Asset Allocation with Liquidity-Adjusted Value-at-Risk (LVaR) Constraints: Empirical Relevance to Commodity Portfolio Management

Mazin A Al Janabi
EGADE Business School, Tecnológico de Monterrey, Mexico
mazinaljanabi@gmail.com

Abstract

This paper examines, from portfolio manager's perspective, the performance of liquidity adjusted risk modeling in obtaining efficient and coherent portfolios. As such, our market risk modeling algorithm can simultaneously handle trading risk analysis under normal and severe market settings besides considering the effects of illiquidity of traded assets. This paper fills an important gap in risk management and optimal portfolio selection literatures by providing a comprehensive coverage of trading risk modeling with a dynamic asset allocation process and under the supposition of illiquid and adverse market settings. Specifically, the paper proposes a robust approach to commodity optimal portfolio selection, in a Value-at-Risk (VaR) framework, particularly from the perspective of large trading portfolios that have both long and short-sales trading positions. In this paper, we develop a portfolio selection model which allocates commodity assets by minimizing Liquidity-Adjusted-VaR (LVaR) subject to the application of financial and operational constraints (e.g. expected return, trading volume and liquidation horizon) that should meet the budget limits set by the portfolio manager. In addition, the paper illustrates how the modified LVaR method can be used by commodity trading units in a dynamic asset allocation framework for reporting risk exposure, assessing risk reduction alternatives, and creating efficient and coherent market portfolios.

Risk-based capital requirements and optimal liquidation in a stress scenario

Yann Braouezec
IESEG School of Management, France
y.braouezec@ieseg.fr

Lakshithe Wagalath
IESEG School of Management, France
l.wagalath@ieseg.fr

Abstract

We develop a simple yet realistic framework to analyze the impact of an exogenous shock on a bank's balance-sheet and its optimal response when it is constrained to maintain its risk-based capital ratio above a regulatory threshold. We show that in a stress scenario, capital requirements may force the bank to shrink the size of its assets and we exhibit the bank's optimal strategy as a function of regulatory risk-weights, asset market liquidity and shock size. When financial markets are perfectly competitive, we show that the bank is always able to restore its capital ratio above the required one. However, for banks constrained to sell their loans at a discount and/or with a positive price impact when selling their marketable assets (large banks) we exhibit situations in which the deleveraging process generates a \textit{death spiral}. We then show how to calibrate our model using annual reports of banks and study in detail the case of the French bank BNP Paribas. Finally, we suggest how our simple framework can be used to design a systemic capital surcharge

The impact of unconventional monetary policy on the sovereign bank nexus within and across EU countries. A time-varying conditional correlation analysis

Giulio Cifarelli
University of Florence, Italy
giulio.cifarelli@unifi.it

Giovanna Paladino
IntesaSanPaolo Bank, Italy
giovanna.paladino@intesasanpaolo.com

Abstract

We investigate the time-varying dynamics of the linkages between sovereign and bank default risks over the period 2006-2015, using the credit default swap spreads of the bonds of major international banks and of sovereign issuers as indicators of risk within four major European countries. The nexus between bank risk in core countries and sovereign risk of peripheral countries is also analyzed, under the hypothesis that higher bond yields and preferential treatment of bonds issued by euro sovereigns under Basle II may have favored the stocking of peripheral sovereign bonds in core bank portfolios. The use of a time-varying regime switching correlation analysis, the STCC-GARCH, allows to identify the economic variable behind the state shifts, the so-called transition variable, and to date precisely the changes in the size of the correlations that are due to shocks (viz. the Lehman crisis, the Greek crisis) or to unconventional monetary policies such as Quantitative Easing and TLTRO.

Assumptions on prepayment ratios implied in German mortgage rates

Jan Henrik Wosnitza
Deutsche Bundesbank, Germany
wosn01@gmail.com

Abstract

The accurate estimation of mortgage prepayments is essential for the risk management of retail banks. Despite its high practical relevance, a review of the academic literature reveals that no adequate models for estimating future mortgage prepayments have been proposed so far. The existing models are either overly complex or simply tied to history. As a consequence thereof, setting liquidity parameters based on expert judgements has developed into a standard approach. However, this approach is prone to discretionary biases. Therefore, the purpose of the paper at hand is to extract implied prepayment rates from 6,814 pairs of German mortgage rates on a monthly basis over a period of more than 10 years. The German retail mortgage market is ideally suited for such an investigation, because Article 489 (1) (2) of the German Civil Code anchors a homogenous prepayment option in all German retail mortgage loans with a maturity of more than 10.5 years. The extracted prepayment rates could serve as a point of reference for banks to estimate uncertain future cash-inflows in an objective and forward-looking way. Furthermore, implied prepayment rates are observed that fall outside the economically reasonable interval between zero and one. These values represent arbitrage opportunities for retail customers.

The speed of adjustment of corporate cash holdings

Keyur Thaker
IIM Indore, India
keyur.thaker@gmail.com

K T Vigneswara Rao
IIM Indore, India
f09tulasiv@iimidr.ac.in

Abstract

Using panel data of the companies listed on National Stock Exchange of India, the paper analyses the determinants of cash holdings and examine the speed of with which firms adjust their cash holdings. The findings indicate net working capital, leverage, capital expenditure, default spread and T bills rates have negative association with the cash to total asset ratios while the dividends, net debt issuance and net equity issuance have positive association with cash holding levels of the firm. Further the results obtained from dyanmic panel data estimation supports trade off model of corporate cash holdings indicating effeciency of management in adjusting the corporate cash levels. This supports the hypothesis that current balance sheet items are easier to mainpulate and chould be changed even in short run. Moreveor the speed of adjustment is different across firms and depends on the constraints to tap external finance and firm's bargaining power.

Does persistence in idiosyncratic risk proxy return-reversals?

Harmindar B. Nath
Monash University, Australia
mindi.nath@monash.edu

Vasilis Sarafidis
Monash University, Australia
vasilis.sarafidis@monash.edu

Abstract

Understanding the return-reversal phenomenon perceived to produce large abnormal profits under some stock-market trading strategies is of considerable interest in finance. There is much debate around the use of idiosyncratic risk as a predictor in asset pricing models when it is persistent. This paper, using the Australian data, presents new empirical evidence of return-reversals at the firm level and an existence of an equilibrium state based on robust econometric methodology of panel error-correction model. The method exploits the persistence in idiosyncratic risk and builds on its cointegration with the returns series. The least squares and the quantile regression estimations reveal the tendency of long-run returns to restore equilibrium, reversals in changes of returns, and a slower recovery to equilibrium by the smaller stocks. The pattern in quantile dependent coefficients of short-run idiosyncratic risk-return relationship has two important implications: (i) the changes in idiosyncratic volatility risk affects adversely the changes in returns of the low performing stocks but investments in high performing stocks benefit from such changes; (ii) the increasing trend in the coefficients implies a long-run quadratic relationship in the levels of the two series. The significant marginal effects of changes in idiosyncratic volatility and changes in its one period lagged values on changes in returns at many quantiles support the impact due to persistence in changes in idiosyncratic risk, and their reversing signs provide an evidence of reversion in short-term returns.

Skewness-Adjusted Binomial Equilibrium and Calibration Models

Robert Stafford Johnson
Xavier University, United States
johnsons@xavier.ed

Amit Sen
Xavier University, United States
Sen@Xavier.edu

Abstract

The Black, Derman, and Toy (BDT) (1990) calibration model generates a binomial interest rate tree that is synchronized with the current spot yield curve. As a result, the model generates values for option-free bonds that are equal to their equilibrium prices, thus making it arbitrage free. Given this feature, the model can readily be extended to valuing bonds with embedded options or bond and interest rate derivatives that are also arbitrage free. This arbitrage-free feature of the calibration model is one of the main reasons that many practitioners favor this model over equilibrium models that generate trees by estimating the up and down parameters based on the mean and variability of the underlying spot rate. The variability condition governing the upper and lower spot rates in the BDT calibration model, however, assumes that the interest rate's logarithmic return is normally distributed. Several empirical studies have provided evidence that the distributions of many securities and indexes exhibit persistent skewness. In this paper, we provide empirical evidence showing that increasing or decreasing interest rate trends are often characterized by end-of-the-period distributions that are skewed. We next show that when an equilibrium binomial interest rate model is adjusted for skewness such that its end-of-the-period binomial distribution is calibrated to a skewed distribution, the implied spot yield curves generated from the adjusted model will be consistent with interest rate expectation where spot yield curves have a tendency to be positively (negatively) sloped when the market expects interest rate to increase (decrease). Finally, we show that when the BDT model is calibrated to a positively or negatively-sloped yield curve that matches the implied yield curves of a skewness-adjusted equilibrium model, it loses its arbitrage-free feature if the model's variability condition is not adjusted for skewness. We then show how the BDT variability condition can be adjusted to reflect skewness, and by so doing, retain its arbitrage-free feature. The paper contributes to the literature on binomial interest rate modeling by providing empirical evidence of the significance of skewness when interest rates are increasing or decreasing, showing the consistency of an end-of-the period distribution and the implied yield curves for expected increasing and decreasing interest rate scenarios using a skewness-adjusted equilibrium model, and showing how the BDT model can be adjusted to reflect skewness in order to maintain its arbitrage-free feature.

The Effect of Board of Directors' Characteristics and Ownership Structure on Bank Performance in Africa

Amira Tarek
German University in Cairo, Egypt
amira.tarek@guc.edu.eg

Ehab Mohamed
German University in Cairo, Egypt
ehab.kamel@guc.edu.eg

Abstract

The aim of this paper is to examine the effect of board of directors' characteristics and ownership structure on bank performance in Africa. On a sample of one hundred and twenty five banks operating in Egypt, Morocco, Tunisia, South Africa, Ghana, Kenya, Zambia, Nigeria, the study provides valuable insights into corporate governance mechanisms and the effect of such corporate governance mechanisms on bank performance from 2009-2013. The independent variables used for corporate governance mechanisms are board size, board non-executives, board meetings, females directors, CEO duality, audit committee, remuneration committee, ownership concentration, director ownership, director ownership percentage, institutional ownership, institutional ownership percentage, family ownership, family ownership percentage, government ownership and government ownership percentage and bank performance is measured by return on assets, return on equity and net interest Margin. Other control variables such as leverage, bank size and bank type are introduced. Ordinary least square is used to test the effect of independent variables over the dependent variables. Regression results show that board size is negatively related to performance when measured by ROA, ROE and NIM. CEO duality and Board independence are positively related to performance when measured by the three dependent variables; ROA, ROE and NIM which supports agency theory. Ownership concentration, institution ownership percentage and government ownership percentage are negatively related to performance when measured by ROA and NIM. Female directors, audit committee and director ownership are positively related to performance when measured by ROA and NIM, finally leverage tend to have a negative effect on performance measured by ROE and NIM.

No More Clubbing: Evolution of Exchange Rate Behavior in the ASEAN5 Countries

Vladimir Klyuev
International Monetary Fund (IMF), United States
vklyuev@imf.org

To-Nhu Dao
International Monetary Fund (IMF), United States
tdao@imf.org

Abstract

This paper examines exchange rate behavior in the ASEAN5 countries (Indonesia, Malaysia, the Philippines, Singapore, and Thailand). It finds that for the last 10 years there is no evidence that their central banks target particular exchange rate levels against any currency or basket. Thus, contrary to some assertions, they do not belong to a dollar club, a yen club, a renminbi club, or an ASEAN club. At the same time, they clearly try to smooth short-term volatility, particularly vis-à-vis the US dollar. The degree of smoothing declined noticeably after the Asian Financial Crisis and less obviously after the Global Financial Crisis, with heterogeneity across countries. Short-term smoothing without level targeting does not interfere with monetary policies aimed at price stability.

Corporate Governance and Foreign Ownership: The Impact of Stricter Regulatory Sanctions

Bibek Bhatta
Abertay University, United Kingdom
b.bhatta@abertay.ac.uk

Andrew Marshall
University of Strathlcyde, United Kingdom
a.marshall@strath.ac.uk

Suman Neupane
Griffith University, Australia
s.neupane@griffith.edu.au

Chandra Thapa
University of Strathclyde, United Kingdom
chandra.thapa@strath.ac.uk

Abstract

We examine whether stricter non-compliance sanctions on corporate governance regulations influence the investment decisions of foreign portfolio investors in emerging markets. To answer this question we use a natural experiment provided by a corporate governance regulatory reform introduced in 2000 for which stricter sanctions for non-compliance were imposed in 2004. Using firm-level panel data from 2001 to 2007, our results provide strong evidence that reforms that include stricter sanctions for non-compliance lead to higher foreign ownership. Depending on specifications, the difference-in-differences estimates show that, on average, the effect is 3% to 5% increased foreign ownership post regulatory reform of 2004.

How Costly is it to initiate a Merger in the Financial Sector

Rebel Cole
Florida Atlantic University, United States
coler@fau.edu

Kenneth Ferris
Arizona State University, United States
keneth.ferris@asu.edu

Arie Melnik
University of Haifa, Israel
amelnik@econ.haifa.ac.il

Abstract

Corporations do pay for legal and accounting advice whenever they face a major investment. For example companies that are involved in a merger activity often rely on external advice provided by accountants, legal experts, financial brokers etc. It is well known that mergers are heavy investments that entail large resources commitment. We use a special data set to analyze the cost of financial and accounting advice in merger situations. We find that the cost of advice are non-trivial, averaging over five million dollar per deal. The cost of merger advice explained a large share of the decline in acquiring-firm share holder wealth that is often observed in such transactions. We find that the primary determinants of these costs are the financial size of the deal and the complexity of the deal. We do not find that the method of payment for the acquisition itself affects the cost of the advice.

A simple intuitive NPV-IRR consistent ranking

Yoram Kroll
Ono Academic College (OAC) Israel, Israel
Kroll504@bezeqint.net

Moshe Ben-Horin
Ono Academic College(OAC) Israel, Israel
msmoney@ono.ac.il

Abstract

Numerous recent studies have revisited the issue of the potential conflicting NPV-IRR ranking of competing investment projects. Most have suggested procedures that resolve the conflict after performing an iso-NPV modification of at least one of the cash flows. However, none has provided a general sufficient condition that guarantees the absence of NPV-IRR ranking conflict. We define dominance between cash flow streams and show that if the streams are conventional, dominance of one stream over another ascertains no NPV-IRR ranking conflict. While dominance among original cash flows may be relatively rare, iso NPV cross-risk adjustment and iso-NPV modification of one cash flow stream may easily reveal such dominance even if the original projects are subject to different risks. The resulting implication is a practical, simple and economically intuitive procedure that guarantees consistent NPV-IRR ranking, while minimizing the implicit or explicit distortions of the original competing cash flow streams and their IRRs.

Mergers Between Savings Banks. The Solution for Improving Risk In The Spanish Banking Sector?

Vicente Pina
University of Zaragoza, Spain
vpina@unizar.es

Lourdes Torres
University of Zaragoza, Spain
ltorres@unizar.es

Patricia Bachiller
University of Zaragoza, Spain
vpina@unizar.es

Abstract

The objective of this paper is to study the changes in the performance of savings banks and the factors that influence the risk of these entities. The paper presents empirical evidence about the effect of mergers of savings banks, not only on performance but also on risk in the Spanish banking sector. First, in order to study the effectiveness of mergers we compare the economic-financial characteristics of savings banks before and after merging by carrying out the Mann-Whitney and Wilcoxon two-sample paired signed rank tests. Second, we carry out a multivariate regression to study risk determinants. Our findings indicate that the performance of savings banks has not improved from 2009 to 2012. Moreover, the size of the merged entity and of the board are directly related to the risk of the resulting entity, which denotes that mergers are not effective in obtaining a more efficient and less risky banking sector.

Blessing or Curse? The Impact of Fracking Developments on Oklahoma's House Prices

Emmanuel Apergis
University of Kent, United Kingdom
ea350@kent.ac.uk

Nicholas Apergis
University of Piraeus, Greece
napergis@unipi.gr

Abstract

As in September 2016, a backlash against fracking in Oklahoma may be about to get worse following record-tying earthquakes, potentially slowing the development of some of the U.S.'s most coveted shale plays. As a response, Oklahoma regulators have already been limiting the disposal of oilfield wastewater, which scientists have linked to seismic activity. The numbers of earthquakes are a far cry from the recent past, before the state's fracking boom. As oil production surged in Oklahoma, with the Scoop and Stack areas among the most sought new plays in the country, so did the disposal of wastewater from fracked fields. Several producers, and now the U.S. Environmental Protection Agency, are facing lawsuits because of seismic activity allegedly linked to disposal wells in Oklahoma (as well as in other states.

Securities Lending Strategies, Valuation of Term Loans using Option Theory

Ravi Kashyap
City University of Hong Kong, Hong Kong
ravi.kashyap@stern.nyu.edu

Abstract

We develop models to price long term loans in the securities lending business. These longer horizon deals can be viewed as contracts with optionality embedded in them and can be priced using established methods from derivatives theory, becoming to our limited knowledge, the first application that can lead to greater synergies between the operations of derivative and delta-one trading desks, perhaps even being able to combine certain aspects of the day to day operations of these seemingly disparate entities. We develop a heuristic that can mitigate the loss of information that sets in, when parameters are estimated first and then the valuation is performed, by directly calculating the valuation using the historical time series. We run numerical simulations to demonstrate the practical applicability of these models. These models are part of one of the least explored yet profit laden areas of modern investment management. We illustrate how the methodologies developed here could be useful for inventory management. All these techniques could have applications for dealing with other financial instruments, non-financial commodities and many forms of uncertainty. Admittedly, our initial ambitions to produce a normative theory on long term loan valuations are undone by the present state of affairs in social science modeling. Though we consider many elements of a securities lending system at face value, this cannot be termed a positive theory. For now, if it ends up producing a useful theory, our work is done.

House of Funds

Nataliya Gerasimova
University of Lausanne, Swiss Finance Institute, Switzerland
nataliya.gerasimova@unil.ch

Abstract

I document that political connections are an important driver of investment strategies of U.S. mutual funds. I collect data on mutual fund holdings of U.S. Congress members and equity holdings of mutual funds from 2004 to 2013. I show that funds whose shares belong to politicians place larger bets and trade more actively in stocks of politically sensitive ?rms, and in stocks of ?rms that operate in industries under the scope of politicians' congressional committees. Connected mutual funds perform signi?cantly better on these equity holdings than their non-connected peers.

Debt and private benefits appropriation by a controlling shareholder: Introducing a creditors' holdup effect

Hubert de la Bruslerie
University Paris Dauphine, France
hlb@dauphine.fr

Abstract

Debt is not frequently analyzed in relation to the conflicts between a controlling shareholder, outside investors and creditors. We follow Jensen and Meckling's (1976) intuition that debt can be a tool to transfer value to creditors, at the same time it acts to discipline private benefits appropriation. An option valuation model is used to show that debt is also a key governance variable, because it can moderate or enhance private benefits and because at the same time incentivization will trigger a transfer of value to the creditors. We show that debt is a complex regulation tool in an agency contract approach, as it is simultaneously an expropriation device and a limitation tool. Debt is a disciplinary tool for shareholders, but, to avoid a holdup by creditors, we also need to discipline the disciplinary tool.

Residual Momentum and Investor Underreaction in Japan

Rosita Chang
University of Hawaii, United States
rositac@hawaii.edu

Kuan-Cheng Ko
National Chi Nan University, Taiwan
kcko@ncnu.edu.tw

Shinji Nakano
T&D Asset Management Co., Ltd, Japan
s-nakano@tdasset.co.jp

Ghon Rhee
University of Hawaii, United States
rheesg@hawaii.edu

Abstract

We document that the residual momentum strategy, which is constructed to hedge out the risk exposure to the Fama-French factors, is profitable in Japan for short-term holding periods. Residual momentum profits over long-term holding periods are insignificant but do not reverse, unlike traditional total return momentum strategies observed in the U.S. market. The findings in both short- and long-term holding periods are attributed to investor underreaction. The role of investor underreaction remains robust to the control of the confounding variables (such as institutional ownership, idiosyncratic volatilities, and firm age) that are known to lead investor limited attention.

Liquidity effects of institutional investment horizons

Zhen Lei
Hong Kong Polytechnic University, Hong Kong
arthur.lei@connect.polyu.hk

Ping-Wen Sun
Jiangxi University of Finance and Economics, China
sunpingwen@gmail.com

Bin Yu
Zhejiang University, China
bin_yu@zju.edu.cn

Abstract

We examine how holding changes of short-term and long-term institutions influence a stock's liquidity, liquidity volatility, and its liquidity comovement with the stock market volatility, liquidity, and return. Stocks increased by short-term institutions tend to become more liquid, have lower illiquidity ratio and high-low spread volatility but higher volatility in turnover, while the opposite is true for stocks increased by long-term institutions. In terms of liquidity comovement, short-term institutions have more influences on illiquidity ratio and high-low spread comovement with the market while long-term institutions have more influences on turnover comovement with the market. Moreover, liquidity effects from short-term institutions have more explanation power on future stock returns than from long-term institutions. Finally, we provide evidence to show changes of a firm's fundamentals contribute to holding changes of both short-term and long-term institutions which influence liquidity effects of the stock.

Business-Linkage Volatility Spillover Between Us Industries

Linh Xuan Diep Nguyen
University of Nottingham, Business School, United Kingdom
lixlxn@nottingham.ac.uk

Simona Mateut
University of Nottingham, Business School, United Kingdom
simona.mateut@nottingham.ac.uk

Thanaset Chevapatrakul
University of Nottingham, Business School, United Kingdom
thanaset.chevapatrakul@nottingham.ac.uk

Abstract

This paper examines the volatility spillovers between US industries and their dependence on the inter-industry business linkages. Our first-stage multivariate model reveals significant volatility transmission between trading industries. Our second-stage results demonstrate that inter-industry spillovers are influenced by the strength of the trading relationship. When industries are more important to their partners, as measured by the shares of inputs or revenue, they tend to have stronger volatility spillovers toward their partners and are less affected by the volatility of their partners. Qualitatively similar results are obtained regardless of the business-linkages measures used and from samples restricted to closely-linked or to non-financial industries. Importantly, business linkages are highly relevant for shock spillovers in bad market conditions. The link between volatility spillovers and the strength of the business relationship is confirmed at portfolio level as well.

The Shapley Value Decomposition of Optimal Portfolios

Haim Shalit
Ben Gurion University of the Negev, Israel
shalit@bgu.ac.il

Abstract

One of the main interests of investors is to evaluate the true and complete risk of the financial assets they hold in a portfolio. However, the current analytic methods provide only partial risk measures. By viewing the portfolio of securities as a cooperative game played by the assets that minimize portfolio risk investors can calculate the exact value each security brings to the common payoff of the game. This is known as the Shapley value. It is determined by computing the contribution of each asset to the portfolio risk by looking at all the possible coalitions the risky asset would participate. I develop this concept in order to decompose the risk of mean-variance optimal portfolios and mean-Gini portfolios. This decomposition improves the ranking of risky assets by their comprehensive contribution to the risk of optimal portfolios. This allows investors to make unbiased and true decisions when analyzing the inherent risk of their holdings. As for applications, the Shapley value is calculated for asset allocation and for portfolios of individual securities. The empirical results reverse some of the findings obtained from conventional wisdom and beta analysis.

Interest Rate Risk in a World of Negative Yields

Joel Barber
Florida International University, United States
prof.barber@yahoo.com

Krishnan Dandapani
Florida International University, United States
Krishnan.Dandapani@fiu.edu

Abstract

Duration is widely used in the financial services industry to measure and manage interest rate risk. Both the development and the empirical testing of duration occurred in an environment with positive interest rates. This raises the question of how well standard duration analysis performs in a negative yielding world. We examine the mathematical properties of duration and convexity in a negatively yielding world. In particular, we identify the properties that are unique and the properties that are the same regardless of the sign of the yield.

Risk analysis based on MES: The Czech stock market study

Tomas Cipra
Charles University (Prague), Czech Republic
cipra@karlin.mff.cuni.cz

Radek Hendrych
Charles University (Prague), Czech Republic
hendrych@karlin.mff.cuni.cz

Abstract

The systemic risk concept plays an important role in the modern risk regulatory systems in finance (in particular, in Basel III). The paper shows that the marginal expected shortfall MES can be a useful risk measure when the systemic risk is examined using the Czech data represented by the composing index PX of Prague Stock Exchange.

Using Annual Report Tone as a Proxy for Financial Distress in U.S. Banks

Priyank Gandhi
University of Notre Dame, United States
pgandhi@nd.edu

Tim Loughran
University of Notre Dame, United States
Loughran.9@nd.edu

Bill McDonald
University of Notre Dame, United States
mcdonald.1@nd.edu

Abstract

Current measures of bank distress have obvious limitations. For example, focusing on certain financial ratios creates the incentive for managers to “window dress” their balance sheet. Our paper advocates a new proxy for bank distress: use of the annual report tone. After controlling for other variables, we find that more negative tone in the annual report is associated with larger delisting probabilities, lower odds of paying subsequent dividends, higher subsequent loan losses, and lower future ROA. Our findings suggest that regulators could measure the frequency of negative words in annual reports to monitor the health of financial intermediaries and to identify banking sector distress.

Bank Regulation and Market Structure

Carsten Nielsen
Catholic University of Milan, Italy
carsten.nielsen@unicatt.it

Gerd Weinrich
Catholic University of Milan, Italy
gerd.weinrich@unicatt.it

Abstract

We explain tightened capital requirements as the regulator's response to financial innovation. In our model such innovation increases the riskiness of certain asset classes without improving on their expected return. The only way to prevent banks from using these new assets is by increasing the capital requirements for all asset classes. The costs of these requirements are ultimately born by depositors and may lead them to look for better returns elsewehere. Our model builds on the Salop (1979) model and in doing so also sheds some light on its properties. In particular we show that so-called monopoly equilibria only exist when the number of banks is constrained to be an integer.

Backtesting Expected Shortfall: An Application to Emerging Market Stock Indices

Andres Mora Valencia
Universidad de los Andes, Colombia
a.mora262@uniandes.edu.co

Daniel Velasquez Gaviria
Universidad EAFIT, Colombia
dvelas18@eafit.edu.co

Abstract

In a recent paper, Acerbi and Székely (2014) presented three methods to backtest Expected Shortfall, and this is the first empirical application of that paper on emerging markets. We employ daily stock index returns from the Morgan Stanley Capital International Inc. Emerging Markets Index comprising the 2000 – 2015 period, extending Acerbi and Székely's (2014) results to derive the significance thresholds for the Student's skewed-t distribution using two backtesting methods. We find that these thresholds for the Z1 Test vary between -0.16 and -0.43 when the degrees of freedom parameter ranges between 3 and 7, and the shape parameter falls between 0.6 and 1.2, whereas the significance thresholds for the Z2 Test vary between -0.70 and -0.82 for the latter ranges of the degrees of freedom and shape parameters. Similar values were obtained by Acerbi and Székely for Student's t distribution. Therefore, the Z1 and Z2 thresholds are not invariant to the skewed-t shape parameter values found in the emerging market stock indices. Empirical results show outperformance of Student's t and Student's skewed-t over Gaussian distribution.

An Information Processing Interpretation of Financial Market Price Adjustments

Edwin Neave
Queen's University, Canada
edwin.neave@queensu.ca

William Scott
Queens University, Canada
scottbill@sympatico.ca

Abstract

Using a model of heterogeneous investors' responses to changing information, this paper studies the impact of costly learning on equilibrium price changes. The paper first develops single period equilibrium conditions, then embeds the results in a multiperiod setting to assess the impact of investor information processing on evolving prices. Our information processing model's solution is a stochastic difference equation capable of generating several types of price sequences whose features are consistent with those of recent empirical findings.

Decoupling management inefficiency: Myopia, Hyperopia and Takeovers

Abongeh Tunyi
University of Sheffield, United Kingdom
a.tunyi@sheffield.ac.uk

Collins Ntim
University of Southampton, United Kingdom
c.g.ntim@soton.ac.uk

Jo Danbolt
University of Edinburgh, United Kingdom
jo.danbolt@ed.ac.uk

Abstract

We attribute the lack of a consensus on the age-old conundrum of whether takeovers are driven by attempts to discipline inefficient management—the management inefficiency hypothesis—to the absence of a comprehensive framework for operationalising management performance. Our work extends the current unidimensional framework by proposing that outright “poor management”, “myopia or short-termism”, “hyperopia or long-termism” and “good management”, are four distinct dimensions of management performance. Applying this new framework to a UK sample, we show that takeover likelihood generally increases with “poor management” and “myopia”, but declines with “hyperopia”. Consistent with the neoclassical view, our findings suggest that managers who focus on creating long-term value for shareholders, even at the expense of current profitability, are less likely to be disciplined by the market for corporate control. By contrast, managers who focus on current earnings at the expense of long-term shareholder value creation are more likely to face takeovers.

Rating change and CEO turnover

Anna Maria C. Menichini
University of Salerno and CSEF, Italy
amenichi@unisa.it

Francesca Toscano
Boston College, United States
toscanof@bc.edu

Abstract

We study the relationship between credit rating changes and CEO turnover beyond firm performance. Using an adverse selection model that explicitly incorporates rating change related turnover, our model predicts that a downgrade triggers turnover, more so the lower the managerial entrenchment, but that this relation is weaker when the report provided by the rating agency is more reliable. Our empirical results support these predictions. We show that downgrades explain forced turnover risk, with the new CEO chosen outside the firm that has received the negative credit rating change. In addition, we find that the relation between rating changes and management turnover is stronger when the degree of managerial entrenchment is low, for firms characterized by a high level of investment and for firms less exposed to rating fees. Finally, we show that this relation has weakened in the post-2007 crisis period, in coincidence with the increased reputational concerns of the rating agencies. The results are robust to endogeneity concerns.

The determinants of European banks' capital structure during the last decade and the role played by regulation and supervision: Do they really matter?

Vitor Oliveira
Bank of Portugal, Portugal

Clara Raposo
ISEG Lisbon School of Economics and Management, Portugal
clararaposo@iseg.ulisboa.pt

Abstract

In this paper we examine the determinants of European banks' capital structure. We enlarge Gropp and Heider's (2010) sample in order to include also private and small and medium sized banks, for a better, more comprehensive, characterization of the European banking system. Using an international sample of 494 banks from 21 European Union countries for the period between 2000 and 2012, we find that leverage is positively correlated with size and collateral, and that it is negatively correlated with profits, market-to-book and risk, which is broadly consistent with the Pecking Order and Market Timing theories. However, this is not true under all circumstances – in the case of private banks and when banks are close to the regulatory minimum of capital requirements, the "usual" capital determinants lose significance, leaving room for the supervisory and regulatory explanatory variables to play the main role. Furthermore, we find that the speed of adjustment towards target leverage is material in banks, and that the Trade-off Theory outperforms the other theories in our sample of banks. Considering that the determinants of some banks' capital structure are similar to those of non-financial firms, showing some evidence of market discipline (mainly through the correlation between leverage and asset risk or market-to-book ratios), one might think that it would be fair for banks' shareholders and creditors to bear the first losses and second losses respectively, in accordance with the Directive on Banking Recovery and Resolution (BRRD). Notwithstanding, one should be cautious in these interpretations, as the capital structure of some type of banks, in particular private banks, is shown to be driven by supervisory power rather than by market discipline.

The Role of Powerful Non-Executive Chairman in Mergers and Acquisitions

Zoltan Matolcsy
University of Technology Sydney, Australia
zoltan.matolcsy@uts.edu.au

Samir Ghanam
University of Technology Sydney, Australia
samir.ghannam@uts.edu.au

Helen Spiropoulos
University of Technoplogy Sydney, Australia
helen.spitopoulos@uts.edu.au

Nathan Thai
University of Technology Sydney, Australia
nathan.thai@student.uts.edu

Abstract

This paper examines the role of the non-executive Chairman of bidding firms and various aspects of takeover outcomes. We study this in the Australian context because the Australian institutional setting is unique, where only 5% of Chairman and CEO roles are combined, compared to 60% in the U.S. Based on a sample of 316 acquisitions by ASX listed firms between 2004 and 2014, we find that firms with a powerful Chairman pay lower bid premiums and they are also less likely to revise the initial offer price. Furthermore, Chairman power is found to have a positive association with the bidding firm's market reaction to the takeover announcement. Our evidence is robust with respect to alternative tests and variable specifications.

The debt tax shield in general equilibrium

Bjarne Astrup Jensen
Coopenhagen Business School, Denmark
ba.fi@cbs.dk

Marcel Fischer
Copenhagen Business School, Denmark
mf.fi@cbs.dk

Abstract

We study the general equilibrium effects of the corporate debt tax shield in an endowment economy with a redistributive tax system that taxes firm profits and household income and redistributes tax revenues in an attempt to harmonize households' lifetime consumption opportunities. In general equilibrium, the debt tax shield not only affects corporate capital structure and valuation, but also causes poorer households to consume more and save less at a younger age. Without the debt tax shield, the same welfare improvements for poorer households are achievable with significantly lower tax rates.

Impact of the information on tax burden on the stock market

Jolana Stejskalová
Mendel University in Brno, Czech Republic
xstejsk2@pef.mendelu.cz

Abstract

The paper investigates the relationship between the stock price returns and news about the tax burden of US companies listed on NASDAQ. Special emphasis is put on the role of perception of the news related to changes in tax burden. Using Google Search data, I show that increasing tax searches decrease stock prices. The study investigates the positive relationship between news about tax burden and stock prices, in particular, shocks. The evidence is shown by a variable which provides only the highest search intensity of the economic agents in a specific year. The OLS estimations focus on data in 2004 and in 2005. Changes took place in taxes introduced by president George W. Bush which had great impact on search intensity within the period. He enacted tax breaks for overseas corporate profits. Additionally, I differentiate between the market capitalization by using the dummy variables. Thus I trace the effects separately for the two groups. The results confirmed a higher impact of perception on large cap companies and point out the importance of sentiment analysis at liquid markets.

Monetary Policy Implementation and Private Repo Displacement: Evidence from the Overnight Reverse Repurchase Facility

Alyssa Anderson
Federal Reserve Board of Governors, United States
alyssa.g.anderson@frb.gov

John Kandrac
Federal Reserve Board of Governors, United States
john.p.kandrac@frb.gov

Abstract

In this paper, we demonstrate how monetary policy implementation that relies on intervention in financial markets can displace private transactions. Specifically, we examine the experience with the Federal Reserve's newest policy tool, known as the overnight reverse repo (ONRRP)facility, to understand its effects on the repo market. Using exogenous variation in the parameters of the ONRRP facility, we show that participation in the ONRRP crowds out private repo activity. However, we also demonstrate that cash lenders, when investing in the ONRRP, do not cease trading with any of their dealer counterparties, highlighting the importance of lending relationships in the repo market. Additionally, using a confidential data set of repo transactions, we find that the presence of the Fed as a borrower in the repo market increases the bargaining power of cash lenders, who are able to command higher rates in their remaining private repo transactions. Lastly, we show that dealers do not decrease their total repo borrowing in response to this adverse funding shock, but rather shift to repo backed by riskier collateral types and borrow more from lenders ineligible for the ONRRP.

Financialization of Commodity Markets – Evidence from European Certificates Markets

Herbert Mayer
University of Augsburg, Germany
herbert.mayer@mrm.uni-augsburg.de

Andreas Rathgeber
University of Augsburg, Germany
andreas.rathgeber@mrm.uni-augsburg.de

Markus Ulze
University of Augsburg, Germany
markus.ulze@student.uni-augsburg.de

Markus Wanner
University of Augsburg, Germany
markus.wanner@mrm.uni-augsburg.de

Abstract

In view of the ongoing discussion about the influence of financialization on commodity markets, we conduct a European investigation of the impact of retail investment products on commodity prices. By using a unique dataset of 15,137 commodity linked securities (certificates) we extend previous research in two ways: First, we are able to confirm the empirical results of Henderson et al (2015) for U.S. com-modity linked notes (CLNs) and relating price effects on the date of issuance and following days. Second, we also find a significant impact of the days preceding the issuance day, which gives rise to the question whether we observe a possible endogeneity problem between commodity prices and investment flows when analyzing issuances of CLN and certificates.

Telecommunications Deregulation and the Motives for Mergers

Kevin Okoeguale
Saint Mary's College of California, United States
ko5@stmarys-ca.edu

Robert Loveland
California State University East Bay, United States
robert.loveland@csueastbay.edu

Abstract

This paper presents the results of an event study examination of alternative theories on the motives for the mergers following the passage of the Telecommunications Act of 1996. The finding that the mergers after the 1996 telecommunications deregulation generate positive announcement abnormal returns to the stockholders of the merging firms is consistent with both collusion and efficiency theories. The negative announcement abnormal returns to bidders suggest hubris as a possible motive as well. I examine these alternative theories by studying the announcement abnormal returns to rivals of merging firms, including the Nynex/Bell Atlantic merger challenged by the FCC on collusion concerns. The returns to rivals of merging firms show strong support for the anticipation hypothesis and not for the collusion hypothesis; the returns to rivals of merging firms signal merger-specific information about rivals and subsequent bidders. The evidence of the markets' response to the announcement of the Nynex/Bell Atlantic merger does not provide strong support for the FCC's concern that the merger would have collusive or anticompetitive effects.

Mutual Fund Closures: A Method to Sustain Outperformance?

Philip Gibson
Winthrop University, United States
gibsonp@winthrop.edu

Terrance Martin
University of Texas Rio Grande Valley, United States
terrance.martin@utrgv.edu

David Nanigian
California State University, Fullerton, United States
dnanigian@fullerton.edu

Abstract

This paper puts forward the possibility that closing a mutual fund to new investors helps an outperforming fund sustain its performance. We find that persistence in outperformance only exists for funds that close to new investors. The practical implication of our research is that, within the constraints of investment policy statements, investors should consider tactically increasing their allocation to funds that close to new investors during a streak of strong performance. Otherwise, they should not chase past performance.

Stock market bubbles and monetary policy effectiveness

Olga Fullana
CEU Cardenal Herrera University, Spain
olga.fullana@gmail.com

Javier Ruiz
Huelva University, Spain
jruizrincon@gmail.com

David Toscano
Huelva University, Spain
dtoscano@uhu.es

Abstract

In this paper, we provide evidence on the response of stock market to monetary policy shocks, conditioning the analysis on the direction of monetary policy surprises and business conditions. We follow a two-step approach: first, we use the structural vector autoregressive approach to identify monetary policy shocks; then, we conduct regression analyses of contemporary stock market returns and monetary policy shocks to extract the implicit relationship between these variables in four defined scenarios. Our results show that monetary policy does not impact stock market returns significantly in the scenario defined by a positive shock and an expansion period, corroborating the poor effectiveness of monetary policy tightening during the business cycle phase in which bubbles arise.

Financial Advisor Centrality in Mergers and Acquisitions

Evangelos Vagenas-Nanos
University of Glasgow, United Kingdom
evangelos.vagenas-nanos@glasgow.ac.uk

Amna Noor
University of Glasgow, United Kingdom
a.noor-chaudhry.1@research.gla.ac.uk

Alexandros Kontonikas
University of Essex, United Kingdom
a.kontonikas@essex.ac.uk

Abstract

This paper examines the role of the social network hierarchy of financial advisors in a mergers and acquisitions framework. Our findings indicate that more centrally located financial advisors are more likely to be involved in higher M&A activity, more likely to advise bidders, large and complex deals and require more time to complete the deal. Central financial advisors fail to create value for both bidders and targets while they charge higher advisor fees. Our results highlight that financial advisors exploit their relative power in their network to undertake takeover deals and pursue private benefits.

Risk and Information Tranching, Security Governance, and Incentive Compatible Capital Structure Design

Timothy Riddiough
University of Wisconsin, United States
timothy.riddiough@wisc.edu

Jun Zhu
Urban Institute, United States
jzhu@urban.org

Abstract

We show that selling senior securities at a premium to par can help manage anticipated conflicts between senior and subordinate bondholders. The theory generates a number of empirically testable implications, which we examine with Commercial Mortgage-Backed Securities data. First, we note that our model predicts the existence of both super senior and at-the-margin AAA-rated securities, which are observed in the data. The model further predicts that the junior securityholders control liquidation-reorganization decisions, since they have the information required to make efficient decisions conditional on borrower default. We also see senior securities priced at a premium to par, as predicted by the model. Premium-to-par pricing is found to be more common in stronger asset markets. Weaker asset markets do not require higher coupons, since liquidation is likely a poor alternative given current and expected market conditions. Finally, we show that more diversified asset pools and asset pools with more management intensive collateral require lower coupons, as predicted by the model.

Debt, Investment and Production in the U.S. Oil Industry: An Analysis of the 2014 Oil Price Shock

Kenneth Lehn
University of Pittsburgh, United States
lehn@katz.pitt.edu

Pengcheng Zhu
University of Pittsburgh, United States
pengcheng.zhu@pitt.edu

Abstract

The spot price of crude oil declined from $106.07 per barrel on June 30, 2014 to $53.45 per barrel on December 31, 2014, representing a 50% decline within six months. By December 31, 2015, the spot price had declined further, to $37.13, and it remains substantially below its level during 2011 through the first half of 2014. We use this oil price shock to examine the relation between leverage and changes in investment and production when firms face a sudden change in their investment opportunity sets. Using a sample of 341 U.S. oil producers during 2011-2015, we find that leverage is (i) inversely related to capital expenditures and (ii) directly related to oil production. Given that oil producers became more highly leveraged after the oil price shock, the results suggest that leverage exacerbated reductions in investment and increases in oil production during the post-shock period. Insofar that leverage affects oil production, the results suggest that the capital structure of oil producers affects the dynamics of oil prices.

International House Price Cycles, Monetary Policy and Credit

Gregory Bauer
Bank of Canada, Canada
bauer@simon.rochester.edu

Abstract

We evaluate three alternative causes of house price corrections: anticipated tightenings of monetary policy, deviations of house prices from fundamentals, and rapid credit growth. A new cross-country measure of monetary policy expectations based on an international term structure model with time-varying risk premiums is constructed. House price overvaluation is estimated via an asset pricing model. The variables are incorporated into a panel logit regression model that estimates the likelihood of a large house price correction in 18 OECD countries. The results show that corrections are triggered by increases in the market?s forecast of higher policy rates. The estimated degree of house price overvaluation also contains signifi?cant information about subsequent price reversals. In contrast to the fi?nancial crisis literature, credit growth is less important. All of these variables help forecast recessions.

Can Government Save the Stock Market?

Yeguang Chi
Shanghai Advanced Institute of Finance, Shanghai Jiao Tong University, China
ygchi@saif.sjtu.edu.cn

Xiaoming Li
Shanghai Advanced Institute of Finance, Shanghai Jiao Tong University, China
xmli.15@saif.sjtu.edu.cn

Abstract

During the great stock market crash in 2015, the Chinese government conducted an opaque bailout operation by injecting over ¥1.25 trillion (US$200 billion) into the Chinese stock market. As a result, the Chinese government became a top-10 shareholder of 1,406 stocks, just over half of all publicly listed companies in China. Sixty-three of such companies actively announced their government ownership in August 2015, whereas the remaining companies passively disclosed their government ownership in their earnings announcements later in October 2015. Using this event as a natural experiment, we analyze the effect of active government ownership on asset prices. First, we find a favorable market response to the active announcements of government ownership in August 2015, which gained those 63 stocks an average cumulative abnormal return of 12.60% for the two months following the announcements. Second, we find that following the passive disclosure of government ownership of the remaining companies in October 2015, much of the abnormal returns of the first 63 companies quickly deteriorated. Finally, we find that retail investors and institutional investors reacted oppositely to the news of government ownership. Retail investors were buying the government-owned stocks to push up the share price when institutional investors were selling.

Housing Decisions under Divorce Risk

Marcel Fischer
Copenhagen Business School and University of Konstanz, Germany
marcel.fischer@uni.kn

Natalia Khorunzhina
Copenhagen Business School, Denmark
nk.eco@cbs.dk

Abstract

We investigate the role of divorce as a risk factor that affects housing decisions in a realistically calibrated life-cycle model. Divorces result in a reduction of household net worth, and therefore reduce the likelihood of being a homeowner. The reduction in homeownership lasts for decades, even though households can remarry later. Welfare costs from getting divorced can exceed 20% of lifetime consumption at the age of 30, and more than double by the age of 60. The risk of divorce leads to precautionary savings, facilitates earlier homeownership, and has welfare implications even for individuals not getting divorced.

Optimal Granularity for Portfolio Choice

Nicole Branger
University of Muenster, Germany
nicole.branger@wiwi.uni-muenster.de

Katarina Lucivjanska
Safarik University in Kosice, Slovakia
katarina.lucivjanska@gmail.com

Alex Weissensteiner
Free University of Bozen-Bolzano, Italy
alex.weissensteiner@unibz.it

Abstract

Many optimization-based portfolio rules fail to beat the simple 1/N rule out-of-sample because of parameter uncertainty. In this paper we suggest a grouping strategy in which we first form groups of equally weighted stocks and then optimize over the resulting groups only. In a simplified setting we show analytically how to optimize the trade-off between drawbacks from parameter uncertainty and drawbacks from deviating from the overall optimal asset allocation. We illustrate that the optimal group size depends on the volatility of the assets, on the number of observations and on how much the optimal asset allocation differs from 1/N. Out of sample back-tests confirm the validity of our grouping strategy empirically.

Unconventional monetary policy and market expectations: some evidence for the euro area

Leo de Haan
De Nederlandsche Bank, Netherlands
l.de.haan@dnb.nl

Jan Willem van den End
De Nederlandsche Bank, Netherlands
w.a.van.den.end@dnb.nl

Abstract

We empirically analyze the impact of market expectations on monetary policy of the Eurosystem in 2007-2016. We use rolling Granger causality tests, regression analysis and VAR models with fixed and rolling window coefficients. We find empirical evidence suggesting that monetary policy has reacted to market expectations, in particular in periods when unconventional measures were introduced. Specifically, both with the announcement of the Asset Purchase Program (APP) and the Outright Monetary Transactions (OMTs), the ECB significantly reacted to market expectations. This provides evidence for market dominance over monetary dominance.

Optimal contracts with strategic exit of short-termists investors: a model

Guillaume ANDRIEU
Montpellier Business School, France
g.andrieu@montpellier-bs.com

Abstract

In this paper, we study how entrepreneurs tradeoff short-termism of investor and the refinancing of projects and they challenge this issue. We consider investment staging and conflict between project duration and financial constraint of investors. An entrepreneur endowed with an innovative project asks for seed and development stage investments from two investor.s The seed investor may not be able to stay until the project's end. We consider that this event is not observable and introduce the possibility that the insider can take advantage of his own financial constraints to make strategic exits. Our results show that two situations are possible. In the first one, the project is never liquidated and the first investor sells his shares except for good projects when he can stay. On the second situation, similar to a lock up contract, the venture is systematically liquidated except for good projects but only when the first investor is able to stay. We compare both situations and discuss our results in comparison with investors that may not have such financial restrictions.

Aggregated Market Quality Implications of Dark Trading

Gbenga Ibikunle
University of Edinburgh, United Kingdom
gbenga.ibikunle@ed.ac.uk

Matteo Aquilina
Financial conduct Authority, United Kingdom
matteo.aquilina@fca.org.uk

Yuxin Sun
University of Edinburgh, United Kingdom
Y.Sun-43@sms.ed.ac.uk

Ivan Diaz-Rainey
University of Otago, New Zealand
ivan.diaz-rainey@otago.ac.nz

Abstract

We test predictions regarding the implications of operating dark pools alongside lit venues for market quality in London ‘City’ venues. We find that dark trading at moderate levels enhances market transparency, and reduces both trading noise and incidences of potential trading manipulation. Results, however, imply that there is a threshold of value when dark trading diminishes transparency, and thus induces deterioration in market quality. We estimate this threshold to be about 15% of the aggregate market trading value. We also observe variations across stocks based on stock liquidity, with 5% and 18% for the highest and lowest liquidity stocks respectively.

Households' Saving Behaviour in Reaction to the External Macroeconomic Shocks and Behavioral Attention

Vilma Deltuvait?
Kaunas University of Technology, Lithuania
vilma.deltuvaite@ktu.lt

Svatopluk Kapounek
Mendel University in Brno, Czech Republic
kapounek@mendelu.cz

Petr Koráb
Mendel University in Brno, Czech Republic
petr.korab@mendelu.cz

Abstract

This paper investigates households' saving behaviour regarding their preferences to savings currency in reaction to the external macroeconomic shocks. The information that the households acquire via different communication channels is expected to influence their behaviour in savings' allocation into different currencies. This study has applied the fundamental macroeconomic models by including individuals' attention to the specific risks and search interest in specific keywords on Google in order to assess the impact of acquired information and its communication channel on the households' saving behaviour. We employed a two-level mixed effects model including macroeconomic fundamentals and individuals' attention's to the information determinants. We solved a problem of a long list of potential explanatory variables (keywords) by employing the Bayesian Model Averaging. This study assumes that households are more sensitive to the macroeconomic shocks (factors) if they search simultaneously for information on Google about these factors or specific related risks. The results emphasize the role behavioural attention during financial turmoil and economic downturn periods, especially in the environment of very low interest rates.

The Nexus of Financial Stability and Fiscal - Monetary Policy

Agnieszka ALINSKA
Warsaw School of Economics, Poland
aalin@sgh.waw.pl

Mariusz Prochniak
Warsaw School of Economics, Poland
mproch@sgh.waw.pl

Katarzyna Wasiak
Warsaw School of Economics, Poland
kjachi@sgh.waw.pl

Abstract

The changes taking place in today's global economy and the high frequency of periods of instability in the financial system necessitate flexible adjustment of monetary and fiscal policy instruments to the macroeconomic environment. This study aims to analyse the impact of the financial sector stability on public finance. This allows to verify the hypothesis about the impact of the private part on the public part of the financial sector. In order to test the research hypothesis, the quantitative analysis which is composed of two steps: correlation and regression analysis, is carried out. The analysis includes 28 European Union countries (EU28) and the 2000-2015 period. The analysis is based on annual panel data. Hence, the models reflect short-run relationships between given variables. The following variables are used in the econometric analysis: general government balance, Assets of financial institutions excluding central bank as % of GDP, Domestic credit provided by financial sector as % of GDP, Bank nonperforming loans as % of total gross loans, Return on equity (ROE) for deposit takers, Capital adequacy ratio (CAR) for deposit takers (regulatory capital to risk-weighted assets). The explained variable is general government balance (% of GDP). The results of the analyse yield some policy implications which are highlighted by the Authors.

Performance of US Equity Mutual Funds in Different Economic Regimes

Ali Fatemi
DePaul University, United States
afatemi@depaul.edu

Iraj Fooladi
Dalhousie University, Canada
iraj.fooladi@dal.ca

Yonggan Zhao
Dalhousie University, Canada
yonggan.zhao@dal.ca

Zongming Ma
Dalhousie University, Canada
Mazongming@dal.ca

Abstract

Using the survivorship bias-free US mutual fund data obtained from the Center for Research in Security Prices (CRSP), we compare performance of 235 socially responsible US equity mutual funds with a matching sample for the period of March 1967 to December 2014. In our comparison, we assume funds' returns are generated in unobservable market regimes that are characterized by a first-order k-state Markov chain. Applying CAPM, Fama and French (1993) 3-factor model and Carhart (1997) 4-factor model, we compare abnormal return of these mutual funds, with a matching sample in different regimes. Our results show that, irrespective of the model we use, often both the socially responsible mutual funds and their matching sample underperform their benchmarks but most of the times, the level of underperformance is much smaller for the socially responsible funds. The difference in performance of SR mutual funds and their matching sample is sometimes more pronounced in bear markets than in bull markets. Our results are partially consistent with the founding of Nofsinger and Varma (2014) who report that, for the period 2000-2011, SR mutual funds outperform their matching sample during the period of market crisis but contradicts their founding that SR mutual funds underperform their matches in non-crisis period.

The Information Content of Limit Hits for Informationally Connected Stocks

Jia-Hau Guo
National Chiao Tung University, Taiwan
jiahau@faculty.nctu.edu.tw

Lung-Fu Chang
National Taipei University of Business, Taiwan
lfchang@ntub.edu.tw

Mao-Wei Hung
National Taiwan University, Taiwan
mwhung@ntu.edu.tw

Abstract

We propose a method of propensity score matching to study limit hits on connected stocks across industries. This study shows significant liquidity and price impacts on connected stocks. We demonstrate that informed traders may trade connected stocks as a substitution for the hitting stock, and connected stocks seem to provide alternatives for uninformed traders to reverse their earlier suboptimal trades even prior to the hit. Empirical evidence illustrates that liquidity impacts of limit hits with less information asymmetry are weaker. In addition, our results indicate that there is a common liquidity response of connected stocks to firm-specific limit hits.

Is Liquidity Risk Priced in Partially Segmented Markets?

Ines Chaieb
University of Geneva and SFI, Switzerland
ines.chaieb@unige.ch

Vihang Errunza
McGill University, Canada
vihang.errunza@mcgill.ca

Hugues Langlois
HEC Paris, France
hugueslanglois@gmail.com

Abstract

We analyze the impact of liquidity costs and market segmentation on asset pricing. The freely traded securities command a global market risk premium and world liquidity risk premia whereas the securities that can be held by only a subset of investors command additionally a conditional local market risk premium and conditional local liquidity risk premia. Our model provides a formal framework for testing important issues such as liquidity levels and risks in a realistic world market setting and for examining the interaction between investability and illiquidity. Empirical test results for a sample of 21 emerging markets strongly support theoretical predictions

The Macroeconomics of Central-Bank-Issued Digital Currencies

John Barrdear
Bank of England, United Kingdom
john.barrdear@bankofengland.co.uk

Michael Kumhof
Bank of England, United Kingdom
michael.kumhof@bankofengland.co.uk

Abstract

We study the macroeconomic consequences of issuing central bank digital currency (CBDC) — a universally accessible and interest-bearing central bank liability, implemented via distributed ledgers, that competes with bank deposits as medium of exchange. In a DSGE model calibrated to match the pre-crisis United States, we find that CBDC issuance of 30% of GDP, against government bonds, could permanently raise GDP by as much as 3%, due to reductions in real interest rates, distortionary taxes, and monetary transaction costs. Countercyclical CBDC price or quantity rules, as a second monetary policy instrument, could substantially improve the central bank's ability to stabilize the business cycle.

Sector Option Implied Volatility Dynamics and Predictability

David Simon
Bentley University, United States
dsimon@bentley.edu

Joseph Marks
Bentley University, United States
jmarks@bentley.edu

Abstract

This study models the dynamics and predictability of daily implied volatility changes of the eight major sector SPDR exchange traded fund options from January 2006 through August 2015. The study finds that sector implied volatilities adjust to maintain stable long run relationships between sector and SPY (ex-ante) volatility premiums. Sector implied volatilities also move asymmetrically with respect to contemporaneous sector returns, rising more than falling in response to equal-magnitude negative and positive sector returns. This asymmetry owes to the systematic rather than the idiosyncratic component of sector returns and can be explained largely by the gradual adjustment to positive systematic sector returns, which tend to continue in the same direction the next day. By contrast, sector implied volatilities overreact to both positive and negative idiosyncratic returns and substantially reverse the next day. The tendency of sector implied volatilities to adjust to bring sector and SPY volatility premiums into alignment and the underreaction to positive systematic returns and overreaction to idiosyncratic sector returns leads to predictable sector implied volatility dynamics and delta hedged returns based on available information. Overall, the findings highlight the importance of both S&P 500 index volatility premiums and returns on sector implied volatility dynamics.

Heterogeneity in the debt-growth nexus: Evidence from EMU countries

Marta Gomez-Puig
Universitat de Barcelona, Spain
marta.gomezpuig@ub.edu

Simon Sosvilla-Rivero
Universidad Complutense de Madrid, Spain
sosvilla@ccee.ucm.es

Abstract

The objective of this paper is to examine whether the marginal impact of public debt-to-GDP ratio on economic growth changes across euro area countries and over time in order to detect potential heterogeneities in that relationship in EMU countries during a time period that spans from 1961 until 2015. To that end, unlike previous studies, we do not make use of panel estimation techniques, but implement an empirical specification derived from the Solow model for each country in the sample. Then, we use the Bai and Perron tests in order to explore the existence of a time-varying behaviour of the estimated parameter relating public debt and economic growth. The results suggest that, in 3 out of the 11 countries under study, it exists a sub-period when the relationship between the two variables is positive. However in all the countries, but Spain, the negative impact became especially high in times of distress (coinciding with the global financial crisis), but both the associated debt ratio and the intensity of the negative impact clearly differ across countries.

A General Formula for the Discount for Lack of Marketability

John Finnerty
Fordham University, United States
jfinnerty@alixpartners.com

Abstract

Stock transfer restrictions limit a share's marketability and reduce its value. The DLOM has been modeled as the value of an average-strike put option based on a lognormal approximation. The approximation's accuracy worsens as the restriction period lengthens. I generalize the average-strike put DLOM model first to restriction periods of any length L by modeling the Lyear DLOM as the value of the one-year DLOM compounded over L years and then to restriction periods of uncertain length by assuming the restriction period is exponentially distributed. My model allows for a DLOM term premium, to reflect a risk averse investor's more prolonged exposure to the risk of an increasingly negatively skewed fat-tailed return distribution or greater exposure to investment-specific agency costs, or a term discount, to reflect value added due to special fund manager investment skill or strategic equity investment value.

The Fallacy of Fiscal Discipline - Paolo Canofari, Alessandro Piergallini and Giovanni Piersanti

Paolo Canofari
Luiss School of European Political Economy, Italy
pcanofari@luiss.it

Alessandro Piergallini
Università degli Studi di Roma "Tor Vergata", Italy
alessandro.piergallini@uniroma2.it

Giovanni Piersanti
Università degli Studi di Teramo, Italy
gpiersanti@unite.it

Abstract

Fiscal discipline is commonly evaluated on the basis of the debt-GDP ratio, which exhibits a stock variable measured relative to a flow variable. This way of monitoring debt solvency is arguably not consistent with transversality conditions obtained from optimizing macroeconomic frameworks. In this paper we consider a wealth-based sustainability index of government debt policy derived from a baseline endogenous growth model. We calculate the index from 1999 onwards for countries in which the after-growth real interest rate is positive, consistently with the theoretical setup. Results are radically different from common wisdom. We show that the fiscal position is sustainable for both Germany and Italy, weakly unsustainable for France, and strongly unsustainable for Japan.

Forecasting yield-curve distribution under the Negative Interest Rate Policy

Jae Yun Kim
ECE Paris, France
jaeyunjk@gmail.com

Victor Lebreton
Quant Hedge, France
v.lebreton@quant-hedge.com

Yves Rakotondratsimba
ECE Paris, France
w_yrakoto@yahoo.com

Abstract

Negative interest rates are present in various market places since mid-2014, following the Negative Interest Rate Policy (NIRP) adopted by the European Central Bank in order to lift growth or inflation. This spans difficulties for many market practitioners as there is not yet any model which enables to handle negative interest rates in a coherent and sounding theoretical manner.Facing this lack of reliable model, the well-known Historical Approach (HA) appears to be a good recourse. By tweaking the HA, we derive a data-driven and very tractable tool allowing various users to generate a distribution forecast of the yield curves at future discrete time horizon. So we provide here a robust and easy-to-understand reference forecasting model, suitable for the NIRP context, allowing to appreciate the prediction power of any ongoing alternative parametric model. Besides the methodology development, various experiments are also reported here in order to shed light in depth on the benefit and limit of our forecasting approach.

Take a chance? Implications of auditor going concern opinions for IPO investors

Natalia Matanova
The Pennsylvania State University, United States
nxm40@psu.edu

Tanja Steigner
Emporia State University, United States
tsteigne@emporia.edu

James Qiancheng Zheng
Emporia State University, United States
qzheng@emporia.edu

Abstract

In a marked shift, it has recently become relatively common for ordinary IPOs to contain going concern (GC) opinions in their offering documents. We examine the implications of such opinions for IPO investors in a sample of ordinary IPOs from 2001-2013. We find no significant difference in underpricing for GC and non-GC IPOs, while VC-backed GC IPOs experience significantly less underpricing and second year GC IPOs are associated with significantly more underpricing. At the same time, GC opinions provide some evidence of inferior post-IPO stock market performance. A GC opinion is associated with mixed evidence of delisting due to poor performance, but GC IPOs show lower post-IPO operating performance. Overall, when issuing GC opinions on IPOs, auditors seem to be able to very meaningfully distinguish between those companies likely to survive and those that are not. Thus, the information is of significant value to IPO investors.

Reputational risk measurement: Brazilian banks.

Luiz Alberto D´Ávila de Araujo
Banco do Brasil, Brazil
davila@bb.com.br

Fernando da Silva Vinhado
Banco do Brasil, Brazil
fernando.vinhado@catolica.edu.br

Abstract

This paper investigates the reputational risk measurement in banking using a simple model that integrates random effects and Logit models. The pricing theory is outlined to include risk determinant factors as well as negative news for banks. The environment under which the quantitative model is applied corresponds to the perfect macroeconomic storm of Brazil that represents its weak oil prices, faint domestic economic activity and huge political problems. These aspects can increase risk in Brazilian banks, particularly by creating rumors that may trigger bank runs or other reputational problems. The results indicate that the large banks in the sample have the capacity to absorb the problems related to reputational risk with small variance and probability. One large investment bank suffered reputational problems.

When Is Lower Inflation Less Stable? Evidence from Eight Developing Economies

George Karras
University of Illinois at Chicago, United States
gkarras@uic.edu

Abstract

This paper investigates the relationship between inflation and inflation volatility in eight developing economies. Using monthly data for Chile, China, India, Indonesia, Korea, Poland, South Africa, and Turkey, the results show that inflation and its volatility have been positively correlated when inflation exceeds a certain value, but negatively correlated when inflation is below this threshold. The evidence also suggests that inflation volatility is minimized at inflation rates that differ across the countries, ranging from roughly 3% in S. Africa to 12% in Turkey, a range which includes both the 3.5% break point predicted by the New Keynesian model of Coibion, Gorodnichenko, and Wieland (2012) and the 4% inflation target recommended by Ball (2013) and Krugman (2013), but not the (formal or informal) 2% inflation target of many central banks.

Measuring the true efficiency of the JSE

André Heymans
North-West University, South Africa
andre.heymans@nwu.ac.za

Leonard Santana
North-West University, South Africa
leonard.santana@nwu.ac.za

Abstract

There are various studies that confirm the efficiency of the JSE (Johannesburg Stock Exchange), implying that there are no opportunities for active portfolio managers to earn excess returns over the long-run. Portfolio managers are however not bound to investing in large liquid stocks alone. Many aggressive funds allow managers to also allocate a portion of their portfolio to smaller stocks. This has implications when considering the efficiency of the stocks being selected. Given the impact efficiency has on portfolio selection, we test for the Adaptive Market Hypothesis using a representative sample of stock indices by means of the automatic variance ratio (AVR) test, the variance ratio (VR) test and the joint sign (JS) test on the JSE. Our results confirm that some of the smaller, and in some instances younger indices, are not always as efficient as the All-Share index, thus allowing portfolio managers with an active management approach some opportunities to profit from informational inefficiencies in the market.

Carry Trade Dynamics under Capital Controls: The Case of China

Xiao Zhang
BNP Paribas, China
michelle.zhang@asia.bnpparibas.com

Domenico Tarzia
Peking University HSBC Business School, China
dtarzia@phbs.pku.edu.cn

Christopher Balding
Peking University HSBC Business School, China
cbalding@phbs.pku.edu.cn

Abstract

Even if the interest rate differential between China and foreign countries might be per- ceived attractive, existing capital controls might prevent currency carry trade strate- gies be implemented. We investigate if unofficial channels, like commodity financing, are taken in order to facilitate carry trade strategies. We focus on copper holdings studying how the copper carry trade position, proxied by copper stock value, reacts to the risk-return characteristics. We find that copper trade financing and stock are related to carry trade return. Copper carry trade positions are related to factors that affect return, including the onshore-offshore interest differential and the USD/CNY forward premium, with traders being unconcerned about risk factors. FX volatility between USD/CNY makes no contribution to the modelling of copper carry trade position, meaning the carry traders are either fully hedged on FX risks, or they are unconcerned about FX risks. Our result imply that potentially lower Chinese interest rate may significantly reduce Chinese demand for copper and traders are profiting from the currency hedge in the form of fixed exchange rates.

Does the Stock Market Benefit the Economy?

Kee-Hong Bae
York University, Canada
kbae@schulich.yorku.ca

Jisok Kang
University of Cambridge, United Kingdom
j.kang@jbs.cam.ac.uk

Abstract

An effectively functioning stock market allocates capital efficiently and provides sufficient funds to emerging, productive firms, which in turn breeds competition and innovation, ultimately fueling economic growth. In this paper, we show that concentrated stock markets dominated by a small number of large firms are functionally inefficient. Using data from 47 countries during 1989–2013, we find that capital is allocated inefficiently in countries with concentrated stock markets, which results in sluggish IPO activity, innovation, and economic growth.

Lead-lag relationship between spot and futures stock indexes: Intraday data and Regime Switching Models

Nuria Alemany
Universitat Jaume I, Spain
nalemany@uji.es

Vicent Aragó
Universitat Jaume I, Spain
arago@cofin.uji.es

Enrique Salvador
Universitat Jaume I, Spain
esalvado@uji.es

Abstract

This paper analyses the lead-lag relationship and the effect of arbitrage opportunity changes in the price discovery process between the futures and spot markets of the DAX30. The following two aspects will be considered: high frequency data and nonlinearities in the cointegrating vector. The results reveal the importance of considering structural changes present in the error correction term using Regime Switching Models and the peril of assuming strong linear models. Additionally, the regime dependent impulse response function shows that the dynamic causal effect is remarkably different across regimes, so as the arbitrage opportunities increase, the impact of unexpected shocks on prices increases.

The Impact of Thin-Capitalization Rules and Earnings Stripping Rules on the Tax Shield

Carmen Bachmann
University of Leipzig, Germany
bachmann@wifa.uni-leipzig.de

Alexander Lahmann
HHL Leipzig Graduate School of Management, Germany
Alexander.Lahmann@hhl.de

Carolin Schuler
University of Leipzig, Germany
cschuler@wifa.uni-leipzig.de

Abstract

Several tax codes limit the tax deductibility of interest payments. We present and compare the implication of thin-capitalization rules and earnings stripping rules in a tax shield valuation framework. By extending primary analysis to a multi-period dynamic setting we obtain pricing equations that enable us to quantify the negative impact on the tax benefits of debt financing. Depending on the limitation rule, this effect can even lead to a negative tax shield value. The comparison of both rules shows that the influence of thin-capitalization rules is stronger with increasing debt.

Agency Issues in Corporate Bond Trading

Alessio Ruzza
University of California Berkeley, USI - Università della Svizzera Italiana and Swiss Finance Institute, United States
ruzzaa@berkeley.edu

Abstract

In an O.T.C. market like the one for corporate bonds, dealer intermediation is essential to execute a trade. Moreover, the incentives of the dealers and those of their customers are likely to be non-aligned. This paper analyzes the relational nature of broker-dealer business and investigates how adverse selection leads to agency issues. Results suggest that dealers set the execution price to shift the risk of informed trading to their clients. Shortages of funding liquidity appear to exacerbate this behavior. During the great financial crisis, dealers "leaned their clients against the wind" without compensating them for liquidity provision. Despite the increasing transparency brought by electronic trading, these agency issues are likely to remain present on the speculative segment of the market, where adverse selection is the most harmful to traders. This paper proposes policy measures in order to overcome these agency issues.

The Long-Term Relationship Between FDI Inflows and House Price In Malaysia

Ema Izati Zull Kepili
Universiti Sains Malaysia, Malaysia
emazull@usm.my

Tajul Ariffin Masron
Universiti Sains Malaysia, Malaysia
tams@usm.my

Abstract

FDI inflows have long been an engine for Malaysia's growth. Its presence in the country has undoubtedly contribute to the country's wealth and consequently, better living standard since mid-1980s. FDI inflows to Malaysia which depended heavily on export-oriented activities needed to be revived as China's open door policy in 2001 has affected neighbouring's economy. The policy has attracted demand for real estates. Malaysia is not left out. The market has received a significant and active participation not only from the local but also foreign developers. Consequently, house price also increased drastically. By employing Johansen Cointegration Test, this paper would like to investigate the relationship between FDI and house price between year 1999 to 2015. Our results suggested that a higher FDI has helped to reduce house price in Malaysia, therefore the country should increase the FDI into the market. Other than FDI inflows, this study also examined house supply, gross domestic per capita and interest rate as independent variables.

Consumption, Debt, and Delinquency Responses to an Anticipated Increase in Cash-on-Hand

Philippe d'Astous
HEC Montréal, Canada
philippe.dastous@hec.ca

Abstract

I use account-level bank data to analyze consumers' responses to the anticipated increase in cash-on-hand following the final payment on a term loan. Financial constraints are elicited from past credit card payment behavior and can rationalize credit card but not term loan responses: contrary to predictions, unconstrained consumers are 23% more likely to finance new durable goods with term loans after the original loan is paid off. Default probability decreases, showing consumers use financial delinquency as an adjustment margin and highlighting the bank's trade-off between credit granting and write-off probability.

Banks Credit and Productivity Growth

Fadi Hassan
Trinity College Dublin and CEP, Ireland
fhassan@tcd.ie

Filippo di Mauro
National University of Singapore, Singapore
bizfdm@nus.edu.sg

Gianmarco Ottaviano
London School of Economics, United Kingdom
g.i.ottaviano@lse.ac.uk

Abstract

Financial institutions are key to allocate capital to its most productive uses. In order to examine the relationship between productivity and bank credit in the context of different financial market set-ups, we introduce a model of overlapping generations of entrepreneurs under complete and incomplete credit markets. Then, we exploit firm-level data for France, Germany and Italy to explore the relation between bank credit and productivity following the main derivations of the model. We estimate an extended set of elasticities of bank credit with respect to a series of productivity measures of firms. We focus not only on the elasticity between bank credit and productivity during the same year, but also on the elasticity between credit and future realised productivity. Our estimates show a clear Eurozone core-periphery divide, the elasticities between credit and productivity estimated in France and Germany are consistent with complete markets, whereas in Italy they are consistent with incomplete markets. The implication is that in Italy firms turn to be constrained in their long-term investments and bank credit is allocated less efficiently than in France and Germany. Hence capital misallocation by banks can be a key driver of the long-standing slow productivity growth that characterises Italy and other periphery countries.

Impact of Corporate Governance on Overinvestment and Underinvestment: An Examination of ASX Listed Companies

Sanauallah Farooq
Auckland University of Technology, New Zealand
sfarooq@aut.ac.nz

Aaron Gilbert
Auckland University of Technology, New Zealand
agilbert@aut.ac.nz

Alireza Tourani-Rad
Auckland University of Technology, New Zealand
atourani@aut.ac.nz

Abstract

Agency theory suggests that firm investments may deviate from their optimal level resulting in over or underinvestment. Using a sample of 1,035 Australian firms between 2005 and 2014 (7,392 firm-year observations), we investigate the impact of corporate governance on the investment efficiency of these firms. We find that better internal corporate governance improves the investment efficiency of the firm by mitigating both over and underinvestment. Our findings are robust to alternative investment inefficiency proxies, examining sub-components of corporate governance and controlling for potential endogeneity bias.

Sources of Financing in Different Forms of Corporate Liquidity and the Performance of M&As

Jian Liu
University of Exeter, United Kingdom
jl565@exeter.ac.uk

Zhenxu Tong
University of Exeter, United Kingdom
z.tong@exeter.ac.uk

Abstract

We examine how the performance of M&As is affected by the source of financing between two forms of corporate liquidity: bank lines of credit and corporate cash holdings. We develop two hypotheses based on agency problems and asymmetric information. We find that both the announcement return and the change in operating performance are higher for the M&As entirely financed by bank lines of credit. We also find that an acquirer is more likely to use bank lines of credit as the source of financing when institutional ownership is higher. Moreover, we find that the M&As entirely financed by bank lines of credit are associated with a lower level of acquisition premium. We conclude that the findings are consistent with the agency hypothesis.

Rethinking theoretical narratives of banks and financial institutions through field research and theoretical development

John Holland
Universiry of Glasgow, United Kingdom
john.holland@glasgow.ac.uk

Abstract

The aims of this paper are to: rethink empirical models and theory used in explaining banks and financial institutions; and to enhance the process of theory construction. This is a provisional response to the call by many authors such as Colander et al (2009), Holland (2010), Gendron at al (2013) for a new approach to developing theory in the world of finance and financial institutions. Dealing with these issues is problematic, but this paper illustrates how provisional progress can be made, and how a broad strategy for change in theory building can be developed. Conventional finance and intermediation theory provide established ways of developing theoretical models of financial firms, but are necessarily restricted to economic processes. However, economic problems for these firms and decision agents have been experienced during negative mutual interactions between social, knowledge and economic contextual factors in financial institutions and markets. This paper seeks to extend the explanatory framework for banks and financial institutions by using empirical research and theoretical ideas about knowledge based intangibles, social factors, and change in the world of finance. The paper is based on field research and publication, by many researchers into banks and other financial institutions. The conceptual frame has been developed and tested in undergraduate and postgraduate teaching. The key elements of the approach include: a general 'empirical narrative' based on field research; and a broader 'theoretical narrative' based on literature in management and sociology of finance. These form the basis for a new conceptual approach to explain banks and FIs. They provide a tentative first step in overcoming some of the problems faced in using finance theory alone, whilst exploiting the potential of finance theory for key parts of the explanation. This approach does not seek to 'integrate' finance theory and alternative theory in a 'meta theory'. The more modest aims are to improve theory content and the process of theory construction, by creating opportunities for fruitful 'conversations' between these theory sources concerning shared empirical phenomena. The empirical narrative and theoretical narrative together: create the means for active conversations; between and within fields of practice and academe. They form capabilities to: create substantive and adaptive knowledge about banks and FIs; and to jointly enhance the 'habitus' of practitioners and academics in their linked fields of practice (Gedron et al, 2013

Impact of Futures Trading on Spot Markets: Price Discovery

Kelvin Kamau
Strathmore University, Kenya
kelvin.gacheru@strathmore.edu

John Olukuro
Strathmore University, Kenya
jolukuru@strathmore.edu

Abstract

ABSTRACT In June 2010, trading of corn futures was introduced in South Africa following the licensing agreement with the Chicago Mercantile Exchange (CME). The license allowed corn futures traded on the South Africa commodity Exchange to reference the CME price but be settled in the local currency. This paper examines the role played by corn futures in price discovery whereby a VAR model is developed. The study concludes that introduction of futures positively influences spot price in the long run with no influence whatsoever in the short run. In the short run price movements in either the futures markets or the underlying spot market occur independently but in the long run there tends to be some degree of dependency in price move movements in the two markets.

Forecasting Stock Market Returns Considering Near Unit Root and Model Uncertainty

Hakan Gunes
Middle East Technical University, Turkey
hgunes@metu.edu.tr

Dilem Yildirim
Middle East Technical University, Turkey
dilem@metu.edu.tr

Abstract

Forecasting the stock market returns is an important issue that concerns investors, academics and policy makers. In this study, our aim is to forecast stock market returns considering near unit root and model uncertainty problems. Based on the pseudo-out-of sample forecasting performance of the several model averaging estimators and model selection estimators, we will highlight the importance of near unit root and model uncertainty problems for US stock market returns. To the best of our knowledge, this paper is the first one that utilizes Hansen (2010a)'s model for the stock market return. We will consider recursive and direct multi-step forecasting. As theory is applicable for univariate analysis, firstly, Mallows model averaging and generalized Mallows model averaging will be applied to stock returns. Moreover, Jackknife, leave-h-out, simple model averaging and smoothed BIC (which is approximately equivalent to Bayesian Model Averaging) will be utilized as univariate analysis. Since in the literature multivariate models are used as well, Jackknife model averaging will be used for ARX models. Moreover, to address the model uncertainty problem, model selection for both univariate and ARX models will be utilized using Akaike, Bayesian, Mallows, Jackknife and leave-h-out cross validation criteria for the forecasting performance comparison.

The Impact of UCITS IV Directive on European Mutual Funds Performance

Veasna Khim
University of Lorraine, France
veasna.khim@univ-lorraine.fr

Hery Razafitombo
University of Lorraine, France
hery.razafitombo@univ-lorraine.fr

Abstract

In this paper we examine the impact of UCITS IV Directive on the performance of European mutual funds. In a sample of 1435 Equity funds from December 2001 to December 2013, we empirically investigate the effects of economies of scale on the relation between size and performance. Using panel regressions with multilevel models, we find that European funds seem to benefit from gains related to size and not face to diseconomies of scale. The after UCITS IV period appears to be a new regime with a significant quadratic and positive convex form relationship between size and performance. This clearly indicates that there is a premium to the largest funds as it is precisely the expected objective pursued by the Directive. Nonetheless, some specific characteristics of European fund family structure burden performance. Despite the intention from regulators to provide costless and favorable environment, European fund families are highly diversified and constituted by large number of low-sized members to achieve overall positive spillover effects.

Retail Investors' Attention and Insider Trading

Sattar Mansi
Virginia Tech, United States
smansi@vt.edu

Jianping Qi
University of South Florida, United States
jqi@usf.edu

Han Shi
University of South Florida, United States
hanshi@mail.usf.edu

Abstract

We document a significant increase in opportunistic insider trading when retail investors are paying greater attention to the stock. Using Google's SVI to proxy for their level of attention, we find that a higher SVI for a stock is associated with more insiders selling the stock and their sales earning greater abnormal returns. Excluding transaction costs, a value-weighted long-short portfolio that mimicked insiders' trades would generate an abnormal return of 1.19% per month (14.28% per year). We also fund that the trading insiders are more likely to be non-independent directors having long tenures but no senior executive positions in their firms and the firms tend to exhibit weaker governance, lower reputation, or poorer social responsibility. Our results are more pronounced for lottery-type stocks. Interestingly, the risk of SEC enforcement actions is lower on SVI-related insider trades. Overall, the evidence is consistent with certain insiders engaging in trades to profit from retail investors' varying attention to their stocks.

Explaining of performance of Polish mutual funds

Dariusz Filip
Cardinal Stefan Wyszynski University in Warsaw (UKSW),, Poland
d.filip@uksw.edu.pl

Abstract

The aim of the paper was to examine if the performance of mutual funds operating in Poland in the 2000-2015 period is related to fund attributes. Moreover, the paper discusses the differences in how organizational aspects influence the performance of individual groups of funds under the chosen segment or of funds with a particular geographical profile. The study employs panel methods within two estimation approaches, i.e. random-effects model and fixed-effects model. The measures of returns used were Sharpe, Sortino, Treynor and Jensen ratios. The study sample consisted of 152 domestic and foreign open-end equity funds. The obtained results confirm the existence of fund attributes that have positive impact on the effects of assets management, e.g. fund size and expense ratio, and that influence performance negatively, e.g. the level of investment risk. Other relations between organizational factors and returns were ambiguous.

Herding behaviour in stock markets

David Vidal-Tomás
Universitat Jaume I, Spain
dvidal@uji.es

Simone Alfarano
Universitat Jaume I, Spain
alfarano@uji.es

Abstract

Inspired by the Bank of America Merrill Lynch Global Breath Rule, we have created an opinion index that is able to represent agents behaviour through stock price fluctuations. By means of the definition of SP500 index level and Kirman model, we demonstrate that this opinion index aggregates herding behaviour in stock markets since it is characterized by the same properties as this herding model. Our paper contributes to the literature describing the internal dynamics of stock markets through Kirman model estimated parameters, being able to overcome N-dependence effect as it can explain the behaviour of millions of traders with a limited number of stocks.

Asset sales and the financial conglomerate discount

Claudia Curi
Free University of Bolzano-Bozen, Italy
claudia.curi@unibz.it

Maurizio Murgia
Free University of Bolzano-Bozen, Italy
maurizio.murgia@unibz.it

Abstract

We find that large divestitures have an impact on financial conglomerate valuation and contribute to reduce the conglomerate discount. We exploit a unique sample of the world largest financial conglomerates from 15 countries and we track their largest asset sales over the years 2005-2013, which encompasses the two last financial crises (US subprime 2008-2009 and European sovereign 2010-2011). Further, we find that sale of assets unrelated to banking activities shows the stronger effect on the conglomerate excess value. This study has implications both for the incentives to shareholders to downsize financial conglomerate assets and for regulators to address issues related to financial stability.

Monetary Policy and Corporate Bond Returns

Alexandros Kontonikas
Essex Business School, United Kingdom
a.kontonikas@essex.ac.uk

Paulo Maio
Hanken School of Economics, Finland
paulo.maio@hanken.fi

Zivile Zekaite
Adam Smith Business School, United Kingdom
z.zekaite.1@research.gla.ac.uk

Abstract

We investigate the impact of monetary policy shocks, measured as the surprise change in the Fed Funds rate (FFR), on the excess returns of U.S. corporate bonds. We obtain a significant negative response of excess bond returns to shocks in FFR, and this effect is especially strong in the period before the 2007-09 financial crisis and for bonds with longer maturity and lower rating. By using a VAR-based decomposition for excess bond returns, our results show that the largest part of the contemporaneous negative response of corporate bond returns to monetary policy tightening can be attributed to higher expected excess bond returns (higher bond risk premia). Therefore, the discount rate channel represents an important mechanism through which monetary policy affect corporate bonds. Our results also show that the importance of this effect has declined after the financial crisis.

Capital Gain: The Returns to Locating in the Capital City

Joerg Stahl
Católica Lisbon School of Business & Economics, Portugal
jstahl@ucp.pt

Abstract

In many countries, disproportionately many companies locate act their headquarters in the capital city. Geographic proximity to a country's leading politicians may be beneficial for a number of reasons, including greater opportunities to influence policy makers. Since neither firms nor capital cities move randomly, the effects of firms' co-locating with the government are normally hard to identify. In this paper, I solve this problem by examining a unique event - the decision to relocate the German Federal Government from Bonn to Berlin in 1991. Following reunification, there was a free vote in the German parliament on the future location of the government. Berlin won by a narrow margin, an event that could not be anticipated even days before. I examine the firm value effects of being co-located with the government by analyzing security prices in capital markets. Using a Fama-French Multi-Factor framework, I find that firms with operational headquarters in Berlin experienced mean cumulative abnormal returns of about 3 percent within the two trading days following the relocation decision. The results are robust to different model specifications, and there was no reversal of prices. The increase in firm valuation was considerably higher for firms in lobby-intensive and highly regulated industries.

An Efficient Scheme of Static Hedging Barrier Options: Richardson Extrapolation Techniques

Jia-Hau Guo
National Chiao Tung University, Taiwan
jiahau@faculty.nctu.edu.tw

Lung-Fu Chang
National Taipei University of Business, Taiwan
lfchang@webmail.ntcb.edu.tw

Abstract

We propose an accelerated static replication approach for pricing barrier options by employing repeated Richardson extrapolation techniques. This approach could significantly improve the computational efficiency and accuracy of static hedging barrier options. This approach also provides a reliable error estimation method that aids to determine how many replication matched points should be considered for attaining to a given desired accuracy. This approach is first applied for barrier options under the model of Derman, Ergener, and Kani (1995) and then its application is further extended to the model of Fink (2003). Numerical results demonstrate that there is a significant reduction of error in percentage after employing our approach especially when there are only a few time points matched in static hedging.

The performance effects of bank mergers and acquisitions: The foreign institutional investors matter in Asian-Pacific countries

Yoko Shirasu
Aoyama Gakuin University, Japan
shirasu@cc.aoyama.ac.jp

Yukihiro Yasuda
Hitotsubashi University, Japan
y.yasuda@r.hit-u.ac.jp

Abstract

We empirically investigate the performance effects of M&As on acquirer banks. We use a comprehensive sample of M&As in Asian-Pacific 16 countries from 2006 to 2014. We find that when foreign institutional investors hold large stakes in acquirer banks, their capital ratios improve in the next three years after the M&As. The result indicate that the ownership stake of the foreign institutions contributes to strengthen acquirer bank health through the M&A transactions. We also find that the type of foreign investors matters: when the high fraction held by foreign traditional financial institutions, their total loans increase in the first year but the acquirer banks also expand their business diversification through the M&As. We also investigate the source of getting higher capital ratios through the M&As. However, we find no evidence that the acquirer bank performances significantly improve in the next three years after the M&As, indicating the bank health is not achieved by the improvements of their business expansions. Overall, the results indicate that the high ownership stake of the foreign institutions contributes to strengthen acquirer bank health, finally promotes the stability of Asian bank systems through the M&A transactions.

Corporate Debt Maturity and Stock Price Crash Risk

Viet Anh Dang
Alliance Manchester Business School, United Kingdom
vietanh.dang@manchester.ac.uk

Edward Lee
Alliance Manchester Business School, United Kingdom
Edward.Lee@manchester.ac.uk

Yangke Liu
Alliance Manchester Business School, United Kingdom
Yangke.Liu@postgrad.mbs.ac.uk

Cheng Zeng
Alliance Manchester Business School, United Kingdom
Cheng.Zeng@manchester.ac.uk

Abstract

We find that firms with a larger proportion of short-term debt have lower future stock price crash risk, consistent with short-term debt lenders playing an effective monitoring role in constraining managers' bad-news-hoarding behavior. The inverse relation between short-maturity debt and future crash risk is more pronounced for firms that are harder to monitor due to weaker corporate governance, higher information asymmetry, and greater risk-taking. These findings suggest that short-term debt substitutes for other monitoring mechanisms in curbing managerial opportunism and reducing future crash risk. Our study implies that short-maturity debt not only preserves creditors' interests, but also protects shareholders' wealth.

Internal and External Lending by Business and the Supply of Bank Credit

Hyonok Kim
Tokyo Keizai University, Japan
hokim@tku.ac.jp

James Wilcox
University of California at Berkeley, United States
jwilcox@haas.berkeley.edu

Yukihiro Yasuda
Hitotsubashi University, Japan
y.yasuda@r.hit-u.ac.jp

Abstract

We produced annual measures for 1984-2014 of the amounts of internal lending at large, individual, Japanese, nonfinancial companies. Other studies have focused on inter-firm finance in the forms of equity or (likely-short-term) trade credit. Our new data allowed us to quantify and explain internal lending in the form of longer-term credit that was provided by a parent company to its subsidiary companies in its business group. We estimated how much it was driven by broader economic and financial conditions. Our estimates show that, during the economic crises in Japan, parents lent more to their subsidiary companies, especially to their more important subsidiaries. In the same vein, parents lent more internally when commercial banks were less willing to make business loans. Internal lending rose even more when banks reported being more willing to parent-sized companies and when banks reported being less willing to lend to subsidiary-sized companies. We also estimated how much internal lending was driven by parent-specific and by subsidiary-specific factors. Our results suggest that there was considerable internal competition for funds. Parent companies lent more internally when they invested less themselves or when their subsidiaries invested more. Parents also lent more internally when their subsidiaries' sales rose to companies outside their business group, but they lent less to their own subsidiaries when they sold more to outside companies.

Corporate Environment Management Practices: International Evidence on Carbon Emission Disclosures

Saqib Aziz
Rennes School of Business, France

Sabrina Chikh
SKEMA Business, France

Michael Dowling
Rennes School of Business, France

Dhoha Trabelsi
ESCE International Business School, France
dhoha.trabelsi@esce.fr

Abstract

The last decade has experienced an important expansion of managerial environmental practices and an increased level of environmental disclosure. We provide a description of these trends through a longitudinal study on a large panel of worldwide firms which have published their carbon emissions between 2008 and 2011. We show that the level of carbon management involvement increases the propensity of environmental disclosure. Moreover, large-scale companies and highly leveraged firms tend to communicate broadly on their carbon footprint, consistent with an increasing demand of information from stakeholders. The same trend is noticeable for companies being targeted by new environmental regulations. Finally, we find that least eco-efficient firms are more likely to disclose their emissions, reflecting legitimization by communicating on progress achieved and/or goals for the future.

Governed by the Cycle: Direct and Inverted Interest-Rate Sensitivity of Emerging Market Corporate Debt

Mariya Gubareva
Lisbon Accounting and Business School (ISCAL-IPL) & Lisbon School of Economics and Management (ISEG-UL), Portugal
mgubareva@iscal.ipl.pt

Maria Rosa Borges
Lisbon School of Economics and Management (ISEG-UL) & UECE (Research Unit on Complexity and Economics), Portugal
mrborges@iseg.ulisboa.pt

Abstract

An innovative approach to quantify interest rate sensitivities of emerging market corporates is proposed. Our focus is centered at price sensitivity of modeled investment grade and high yield portfolios to changes in the present value of modeled portfolios composed of safe-haven assets, which define risk-free interest rates. Our methodology is based on blended yield indexes. Modeled investment horizons are always kept above one year thus allowing to derive empirical implications for practical strategies of interest rate risk management in the banking book. As our study spans over the period 2002 – 2015, it covers interest rate sensitivity of assets under the pre-crisis, crisis, and post-crisis phases of the economic cycles. We demonstrate that the emerging market corporate bonds both, investment grade and high yield types, depending on the phase of a business cycle exhibit diverse regimes of sensitivity to interest rate changes. We observe switching from a direct positive sensitivity under the normal pre-crisis market conditions to an inverted negative sensitivity during distressed turmoil of the recent financial crisis, and than back to direct positive but weaker sensitivity under new normal post-crisis conjuncture. Our unusual blended yield-based approach allows us to present theoretical explanations of such phenomena from economics point of view and helps us to solve an old controversy regarding positive or negative responses of credit spreads to interest rates. We present numerical quantification of sensitivities, which corroborate with our conclusion that hedging of interest rate risk ought to be a dynamic process linked to the phases of business cycles as we evidence a binary-like behavior of interest rate sensitivities along the economic time. Our findings allow banks and financial institutions for approaching downside risk management and optimizing economic capital under Basel III regulatory capital rules.

Managerial Entrenchment and the Market for Talent

Fabio Feriozzi
IE Business School, Spain
fabio.feriozzi@ie.edu

Abstract

This paper studies how the generality of managerial skills affects firms' governance decisions. As managerial skills become more general, the market for talent offers better replacement opportunities of incumbent CEOs. This results in higher pay, but the profitability of an external appointment increases in large firms, where managerial talent is most productive. Consequently, large firms limit the entrenchment of their incumbents to exploit the improved replacement opportunities offered by the market. The analysis rationalizes the recent trend toward stronger corporate governance and offers novel empirical predictions concerning the relationship between managerial entrenchment, firm size and the generality of managerial skills.

Determinants of Globalization

Catalina Hurwitz
University of the District of Columbia, United States
catalina.hurwitz@yahoo.com

Wen-Hsiu Chou
Florida International University, United States
wchou@fiu.edu

Chun-Hao Chang
Florida International University, United States
changch@fiu.edu

Abstract

When in a firm's life would it fit for it to become involved in global strategies? What are the important influences on the decisions of young and mature firms to go international? We answer these questions by examining the determinants that affect the choices of born-globals (BGs) and born-again globals (BaGs) to expand worldwide. Our study is based on preexistent theories of diversification, and we place specific emphasis on the conceivable role of peer influence and the motivation or desire for growth. We further study the entrenchment, the idiosyncratic risk, and the innovation caliber hypothesis. Our results document that innovation efficiency strongly enhances BG's propensity to global diversify. On the other hand, peer pressure, CEO ownership and idiosyncratic risk level significantly influence BGs not to globalize. In contrast, BaGs are positively influenced by their industry peers, showing how competition works in the financial markets for youthful versus mature companies.

Risk-reward trade-offs and Volatility Performance of Islamic versus Conventional Stock Indices: A Global Empirical Evidence

Ahmad Abu-Alkheil
German Jordanian University, Jordan
ahmad.abualkheil@gju.edu.jo

Walayet A. Khan
University of Evansville, United States
wk3@evansville.edu

Bhavik Parikh
St Francis Xavier University, Canada
bparikh@stfx.ca

Abstract

Using Islamic and conventional indexes from FTSE, DJ, MSCI, S&Ps and Jakarta series for the period of 2002-2014, we compare the performance of Islamic stock indices (ISI) and conventional stock indices (CSI). We find a significant difference between both types of indices. M^2, Omega, Sharpe and Treynor measures show that ISI underperform CSI counterparts while Jensen's alpha and Sortino ratio put ISI ahead of CSI. However, our results reveal no significant superiority of ISI over CSI during the financial crisis of 2008. As compared to the overall market for the full sample period, both indices are shown to be superior. ISI appear to have the ability to offer possible long-term diversification opportunities in an investor's portfolio. Results for GARCH model reveal a significant risk-return trade-off for both indexes and previous volatility of returns have significant explanatory impact on spot risk-return relationship which can be used for predicting future returns.

Productivity spillovers through labor flows

Károly Miklós Kiss
Hungarian Academy of Sciences and University of Pannonia, Hungary
kiss.karoly.miklos@krtk.mta.hu

Zsolt Csáfordi
Hungarian Academy of Sciences, Hungary
csafordi.zsolt@krtk.mta.hu

Balázs Lengyel
Hungarian Academy of Sciences, Hungary
lengyel.balazs@krtk.mta.hu

Laszló Lorincz
Hungarian Academy of Sciences,
lorincz.laszlo@krtk.mta.hu

Abstract

Worker mobility has long been considered a major source of knowledge flow across firms. But what affects productivity spillovers through labor flows? By looking at labor mobility across firms, our paper aims to answer the following question: How do labor mobility from foreign firms, more productive firms, and skill-related industries contribute to the productivity growth of firms? Productivity differences between the sending and receiving firms have been found to drive these spillovers; while an alternative explanation suggests that labor flows from foreign-owned companies provide productivity gains for firms. We argue here that skill-relatedness across firms also matters, because industry-specific skills are important for organizational learning and production. Hungarian employee-employer linked panel data from 2003-2011 imply that the productivity gap rules out the effect of foreign spillovers. Furthermore, we find that flows from skill-related industries outperform the effect of flows from unrelated industries. Our outcomes have some strategic and policy related implications on both firm-level for company decision makers, and regional and country-level for policy makers.

Political risk and stock market uncertainty in China

Hui Chen
WHU-Otto Beisheim School of Management, Germany
hui.chen@whu.edu

Mei Wang
WHU-Otto Beisheim School of Management, Germany
mei.wang@whu.edu

Abstract

Political news from China is a factor that can influence both China and Hong Kong stock market. We plan to use GARCH-jump filter to match the volatility jump dates with political news announcement dates in hope of examing the volatility jumps that can be explained by political events. The different reaction between Shanghai and Hong Kong stock market will also be tested.

Financial Development Shaping Life-Cycle in SMEs Capital Structure

Maurizio La Rocca
University of Calabria, Italy
m.larocca@unical.it

Fabiola Montalto
University of Calabria, Italy
fabiola.montalto@unical.it

Raffaele Staglianò
Montpellier Business School, France
r.stagliano@montpellier-bs.com

Marc Deloof
Antwerp Management School, Belgium
marc.deloof@uantwerpen.be

Abstract

This paper contributes to the financial life cycle literature by testing hypotheses about the moderating role of country financial development on SMEs life cycle in capital structure decisions. Using a large European sample of SMEs we first find that debt financing provides the necessary financial support, especially for young SMEs. By contrast, old SMEs reduce their level of debt. Furthermore, we find that country financial development has a significant moderating effect on SMEs' financing decisions.

Informational Role of Options Markets: Evidence From FOMC Announcements

Robert Loveland
California State University, East Bay, United States
robert.loveland@csueastbay.edu

Scott Fung
California State University, East Bay, United States
scott.fung@csueastbay.edu

Brian Du
California State University, East Bay, United States
brian.du@csueastbay.edu

Abstract

This paper examines the informational role of options trading around Federal Open Market Committee (FOMC) meetings. We use the banking industry as a unique experiment due to its critical role to transmit monetary policy decisions and its disposition of high interest rate risk. We find that the information produced by interest rate-induced option trades, measured as the implied volatility spread prior to federal funds rate change announcements, can predict bank stock returns to a greater extent than that of volatility spreads prior to non-meeting days. When we further separate FOMC meetings into regularly scheduled meetings and unexpected conference calls, we find that the predictability is predominantly driven by conference calls. Our analysis highlights the importance of the equity options market in channeling new information about interest rate risk and the link between macroeconomic risk factors and the equity options market.

First-Best Unemployment Insurance

Donald O. Parsons
George Washington University, United States
dopars@gwu.edu

Abstract

Search moral hazard is a central concern of unemployment insurance (UI) designers and may explain seemingly ungenerous UI replacement rates. First-best (FB) benefits, combined with the greater leisure available to the unemployed, may discourage job search/offer acceptance. However Blanchard and Tirole (2008) explore a FB insurance model which is moral-hazard-free (MHF) because the utility function, essentially monetized leisure, implies an optimal consumption shift toward the working state that exactly offsets less abundant leisure. Although prominent in the early employment contracting literature, this utility structure has awkward features, including linear indifference curves, and has been (otherwise) supplanted in the literature. The conditions under which a standard neoclassical utility function would generate MHF FB contracts are derived. These are quite restrictive: (i) that leisure and consumption be substitutes (the utility cross-derivative of consumption and leisure be negative)—which is necessary--and (ii) that leisure be an inferior good—which is necessary and sufficient. Common utility models admit the possibility of the first, none the second. Empirically leisure is a normal good, ruling out the practical possibility of MHF FB plans, but FB replacement rates may still be well below 100 percent. The rich empirical literature on the “retirement consumption paradox” sheds some light on how far below.

CEO Overconfidence and Corporate Cash Holdings

Yenn-Ru Chen
National Chengchi University, Taiwan
yrchen@nccu.edu.tw

Keng-Yu Ho
National Taiwan University, Taiwan
kengyuho@ntu.edu.tw

Chia-Wei Yeh
National Taiwan University, Taiwan
d03723002@ntu.edu.tw

Abstract

There has been a surge of research on corporate cash holdings in the recent decade. A substantial literature has discussed the association between firm characteristics and corporate cash holdings, but there is very few study regarding CEO overconfidence and corporate cash holdings. We conduct a comprehensive study on CEO overconfidence and corporate cash policy from three aspects: level of cash holdings, value of cash, and source of cash. We find that firms with overconfident CEOs tend to have higher cash holdings as well as higher marginal value of cash than those without. However, such effect is lower for firms with higher growth opportunity. We further show that firms with overconfident CEOs would save more cash than those without, especially from external sources. Overall, our empirical results indicate that in addition to the demand of capital and the economic condition, the manager's belief also demonstrates a strong impact on corporate cash policy.

Long-Run or Short-Run Betas Does it Matter for Equity Pricing?

Hossein Asgharian
Lund University, Sweden
Hossein.Asgharian@nek.lu.se

Charlotte Christiansen
Aarhus University, Denmark
cchristiansen@econ.au.dk

Ai Jun Hou
Stockholm Uninversity, Sweden
aijun.hou@sbs.su.se

Abstract

We suggest a new bivariate GARCH model of the MIDAS type which enables us to obtain long-run and short-run betas and associated risk premiums. We apply our model to the Fama-French three-factor model for pricing industry portfolios. We estimate the factor risk premiums for frequencies ranging from daily to quarterly. Risk premiums should not be estimated from returns of a higher frequency than monthly. At the monthly frequency, the SMB long-run risk premium is significantly positive while the long-run market and HML risk premiums are insignificant. We find a significantly positive risk premium for the short-run market risk at low data frequencies. The risk premiums are related to the business cycle.

The Islamic Gold Dinar: A Hedge Against Exchange Rate Volatility

Calvin W. H. Cheong
Taylor's University, Malaysia
calvincheong88@hotmail.com

Abstract

With gold recently accepted as a Shariah-compliant investment by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), this paper provides insight into how the Islamic Gold Dinar might be used by investors and/or firms to manage their exposure to exchange rate movements. Using Markowitz's (1952) portfolio optimization methods, the findings show that including the dinar into a diversified currency portfolio substantially raises the portfolio's returns for an equivalent level of risk. Also, using a Fama-Macbeth (1973) two-pass regression, the findings show that dinar returns are more than able to compensate investors for global FX market volatility. This paper contributes to the literature by: (1) providing evidence that contrary to textbook belief, a diversified currency portfolio is not able to protect against global FX movements by way of natural hedge; (2) the Islamic Gold Dinar, on its own or in a portfolio of currencies, can provide returns that form a hedge against global FX volatility; and (3) the dinar is a viable, Shariah-compliant alternative to derivatives for exchange rate risk management purposes.

Investors’ Heterogeneity and Trading Activity: Is More indeed Better?

Shmuel Hauser
Ono Academic College, and Ben Gurion University, Israel
shmuelh@isa.gov.il

Haim Kedar-Levy
Ben Gurion University, Israel
hlevy@som.bgu.ac.il

Abstract

Theoretical asset-pricing models with volume are challenged by the high turnover-rates in real stock markets, and return volatility. We develop an asset-pricing framework with a novel heterogeneous preferences structure to address both issues. First, unlike alternative heterogeneous preferences models, our model yields high market activity with reasonable risk-aversion levels. Turnover-rate, liquidity, and liquidity-risk increase non-monotonically with heterogeneity, revealing optimum heterogeneity. Second, the model supports Campbell and Cochrane's (1999), as we find that small variation in average RRA might cause substantial variation in Sharpe-ratio variability. Thus, stock portfolios sorted by familiar characteristics but differ w.r.t. heterogeneity, would yield biased cross-sectional risk-return estimates.

Performance of Volatility Estimators in Testing for Granger Causality in Risk on International Capital Markets

Marcin Faldzinski
Nicolaus Copernicus University, Poland
marf@umk.pl

Magdalena Osinska
Nicolaus Copernicus University, Poland
emo@umk.pl

Abstract

Volatility analysis on financial markets is usually related with GARCH-type models. However other volatility estimators such as: Parkinson, Garman-Klass, Rogers- Satchell, Garman-Klass-Yang-Zhang and Yang-Zhang are present in the literature. The aim of the paper is to compare different volatility measures in application to analysis of causality in risk between capital markets. Moreover, the extreme values theory is applied to specify the intervals of most risky values. Two causality-in-risk tests are used i.e. Hong et al. (2009) test and Candelon et al. (2013) test. Several emerging capital markets are checked for being the source of the risk for both emerging and developed markets. The final results show that the number of relationships between the markets is considerably lower when the methods based on the extreme value theory are used.

An Analysis of the Impact of Group Behavior Bias on Financial Markets by Artificial Market

Yating Wang
The University of Tokyo, Japan
wang@crimson.q.t.u-tokyo.ac.jp

Fujio Toriumi
The University of Tokyo, Japan
tori@sys.t.u-tokyo.ac.jp

Masayuki Susai
Nagasaki University, Japan
msusai2000@yahoo.co.jp

Abstract

It is said that the influences from group can form group behavior bias through individual traders, and may affect the financial market and make it inefficient. In this article, we build three different group behavior bias models, that are based on most trade, hub trade and the best trade policy separately and markets with or without regulation to study the relationship between group behavior bias and market impact by using multi-agent based artificial market. The results proved that the financial market becomes more inefficient with group behavior growing. Also we find that the most trade policy bias is the easiest to form in all the markets and influence no regulation market most. However, in the market under regulation, the hub trade policy based group behavior bias will influence the most. In addition, best trade policy based group behavior bias is comparatively stable to the all the situation.

Market Integration and Return Predictability in the Frontier Stock Markets: Comparative Study with the Advanced and the Emerging Markets

Mohammad Khaleq Newaz
Coventry University, United Kingdom
mohammad.newaz@coventry.ac.uk

Jin Suk Park
Coventry University, United Kingdom
jin.park@coventry.ac.uk

Abstract

This study examines 31 frontier stock markets to explore the recent changes in their integration to the international stock markets and test return predictability, relative to 23 advanced and 23 emerging markets. The measures based on principal components and the global market index are used to estimate the degree of integration. The predictability is measured by the performance of single forecasting models, such as the ARMA-GARCH, the exponential smoothing and the naïve models, and their combinations based on variance-covariance, equal-weights, median and MSE ranks. Their statistical significance is also tested. The results show that the frontier markets are recently more integrated to the global markets overtaking the emerging markets, which reduces the benefits of frontier markets in international diversification. However, the return predictability in the frontier markets is still stronger than the advanced markets, predominantly when the variance-covariance combination method is used.

Loss of Investors of Fire Sale? Asymmetric Behavior in Mutual Fund Investing

David Sun
Kainan University, Taiwan
davidsun0769@gmail.com

Abstract

Prolonged depression of asset prices has been considered to follow mutual fund fire sales. I show, however, in this study that the loss of mutual fund investors could be a primary cause for the asymmetric pricing behavior observed therein. Many investors move money away from either specific or an entire category of funds, depending on whether negative events are of a particular or general nature. It also takes longer for the investors to return after leaving on negative events, than for regular new investor influx on positive events. Although fire sales usually follow losses of investors, my findings suggest that how long the underlying asset prices are depressed depends more on loss of investors than on fire sales. Also, the asymmetry of investor movement is more severe when the events are general rather than specific.

Style Drift Behaviour in Mutual Fund Tournament: Evidence from China

Angeline Chua
RMIT University, Australia
angelinekimpei.chua@rmit.edu.au

OnKit Tam
RMIT University, Australia
onkit.tam@rmit.edu.au

Monica Tan
RMIT University, Australia
monica.tan@rmit.edu.au

Abstract

Fund managers should invest fund investors' money according to each fund's declared objective and asset class allocation. Unfortunately, style drift (significant divergence of the actual and declared investment-risk profile fund investor buys into) is commonplace in both mature and developing fund markets. Research on this phenomenon in terms of its extent and motivation is however limited. This paper contributes to the literature on the fund management industry and this important issue by providing more precise metrics of style drift to gain critical understanding of the presence and driver of this widespread but rarely researched behaviour. This paper is the first study to develop an analytical framework to examine whether and what drives equity fund managers to manipulate fund investment style in a competitive fund environment such as China. To test, we devise an original Chinese fund classification system on the basis of a more stringent stock-level style drift methodology to accurately detect the actual fund style alteration by fund managers for the period 2011-2015. We undertake a rigorous process by mapping 180,000 portfolio units in 274 Chinese open-end equity funds' holding against our newly constructed style index and producing 18,600 fund-year drift observations. We then use these time-variant drift observations to investigate how style alteration behaviour may be driven by fund managers' pursuit of larger bonus compensation via competing for higher relative rank-order for the funds they manage in 3 contexts: universe, segment and fund family. We devise a novel style drift-tournament model and produce evidence of the presence of significant style drift and tournament behaviour among fund managers. Our results also show a stronger style manipulation behaviour in larger and entrenched funds.

Centralizing information increases market efficiency more than augmenting information: Results from experimental asset markets Abstract

Iván Barreda-Tarrazona
Universitat Jaume I, Spain
ivan.barreda@eco.uji.es

Gianluca Grimalda
Kiel Institute for the World Economy, Germany
gianluca.grimalda@ifw-kiel.de

Andrea Morone
University of Bari, Italy
andrea.morone@uniba.it

Simone Nuzzo
University of Bari, Italy
simone.nuzzo@uniba.it

Andrea Teglio
Universitat Jaume I, Spain
teglio@eco.uji.es

Abstract

We study the relationship between market efficiency and the distribution of private information in experimental financial asset markets. Traders receive imperfect signals over the real value of an asset. Agents can share their information within a relatively small – compared to market size - group of agents. Both the number of signals and the way these are concentrated among agents are manipulated in four experimental treatments. In two treatments signals are symmetrically distributed across agents. In two other treatments one group of 'quasi-insider' agents receive more signals than all other groups. No signal is distributed in the baseline condition. We show that centralizing information unambiguously achieves higher market efficiency than spreading information symmetrically. Furthermore, increasing the amount of information has no effect on efficiency either when information is symmetric or when it is asymmetric. We argue that two different mechanisms drive these results. First, having more private information ex ante reduces the expected benefits of sharing information, thus sharing decreases. Second, the presence of quasi-insider being common knowledge prompts agents to extract more information from market prices rather than their own private signals. This leads to swift information aggregation.

Board Control: Inside vs Outside Directors

Aytac Erdemir
NMBU-HH &NIBIO, Norway
aytac.erdemir@nibio.no

Olvar Bergland
NMBU, Norway
olvar.bergland@nmbu.no

Helge Berglann
NIBIO, Norway
helge.berglann@nibio.no

Abstract

This study deals with the issue of corporate boards and examines whether independent (outside) directors are beneficial. We analyze the effect of independent and representative board members on firm performance and shareholder protection. Overseeing the CEO to ensure value maximization is one of the key functions of boards. Hence, they appear as the protective mechanism that protects shareholder rights. With this reasoning regulators promote independent directors at boardrooms. This view is mainly shaped by the agency problems. Regulators find independent directors instrumental in mitigating agency problems. At the same time, including more worker representation has been considered as a mechanism to contain, or balance the power of controlling shareholders for big companies. In Norway, employee representation in boards has been promoted by the legislation long before. Employee representatives have insider information about the companies and leaves a small room to executives in misleading the board. For companies that adopt the gender balance law, and change their boards, we look at the impact of outsiders. We take the insiders into consideration by controlling for the board ownership, and use the incremental effect of female additions to the board as variable capturing the outsider impact. We examine the explanatory power of outsiders at board over the value and tax returns of the company. Conversely, we try to see how the employee representatives are related with firm fundamentals. For the companies that change their organizational form, we try to gauge the differential impact of employee representation when we control for the other factors. We find that outside and independent directors increase firm value. Furthermore, independent board directors are essential in preventing inefficient outcomes, i.e. returning the value to shareholders, limiting the executive compensation, and curbing the relative tax burden.

Leading or Lagging Indicators of Risk? The Informational Content of Extra-Financial Performance Scores

Amos Sodjahin
Moncton University, Canada
amos.sodjahin@umoncton.ca

Claudia Champagne
Sherbrooke University, Canada
claudia.champagne@usherbrooke.ca

Frank Coggins
Sherbrooke University, Canada
frank.coggins@usherbrooke.ca

Roland Gillet
Université Paris1 Panthéon-Sorbonne, France
roland.gillet@univ-paris1.fr

Abstract

This study investigates the informational content of extra-financial agency scoring by examining the relationship between firm beta and extra-financial performance score upgrades and downgrades. Specifically, we study the variations in the extra-financial score of 266 Canadian corporations between 2007 and 2012 with a conditional model. We find no evidence that changes in firm beta precede changes in extra-financial scores. Rather, our results suggest that a firm's systematic risk increases following a downgrade of its extra-financial performance. In terms of score upgrades, the overall effect is not significant. However, score upgrades for firms with already-high scores predict higher systematic risk, while score upgrades for firms with low scores predict lower systematic risk. These results suggest that extra-financial scores are informational and can be useful to portfolio managers, notably for their risk management strategies.

Trading Indicator Performance Testing in a Semi-Parametric Multi-Asset Scenario Building Environment

Andreas Thomann
University of Zurich, Switzerland
andreas.thomann@business.uzh.ch

Abstract

This paper challenges widely applied trading indicators in their ability to generate reasonable signals. Assessing the robustness of a trading strategy is often done by either using a subsample of the data or applying the strategy on another asset's price series. Using the same configuration on another asset can be beneficial to show the underlying economic soundness of the trading strategy. Different statistical properties of the data series however can lead the developer to reject the strategy since it performs worse on the alternative data set. In this study we use the scenario building approach of Barone-Adesi, Giannopoulos, and Vosper (1999) to simulate artificial price series based on the observed price characteristics. Our price simulations provide a backtesting environment to test trading strategies on simulated prices series with comparable properties as the observed price series. In addition to testing the indicators on the observed price series, we are able to test the indicators on a large set of simulated prices which describe the empirical distribution function of the specific asset. This provides an additional performance assessment and allows to test the trading indicators for robustness on a large set of artificially created price series with similar characteristics as the observed price series. We find that some momentum and trend-following trading indicators are robust whereas others, independent of their calibration, fail to deliver stable performance.

Dynamics among global asset portfolios: investors' benefits from advanced vs. emerging markets

Theodoros Bratis
Athens University of Economics and Business, Greece
tbratis@aueb.gr

Nikiforos Laopodis
ALBA Graduate Business School American College of Greece, Greece
nlaopodis@acg.edu

Georgios Kouretas
Athens University of Economics and Business, Greece
kouretas@aueb.gr

Abstract

Under the context of the US and EMU financial and debt crisis we investigate the portfolio asset diversification and assess risk for a core pool of advanced (US/Eurozone/UK/Japan) markets enriched by emerging financial markets represented by BRIC (Brazil, Russia, India, China). Specifically we focus on (risk) correlations among weighted portfolios from equities, bonds, commodities, Exchange-Traded Funds and alternative asset classes. We confirm the "equity correlation bubble" among indices for 2001-2014 as well the high dynamic interconnectedness (spillovers) of equity markets. Based on portfolio construction and financial dynamic correlation methodology we derive useful implications for portfolio managers on homogeneous (equity) and heterogeneous portfolios, as well as for market regulators in terms of risk hedging.

The Economic Impact of Forming a European Company

Lars Hornuf
University of Trier, Germany
hornuf@uni-trier.de

Abdulkadir Mohamed
Cranfield School of Management, United Kingdom
abdulkadir.mohamed@cranfield.ac.uk

Armin Schwienbacher
Université Côte d'Azur – SKEMA Business School, France
armin.schwienbacher@skema.edu

Abstract

Since 2004, companies located in member states of the European Economic Area (EEA) can opt to incorporate in a supranational legal form, the Societas Europaea (SE). Most importantly, the Societas Europaea offers the possibility to choose between the one-tier and two-tier board structure as well as to limit the extent of worker participation, two items that are not possible in some of the member states under national corporate law. In this paper, we investigate the reaction of investors to these changes in corporate governance structure. We find companies located in member states where the SE offers additional legal arbitrage opportunities benefit most. Moreover, our results show that stock price reaction is positive when the decision to incorporate as an SE involves moving the firm's registered office and that firms are moving to jurisdictions with significantly lower corporate tax rates. Finally, we assess the importance of uncertainty surrounding managers' decision to reincorporate as an SE and find evidence for corporate uncertainty at the registration date but not at the time of the shareholder meeting.

Determinants of Firm Growth – Empirical Evidence for Switzerland

Gabrielle Wanzenried
Lucerne University of Applied Sciences and Arts, Switzerland
gabrielle.wanzenried@hslu.ch

Marcio Genovevo da Costa
Bantleon Bank AG, Switzerland
marcio.costa@bantleon.com

Nils Donner
Jones Lang LaSalle AG, Switzerland
nils.donner@eu.jll.com

Abstract

Our study analyses determinants of firm growth for a sample of public companies in Switzerland. Our sample includes 2,438 observations from 349 public companies listed in Switzerland over the time period from 1999 to 2014. We consider the impact of firm- and macro-specific factors on firm growth, as measured by three different growth proxies, namely the growth rate of the number of employees, the growth rate of fixed assets and revenue growth. We consider common firm-specific determinants of firm growth including information about the ownership structure, as well as macroeconomic variables.Also, we explicitly investigate the effect of the latest financial crisis on firm growth. Our results provide empirical evidence for firm growth not following a random walk, i.e., we find apositive related size-growth relationship and are, therefore, rejecting Gibrat's Law. Also, firm age has a negative effect on growth, while more leveraged firms grow faster. However, this latest result only holds for the pre-crisis period. Also, more profitable firms grow faster. Furthermore, family-owned companies exhibit a slower growth rate compared to non-family firms. There exist also some significant differences between the industrial sectors, with, e.g.,an above average growth rate of the firms in the consumer (non-cyclical) sector over the time period considered. From the inclusion of macroeconomic variables we finally observe GDP growth, inflation and the stock market performance all having a positive impact on firmgrowth.

A Rule Based Portfolio Construction Approach Based on Golden Ratio

Daniele Bernardi
DIAMAN SCF SRL, Italy
daniele.bernardi@diaman.it

Ruggero Bertelli
University of Siena, Italy
bertelli@exponential.it

Gabriele Turissini
Investors Magazine Italia srl, Italy
gabriele.turissini@investors-mag.it

Abstract

In our world are present many particularity and similarity that make grandiose the nature itself. One of the recurrent number that nature use in many aspect is PHI, the “Divine Proportion” discovered by Leonardo Fibonacci as Golden Ratio between the Fibonacci Sequence of number. The Golden Ratio PHI=1,6180 is present in many animals and flowers in nature, so the purpose of this paper is to verify if the Fibonacci sequence of number can be used as portfolio construction methodology to realize more stable return for each unit of risk. The Goal of a portfolio construction model is to determine which instruments insert and the correct weight of the singole choice to fit the characteristic of the portfolio itself. We propose a Rule-based portfolio construction methodology using the Fibonacci numbers to define the weight, based on volatility cluster, of each fund to insert in the portfolio. This new approach is able to stabilize the portfolio return even if the funds are selected by a Montecarlo model, respect equity portfolio weighting with funds selected by the same Montecarlo model.

Investor Horizons and Employee Satisfaction

Arthur Petit-Romec
ESCP Europe, France
arthur.petit_romec@edu.escpeurope.eu

Alexandre Garel
Auckland University of Technology, New Zealand
alexandre.garel@aut.ac.nz

Abstract

What determines a firm's ability to provide a satisfying workplace to its employees? In this paper, we study the effect of the investment horizon of a firm's investors on employee satisfaction. Since employee satisfaction is an intangible that is not immediately valued by the market but generates value over the long-run, we argue that firms with more long-term investors should be in a better position to foster employee satisfaction. Consistent with our argument, we find that long-term investor ownership is strongly associated with employee satisfaction. The effect of long-term investors on employee satisfaction appears to be causal and not driven by self-selection. In addition, we find that blockholders have a positive impact on employee satisfaction. However, the effect of investor horizons cannot be explained away by investor concentration.

Subjectivity in sovereign credit ratings

Prabesh Luitel
KU Leuven, Belgium
prabesh.luitel@kuleuven.be

Rosanne Vanpée
KU Leuven, Belgium
rosanne.vanpee@kuleuven.be

Lieven De Moor
Vrije Universiteit Brussel, Belgium
lieven.de.moor@vub.ac.be

Piet Sercu
KU Leuven, Belgium
piet.sercu@kuleuven.be

Abstract

Sovereign credit ratings are the result of a careful evaluation of quantitative, qualitative and judgmental factors that determine the creditworthiness of a country. In this paper we disentangle the objective and subjective components of a sovereign credit rating by applying both traditional (linear) models and machine learning techniques. We find that the subjective component of a credit rating varies from -5 to +4 notches according to the linear model and -3 to +2 notches based on the machine learning model. Overall, the impact of subjective judgment on the credit rating has reduced after the financial crisis of 2008. The subjective component is similar for all emerging markets, but differs across rating agencies for the developed countries. We find no evidence for the hypothesis that the subjective component in credit ratings would lead to higher borrowing costs for the country.

Is Bank Capital Sensitive to a Tax Allowance on Marginal Equity?

Jose M. Martin Flores
ESCP Europe Business School, France
jose_maria.martin_flores@edu.escpeurope.eu

Christophe Moussu
ESCP Europe Business School, France
moussu@escpeurope.eu

Abstract

The existence of an unequal tax treatment between debt and equity has been identified by the banking literature as an explanatory factor of bank leverage. Using a tax reform in Italy as a quasi-natural experiment, we test empirically whether the introduction of a mechanism allowing the tax deduction of a portion of the cost of equity provides incentives for banks to use more capital. By reducing the tax debt-equity bias this system should give an incentive to rebalance banks' capital structure. In this respect, Italian case provides an interesting framework since it was introduced for banks in 2000, removed after two years and implemented again in 2012. This allows us to test the effect of such a tax incentive on bank capital, the effect of its withdrawal and compare the impact in crisis and non-crisis periods. Our results reveal that the introduction of this tax measure has a positive impact on bank capital. Nonetheless, once the tax allowance is phased-out banks reduce their equity ratios significantly. However, only smaller banks seem to react to the introduction of the tax allowance and banks do not increase capital ratios when a similar measure is introduced in a period of distress.

Run for Home: SME Lening and the Headquarters bias

Tianshu Zhao
University of Birmingham, United Kingdom
T.Zhao@bham.ac.uk

Kul Luintel
Cardiff University, United Kingdom
LuintelK@cardiff.ac.uk

Kent Matthews
Cardiff University, United Kingdom
MatthewsK@cardiff.ac.uk

Abstract

This paper is aimed at two strands of the empirical literature in banking. First, it tests for the geographical dimension in SME lending as a rebuttal of Petersen and Rajan (2002) on the relevance of relationship banking for SME lending. Second, it examines the Stein (2002) view that large institutions with complex organisational structures are more able to filter 'hard' information than 'soft' information. Using data on individual bank lending to SMEs and mortgage lending by postcode area for 120 localities in Great Britain for the period 2013(2)-2014(4), we estimate a panel model on 8393 data points. We conjecture that as the same bank makes SME loans and mortgages to the specific postcode area, it would utilise the informational technology of its common organisational structure. Locality and bank fixed effects allow us to disentangle credit supply and demand and to simultaneously control for the unobserved traits of banks and the borrowers in the localities they lend to. Our results show that functional distance between bank headquarters and branches is negatively related to the net underwriting of SME lending but has no impact on mortgage lending. We interpret these results as strong support for the geographical dimension and a vindication of the conventional view that SME lending requires the transmission of 'soft' information through the intermediation of a Relationship Manager who has been largely removed from the banking organization.

How Do Political Connections and Corruption Shape the Banking Pool Structure in Emerging Markets?

Hong Van Vu
University Lille Droit et Sante, France
hongvan.vu@etu.univ-lille2.fr

Abstract

How do political connections and corruption shape the banking pool structure of the firm? We formulate and test hypotheses on a neglected aspect of bank financing in emerging economies: the relationships between political connections and corruption with the company's banking pool structure. We assemble a unique hand-collected dataset of listed Vietnamese small and medium-sized enterprises in 2013 which establishes four findings. First, the strong politically connected firms are more likely than the weak politically connected firms to establish the main bank relationship with a relatively government-owned bank. However, these strong politically connected firms are less likely to enter into multiple banking relationships and to maintain with a higher number of such relationships. Third, these companies connecting strongly with politicians tend to diversify less across bank ownership type. Differences in the banking pool structure between highly and weak politically connected firms pronounced when political connections are stronger, and when firms operate in provinces with higher levels of corruption

On The Effect of Student Loans On Access to Homeownership

Alvaro Mezza
Federal Reserve Board of Governors, United States
alvaro.a.mezza@frb.gov

Daniel Ringo
Federal Reserve Board of Governors, United States
daniel.r.ringo@frb.gov

Shane Sherlund
Federal Reserve Board of Governors, United States
shane.m.sherlund@frb.gov

Kamila Sommer
Federal Reserve Board of Governors, United States
kamila.sommer@frb.gov

Abstract

We estimate the effect of student loan debt on subsequent homeownership in a uniquely constructed administrative data set for a nationally representative cohort. We instrument for the amount of individual student debt using changes to the in-state tuition rate at public 4-year colleges in the student's home state. A 10 percent increase in student loan debt causes a 1 to 2 percentage point drop in the homeownership rate for student loan borrowers during the first five years after exiting school. Validity tests suggest that the results are not confounded by local economic conditions or non-random selection into the estimation sample. (JEL D14, I22, R21)

Determinants of Bank Liquidity in Vietnam: A Dynamic Panel Data Analysis

Anh D. Pham
Banking Academy of Vietnam, Vietnam
anhpd@hvnh.edu.vn

Loan T. Q. Nguyen
National Economics University, Vietnam
quynhloannguyen511@gmail.com

Abstract

This study examines determinants of bank liquidity in Vietnam between 2008 and 2015 using dynamic panel data regression and Generalized Method of Moments (GMM) estimation. Research findings show that liquidity is determined by both bank specific and macroeconomic factors including: bank size, loan growth, net interest margin, profitability, non-performing loans, GDP growth and financial depth. By incorporating interaction terms with bank ownership and stock listing in the baseline model, conflicting results are revealed: (i) As for foreign banks, factors having negative impact on liquidity include profitability, non-performing loans (NPLs) and economic growth, while bank size exerts "U-shaped" non-linear effect on liquidity; (ii) As for state-owned banks, net interest margin shows a positive impact, while capital adequacy, loan growth, NPLs and financial depth have inverse influence on liquidity; (iii) As for listed banks, while NPLs inversely affect liquidity, the study confirms a reverse "U-shaped" non-linear relationship between bank size and liquidity.

Effects of Nikkei 225 ETFs on stock markets: Impacts of purchases by Bank of Japan

Toshio Serita
Aoyama Gakuin University, Japan
serita@cc.aoyama.ac.jp

Hideki Hanaeda
Chuo University, Japan
hanaeda@fps.chuo-u.ac.jp

Abstract

In the paper, we investigate empirical analysis of effects of Nikkei 225 ETFs on stock markets in Japan, including purchases of ETFs by Bank of Japan(BOJ). We focus on the deviations of Nikkei 225 ETFs and volatilities and non-market volatility of stocks included in Nikkei 225 index. Deviations are small but become large temporally, show positive serial correlation and go upward on the day of purchases of BOJ. We found larger fraction of ETFs holdings increase both volatilities and fraction of non-market volatility of stocks in Nikkei 225 index. On the other hand, purchases of BOJ decrease volatilities of the stocks.

The tournement effect for winning and losing funds analyzed with ex-ante risk measures

Claudia Champagne
University of Sherbrooke, Canada
claudia.champagne@usherbrooke.ca

Stéphane Chrétien
Laval University, Canada
stephane.chretien@fas.ulaval.ca

Frank Coggins
University of Sherbrooke, Canada
frank.coggins@usherbrooke.ca

Abstract

The mutual fund industry can be seen as a series of annual tournaments in which same-style funds are competing to be at the top of performance-based rankings. In the financial literature, the tournament effect implies that funds that are losing during the year have a tendency to increase their risk more than winning funds, hoping to climb the rankings by the end of the year. Our study focuses on this tournament effect and examines the risk management of losing and winning funds by using realized (ex post) risk measures, which are commonly used in the literature, as well as quasi-anticipated (ex ante) risk measures. We argue that the latter more adequately capture the intentions of managers towards their portfolio's risk management than realized measures. Our results show that the tournament effect is weak when estimated with realized risk measures but becomes much stronger and significant with quasi-anticipated risk measures. Losing funds therefore appear to have a propensity to significantly increase their risk in the second semester of the year in an attempt to improve their position in the annual rankings. Results are more ambiguous for winning funds.

The Implicit Value of Tracking the Market

Brian Clark
Rensselaer Polytechnic Institute, United States
clarkb2@rpi.edu

Chanaka Edirisinghe
Rensselaer Polytechnic Institute, United States
edirin@rpi.edu

Majeed Simaan
Rensselaer Polytechnic Institute, United States
simaam@rpi.edu

Abstract

This paper provides closed form properties for the tracking error portfolio from an estimation risk perspective. We find that the bias of the tracking error portfolio is mainly due to the mean-variance portfolio rather than the tracking error component. Therefore, it appears that shifting the weights of the portfolio toward the tracking error direction mitigates the higher estimation error that originates in the mean vector. Using an empirical design with bootstrap approach, we find that the committed estimation risk in the tracking error portfolio is significantly lower than that committed in the mean-variance portfolio. Additionally, we infer that this difference is amplified for cases that are associated with greater estimation risk, such as the number of underlying assets and the length of the estimation window.

Evaluation of Bank Systemic Risk

Harald A. Benink
Center for Economic Research (CentER), Tilburg University Financial Markets Group, London School of Economics, Netherlands
H.A.Benink@uvt.nl

Namwon Hyung
University of Seoul, South Korea
nhyung@uos.ac.kr

Casper G. de Vries
Erasmus School of Economics, Netherlands
cdevries@ese.eur.nl

Abstract

The financial crisis of 2007-2008 has highlighted once again the importance of risks to the stability of the financial system. Systemic risk in the banking sector is of great concern due to the public externalities of the banking industry such as the maintenance of the payment system.During the aftermath of the financial crisis an impressive literature has emerged on how to measure and quantify systemic risk. The aim of this paper is to provide a comprehensive framework for the evaluation of bank systemic risk and individual bank risk by regulators and supervisors. We advance a number of social risk functions by which the systemic features can be judged and show how these can be used to evaluate the risk of the banking sector. Alternative criteria weigh the systemic and individual bank risks differently. Subsequently, we turn to empirical analyses on a per individual bank basis and per country basis and detect important differences across banks and countries. The new Basel III Accord of December 2010 still has predominantly a microprudential focus, trying to prevent individual bank failures which is consistent with a social risk function focusing on the weakest link or worst-off individual bank. But other criteria place more emphsasis on and weigh the systemic part lighter. Therefore, bank supervisors will have to specify explicity their social risk function in order to set bank capital requirements.

Mutual Fund Skill in Timing Market Volatility and Liquidity

Niall O'Sullivan
University College Cork, Ireland
niall.osullivan@ucc.ie

Jason Foran
University College Cork, Ireland
jason.foran1@gmail.com

Abstract

We investigate both market volatility timing and market liquidity timing for the first time among UK mutual funds. We find strong evidence that a small percentage of funds time market volatility successfully, i.e. when conditional market volatility is higher than normal, systematic risk levels are lower. The evidence around market liquidity timing ability is similar although it is slightly less prevalent compared to volatility timing. Here, funds lower the fund market beta in anticipation of reduced market liquidity. Tests indicate that both volatility and liquidity timing ability exceed that which may be attributed to publicly available information suggesting that managers have private timing skill. In contrast, we find little evidence supporting market return timing ability. We report that liquidity timing ability is also persistent and is strongly associated with superior fund abnormal performance though this is not the case for volatility timing ability.

Investors' reaction to changes in management earnings forecasts: the impact of investor sentiment and gender

Maria Strydom
Monash University, Australia

Amale Scally
Monash University, Australia
amale.scally@monash.edu

John Watson
Monash University, Australia
jr.watson@monash.edu

Abstract

Belief perseverance and affect theories suggest mood and gender differences influence the way in which investors react to retractions and corrections of management earnings forecasts. In this paper we show that in the case of individual investors, their judgements do not adjust correctly to retractions and corrections of previously disclosed information. We show in this paper belief perserverance and affect theories provide explanations for individual investors' reactions to retractions and corrections of management earnings forecasts. Additionally, we show that mood and gender play a significant role in how this category of investor adjusts to such announcements. We specifically document that whilst belief perseverance is prevalent for retractions of earnings forecasts, this is so only for investors in a negative affective state and for males in general. The finding that belief perseverance is present for the "bad mood" condition and not for the "good mood" condition support this study's conjecture that mood affects decision making and will therefore impact on the manner in which individual investors respond to retractions in management earnings forecasts in particular.

Individual and Institutional Informed Trading in Competing Firms around Earnings Announcements

Priyantha Mudalige
University of South Australia, Australia
Priyantha.Mudalige@unisa.edu.au

Petko S. Kalev
University of South Australia, Australia
petko.kalev@unisa.edu.au

Kartick Gupta
University of South Australia, Australia
Kartick.Gupta@unisa.edu.au

Huu Nhan Duong
Monash University, Australia
huu.duong@monash.edu

Abstract

This study investigates individual and institutional trading activities before and after earnings announcements to infer informed trading in competing firms. We find evidence for individual and institutional informed trading in competing firms before earnings announcements. The magnitude of institutional (individual) net order flow coefficient decreases (increases) with lag length, suggesting institutional trading captures information faster than individual trading. Individual net order flow transmit information cross-stock when competitor is a small firm while institutional net order flow conveys information cross-stock irrespective of firm size. Institutional trading in competing firm exhibits cross-stock price impact before earnings announcements. Our results will be informative for regulators with regard to insider trading laws and provide insights on the impact of individual and institutional trading on cross-stock price discovery process.

Recent Regulation and the Value of ADR Listings: Evidence from Operating Performance And Market Reaction

Cynthia Campbell
Iowa State University, United States
campcj@iastate.edu

George J. Papaioannou
Hofstra University, United States
George J. Papaioannou (George.J.Papaioannou@hofstra.edu)

Anoop Rai
Hofstra University, United States
Anoop.Rai@Hofstra.edu

Abstract

The paper investigates whether recent regulatory reforms introduced by the Sarbanes-Oxley Act and the easier deregistration of foreign firms provided in Rule 12h-6 have altered the pattern of operating performance and have impacted the revaluation of firms seeking a cross-listing in the US equity markets. We find evidence that although SOX has not significantly affected the operating performance of cross-listed firms relative to non-cross-listed peers, operating performance has deteriorated after passage of Rule 12h-6 consistent with the argument that the reversibility option has encouraged firms with weaker potential to enter the US markets. We also find some evidence in favor of the loss of competitiveness argument in light of the increased compliance costs of SOX but there is still evidence that revaluation is favorable for firms from countries with weaker corporate governance standards. Firms entering after passage of Rule 12h-6 realize less favorable revaluation if they come from countries with weaker corporate governance standards in line with the bonding hypothesis. Overall, our results do not rule out the possibility that SOX has affected the competitiveness of US equity markets but more importantly the evidence is also consistent with the view that the benefits of bonding matter.

The Association between Dividend Payouts and Firm Growth: Australian Evidence

Mike Dempsey
RMIT University, Australia
michael.dempsey@rmit.edu.au

Abeyratna Gunasekarage
Monash Unversity, Australia
abeyratna.gunasekarage@monash.edu

Thanh Truong
RMIT University, Australia
Thanh.Truong@rmit.edu.au

Abstract

Two elements that are crucial to the effective functioning of markets are (1) the effectiveness of firms in reinvesting their earnings (as opposed to distributing them to shareholders) and (2) the effectiveness of markets in differentiating between those firms whose reinvestments lead to growth and those whose reinvestments do not. In this paper, we seek to address both of these aspects of Australia's financial markets. We report that firms with high earnings distributions tend to be low-growth firms (consistent with conventional theory) but that firms with low earnings distributions run the range between high and low performers and that the market has difficulty in distinguishing between these latter two types of firms.

The consequences of increasing risk-based capital requirements for banks: Evidence from a 2013 policy reform in Norway

Ella Getz Wold
Brown University, United States
ella.getz.wold@gmail.com

Ragnar Enger Juelsrud
BI Norwegian Business School, Norway
ragnar@juelsrud.no

Abstract

In this paper we investigate how banks respond to increases in risk-weighted capital requirements. We use cross-sectional variation in capital ratio changes induced by a policy-reform to isolate the causal effects of capital requirements. We find that banks increased their capital ratios by raising equity and reducing average risk-weights. We do not find strong support for detrimental effects on credit growth on average, but find that the credit supply to firms are reduced. We find, however, that banks that are more likely to be capital constrained reduced their overall credit growth. We also find that relatively profitable banks are less likely to shift their composition of credit.

The Consequences of Reacting Fast - The Flux of EEX Energy Prices and the Influence of Weather Parameter

Saskia Stoerch
Leuphana University Lueneburg, Germany
stoerch@leuphana.de

Abstract

The political environment in Germany, where one of the most important energy exchange in Europe is located, has changed a lot in the last years. This changes encouraged and subsidized the usage of renewable energy. Hence, the dependence and influence of weather parameter on energy prices has steadily increased. This paper first, analyzes the weather parameter driving the different spot and derivative products at the EEX. Second, it analyzes the growing importance after the decision of the German energy transition (Energiewende).

Persuasion in Islamic Finance

Saad Azmat
Lahore University of Management Science, Pakistan
saad.azmat@lums.edu.pk

Haiqa Ali
Lahore University of Management Science, Pakistan
ali.haiqa@gmail.com

Michael Skully
Monash University, Australia
Michael.Skully@monash.edu

Kym Brown
Monash University, Australia
Kym.Brown@monash.edu

Abstract

This paper aims to explore the advertising technique of uninformative persuasion in Islamic finance. We present a theoretical model which uses individual co-categories of different situations and uses and then empirically tests the concept on Malaysian Islamic bank advertising. Islamic bankers make use of this "coarse thinking" process when advertising products, whereby an uncertain customer will relate features of an unfamiliar product to one that is more familiar to them. For instance, while advertising Murabaha (sale and mark-up features) product, Islamic banks use features that exhibit sale rather than a conventional loan, repeat Arabic words and include religious approval (Fatwa) statements by renowned Islamic scholars so their products appear religiously (Shariah) compliant. The model identifies an optimal level of persuasive messages. It also provides an upper limit or cost of fabrication of persuasive messages. The study provides suggestions to marketers of Islamic banking products, proposing an equilibrium level of persuasive strategies which reinforces the impact of persuasion. We find empirical evidence that Islamic banks use persuasion in their advertising.

A New Mechanism for Anticipating Price Exuberance

Afonso Moreira
CMVM, Portugal
afonsomoreira.moreira95@gmail.com

Luis Filipe Martins
ISCTE-IUL, Portugal
luis.martins@iscte.pt

Abstract

It is very important for investors, market regulators, and policy makers to possess a trustworthy ex-ante tool capable of anticipating price exuberance events. This paper proposes a new statistical mechanism to predict speculative bubbles by inferring a significant probability of exuberance at least one step ahead of a bubble peak period. Contrary to other approaches, we combine asset pricing modeling and non-stationarity statistical analysis and use both in the context of adaptive learning to build a dynamic model specification. Monte Carlo simulations show that the ex-ante prediction is improved enormously by adding the estimated abnormal returns into the model. In some cases our mechanism predicts 100% of the last bubbles of the sample up to five periods before the peak. Furthermore, the mechanism is able to successfully anticipate the technological bubble observed in the 1990's by estimating a probability greater than 90%, one month before the bubble peak.

Basel III Capital Accord Implementation: Impacts and Implications on Banking System Stability

Alex Kae Lun Lee
Monash University Malaysia, Malaysia
aklee9@student.monash.edu

Jothee Sinnakkannu
Monash University Malaysia, Malaysia
jothee.sinnakkannu@monash.edu

Sockalingam R. Ramasamy
Monash University Malaysia, Malaysia
r.sockalingam@monash.edu

Abstract

Lessons from past financial crises showed the necessity of banks maintaining sufficient bank capital as the last line of defence from sudden changes in asset quality and value. However, the crisis has revealed that 2004 Basel II Capital Accord's (Basel II) minimum capital requirement was insufficient to sustain the survivability of banks in an extreme event; exotic financial products and innovative intermediation activities have added more risk than can be adequately captured by Basel II. Thus, the 2010 Basel III Capital Accord (Basel III) was introduced to strengthen Basel II, by: (1) setting higher capital requirements, (2) improving the definition and quality of capital, and (3) introducing liquidity standards and capital conservation buffers to counter the pro-cyclical nature of bank lending. The study is broken into three parts. Firstly, the study aims to identify whether the new requirements will alter banks' risk-taking behaviour. Secondly, the study will identify whether the slower loan growth will impact economic growth negatively. Finally, the study will assess whether the new requirements will be able to help banks withstand large exogenous shocks in the future. A stress-test analysis on banks' survival based on plausible financial scenarios will be used to satisfy this objective. The study will concentrate on banks in the 28 countries with Basel Committee membership, to minimise the differences in the local adaptation of the new Capital Accord.

The risk of asset price bubbles after joining the common currency area

Adam Czerniak
Warsaw School of Economics, Poland
adam.czerniak@sgh.waw.pl

Jakub Borowski
Warsaw School of Economics, Poland
jborow@sgh.waw.pl

Dariusz Rosati
Warsaw School of Economics, Poland
drosat@sgh.waw.pl

Jakub Boraty?ski
University of Lodz, Poland
jakub.boratynski@uni.lodz.pl

Abstract

In this paper we estimate logit models of housing and stock price bubbles, using panel data for 15 EU countries, covering a wide set of monetary, macroeconomic, demographic, institutional and socio-cultural explanatory variables. We use the estimation results in a counterfactual simulation exercise, to show the impact of eurozone accession for Hungary, Poland and the Czech Republic (CEE countries) on the probability of asset price bubbles build-up. In this way we attempt to broaden the scope of analysis of the effects of monetary integration, carried out under the theory of optimum currency areas. Our estimation results confirm previous empirical findings and extend them in several directions. We have found that higher degree of real convergence diminishes the bubble probability in the housing market, but not in the stock market. Furthermore, we have computed by how much a drop in interest rates, being the result of eurozone accession, would increase the proneness of CEE countries to asset price bubbles. However, we also have shown that this effect will be most likely mitigated in the case of stock exchanges as Euro Area membership deters equity investors from engaging in speculative behavior. Last but not least, we found housing and stock price bubbles emergence to be significantly interdependent.

Sovereign and Bank CDS Spreads During The European Debt Crisis: Laying The Foundation for SMEs' Financial Distress

Danilo Valerio Mascia
University of Cagliari, Italy
danilo.mascia@gmail.com

Paolo Mattana
University of Cagliari, Italy
mattana@unica.it

Stefania Patrizia Sonia Rossi
University of Cagliari, Italy
stefania.rossi@unica.it

Abstract

Using a sample of 14,910 daily credit default swap (CDS) observations related to 24 banks chartered in seven countries in the Euro area, we assess the existence of a causal relation between sovereign and bank credit risk during 2010–2014. Our results show that CDS spreads of the observed banks are highly influenced by the price dynamics of sovereign CDSs. Our findings support the widespread view in the literature that a worsening market perception of sovereign credit risk has a significant impact on the behaviour of banks. In response to sovereign shocks, banks transfer the stress to borrowers, thus reducing lending and/or increasing the cost of borrowing for enterprises.

What should I do next CEO succession and subsequent corporate strategy

Naaguesh Appadu
Cass Business School, City University of London, United Kingdom
Naaguesh.appadu.1@city.ac.uk

Abstract

This paper examines the M&A strategy of firms during the first year in office following the appointment of a new CEO and its effect on longer-term firm performance. Using a unique sample of large European listed companies, the results show that CEOs of UK firms execute more deals than their counterparts in France, Germany and Spain, which could be a reflection of both a more aggressive attitude to deal-making and differences in the legal environment in continental Europe. Furthermore, following poor financial performance in companies prior to their appointment, CEOs hired with a 'mandate to change', use deal-making as their strategic tool to restructure the firm, favouring divestiture. Firms with strong board power are also more likely to perform deals and favour divestitures over acquisitions in the first year of a new CEO's tenure. Firms which mainly carry out divestitures as their deal-making strategy have a positive impact on their short- and medium-term performance during the first two years in office of a newly appointed CEO. As to the manner of the new appointment, forced and external succession is associated with performance improvement, as well as the strength of the board (using the level of institutional ownership as a proxy).

The Impact of the Internal-Rating-Based Approach on Lending Growth and the Cost of Financial Intermediation

Danilo Valerio Mascia
University of Cagliari, Italy
danilo.mascia@gmail.com

Kevin Keasey
Leeds University Business School, United Kingdom
K.Keasey@lubs.leeds.ac.uk

Francesco Vallascas
Leeds University Business School, United Kingdom
F.Vallascas@lubs.leeds.ac.uk

Abstract

Since the global financial crisis erupted in the second half of 2007, the re-design of bank capital regulation has been put at the core of the policy debate on how to regulate the banking industry. The new capital regulatory framework proposed in 2010 (Basel III) maintains key characteristics in common with the previous regulatory accord (Basel II). However, despite being still central for the architecture of capital regulation, little is known on the implications that the adoption of Basel II has produced on bank business policies. In particular, little attention has been dedicated to understand whether bank customers benefit from the use of the highly risky sensitive internal rating based (IRB) approach to measure credit risk introduced by Basel II (and confirmed by Basel III). For a cross-country sample of large banks located in 44 high income countries, we examine whether the adoption of the IRB approach to measure credit risk impacts on the lending growth and the cost of financial intermediation. While we find that the use of the IRB approach has not affected the growth of credit, it has led to a significant increase in the cost of financial intermediation as measured by a bank net interest margin. This result is robust to numerous changes to the baseline specification and it is not driven by unobserved fluctuations in the demand for credit. Furthermore, we find that the increase in the cost of financial intermediation due to the adoption of the IRB approach is greater for larger banks and is confined to bank-oriented countries where firms have less alternative funding sources respect to bank credit. Overall, our results do not seem to suggest that the increase in the cost of financial intermediation is related to cost inefficiencies generated by the adoption of a more sophisticated credit risk approach by banks. In contrast, they seem to imply that IRB adopters take advantage of their market position to pass through additional costs to their customers after the implementation of Basel II.

An experimental study on overweighting of public information

Alba Ruiz-Buforn
Universitat Jaume I, Spain
buforn@uji.es

Simone Alfarano
Universitat Jaume I, Spain
alfarano@uji.es

Eva Camacho-Cuena
Universitat Jaume I, Spain
camacho@uji.es

Abstract

Recent theoretical literature points out that public information might play a commonality role in financial market in addition to its informational role. It means that a public signal carries information on fundamentals and, contrary to private information, carries information on expectations of the ``others''. Therefore, when forming expectations on the future prospect of an asset, financial market participants might overweight a public signal more than just considering its informational content. Controlled laboratory experiments allow us to identify under which conditions we can observe overweighting of public information, since we have a perfect monitoring of the information possessed by each single trader. We study how and whether traders' strategies change in presence of a public signal. We find evidence that traders coordinate around public information when the proportion of uninformed subjects is sufficiently high, signalling that they play an important role in the overweighting phenomenon. Moreover, we observe that informed traders might act strategically in taking into account their own private information and, contemporaneously, exploiting the presence of uniformed traders.

Turn-of-the-Month, Around the World: Evidence from G7 Markets

Nuri Volkan Kayacetin
Ozyegin University, Turkey
volkan.kayacetin@ozyegin.edu.tr

Senad Lekpek
Ozyegin University, Turkey
senad.lekpek@ozu.edu.tr

Abstract

This paper investigates the turn-of-the-month (ToM) effect in international equity markets. Defining the ToM as the five-day period that covers the last four trading days of a month and the first trading day of the next month, we document statistically and economically significantly higher mean daily returns within this period compared to the remaining days of the month and show that the ToM period returns are notably stronger after months with (a) significant information uncertainty and (b) above average market returns. The country betas obtained from an international CAPM are significantly lower over the ToM period, suggesting an even starker difference in risk-adjusted returns. We link this evidence to an information risk story where gradual resolution of uncertainty following periods of intense information flow leads to a reduction in risk premiums and an increase in equity valuations. Consistent with this story, we observe that index-level conditional volatilities estimated through an e-GARCH model display significant declines in days leading to month-turns.

Financial constraint and export decision in Pakistan

saira saleem
Middle sex University, United Kingdom
sairasaleem_786@hotmail.com

Abstract

The payment of sunk cost, to enter into the foreign export market, highlights the significance of financial dimension for the firms. The payment of sunk cost becomes a challenge for financially-constrained firms to make this investment. In this paper, we introduce two additional measures of financial constraints alongside measures of financial health to scrutinise the relationship between financial constraints and the export market decision of Pakistani manufacturing firms. By using multiple estimators, we find that being less financially constrained is a vital determinant of the export decision. In addition, we find evidence that future exporters will become less financially constrained a few years prior to entering the export market. This study does not find any evidence that exporting improves the financial condition of the firms in near future.

National culture and risk-taking of European banks in CEECs

Federica Sist
Lumsa University Rome, Italy
federica.sist@gmail.com

Panu Kalmi
Vaasa University, Finland

Abstract

The European bank system needs to consider the openness of markets of Central and Eastern European countries (CEECs) above other forces among which competition, crises and regulation. This study has the aim of understanding the impact of national culture on risk-taking by European banks with branches and subsidiaries in CEECs as well as the ownership effects (shareholders, stakeholders). The sample is composed of 328 Eastern European banks in 13 countries and data are from Bankscope. The two measures of culture, individualism and power distance, affect significantly the risk-taking measured by z-score, while EBRD index records a positive relation. The results on SHV and STV suggest that banks with cooperative BHCs in CEECs have the same behaviour as commercial banks in facing cultural characteristics of a host country.

Do Stock Markets Price Expected Stock Skewness? New Evidence from Quantile Regression Skewness Forecasts

Kevin Aretz
Manchester Business School, United Kingdom
kevin.aretz@mbs.ac.uk

Yakup Eser Arisoy
Université Paris-Dauphine, France
eser.arisoy@dauphine.fr

Abstract

We use density forecasts derived from recursively estimated quantile regressions to calculate a forecast of the physical skewness of an asset's future return distribution. Our forecast is unbiased and efficient and can easily be adapted to forecast the skewness of returns calculated over any conceivable return interval. Using Neuberger's (2012) realized skewness, we show that our skewness forecast outperforms other direct or indirect forecasts used in the literature. Despite this, it does not condition the cross-section of future stock returns, neither independently nor when combined with other forecasts. Overall, we cast doubt on whether stock markets price expected skewness.

Managing the risk of the "betting-against-beta" anomaly: does it pay to bet against beta?

Pedro Barroso
University of New South Wales, Australia
pedro.ms.barroso@gmail.com

Paulo Maio
Hanken School of Economics, Finland
paulofmaio@gmail.com

Abstract

We study the risk dynamics of the betting-against-beta anomaly. The strategy shows strong and predictable time variation in risk and no risk-return trade-off. A risk-managed strategy exploiting this achieves an annualized Sharpe ratio of 1.28 with a very high information ratio of 0.94 with respect to the original strategy. Similar strategies for the market, size, value, profitability, and investment factors achieve a much smaller information ratio of 0.15 on average. The large economic benefits of risk-scaling are similar to those of momentum and set these two anomalies apart from other equity factors. Decomposing risk into a market and a specific component we find the specific component drives our results.

Determinants for the Development of Innovation Agencies In Brazil – an Evaluation of the UNESP Agency (AUIN)

Elton Eustáquio Casagrande
São Paulo State University - UNESP, Brazil
elton@fclar.unesp.br

Fabíola Spiandorello
UNESP Agency for Innovation (AUIN), Brazil
fabiola@reitoria.unesp.br

Rita Costoya
UNESP Agency for Innovation (AUIN), Brazil
rita.costoya@reitoria.unesp.br

Abstract

In this article, we analyze the role of the UNESP Agency for Innovation (AUIN), which is responsible for systematic patent applications, technology transfer, among other services offered within the University, and the use of a strategic information system based on the knowledge management. The aim of this article is to offer inputs for strategic planning, which can potentially create economic activities for researchers from Graduate Programs, and to contribute to a university model found in 24 cities in the State of São Paulo. Regarding the methodology, we analyzed the performance of AUIN affiliated researchers and their working conditions. Using a semi-structured questionnaire, we collected information that showed the actions of the AUIN over the last five years to understand the strategy used so far and productivity indicators of faculty members associated to the Agency. Given the offer conditions available for resources, we evaluated the Agency and sought to contribute to the literature with a proposal based on knowledge management. The challenge faced by the AUIN is very representative of the issues that characterize the problems concerning innovation in Brazilian public universities. The aim of the article is to also have a better understanding of the interaction between the public and private sector in the country.

High growth firms in employment and productivity: Dynamic interactions and the role of financial constraints

Cristina Guillamón
Banco de España, Spain
c.guillamon@bde.es

Enrique Moral-Benito
Banco de España, Spain
enrique.moral@bde.es

Sergio Puente
Banco de España, Spain
sergio.puente@bde.es

Abstract

Using a panel of Spanish firms over the period 2002-2012, we investigate the interactions between high growth episodes in terms of size and productivity. We find that high growth in productivity (size) increases the likelihood of high growth in size (productivity). However, the effect from size to productivity is smaller than the effect from productivity to size. We also explore the potential role of firm-level financial constraints using information from the Central Credit Register (CIR) of Banco de España. Our results indicate that credit constraints hamper high growth episodes in terms of both size and productivity.

Initial Public Offerings and Firm Location

Giulia Baschieri
Ca' Foscari University of Venice, Italy
giulia.baschieri@unive.it

Andrea Carosi
University of Sassari, Italy
acarosi@uniss.it

Stefano Mengoli
University of Bologna, Italy
stefano.mengoli@unibo.it

Abstract

The firm geographic location matters in IPOs because investors have a strong preference for newly issued local stocks and provide abnormal demand in local offerings. Using equity holdings data for more than 53,000 households, we show the probability to participate to the stock market and the proportion of the equity wealth is abnormally increasing with the volume of the IPOs inside the investor region. Upon nearly the universe of the 167,515 going public and private domestic manufacturing firms, we provide consistent evidence that the isolated private firms have higher probability to go public, larger IPO underpricing cross-sectional average and volatility, and less pronounced long-run under-performance. Similar but opposite evidence holds for the local concentration of the investor wealth. These effects are economically relevant and robust to local delistings, IPO market timing, agglomeration economies, firm location endogeneity, self-selection bias, and information asymmetries, among others. Findings suggest IPO waves have a strong geographic component, highlight that underwriters significantly under-estimate the local demand component thus leaving unexpected money on the table, and support state-contingent but constant investor propensity for risk.

Reconsider a Currency Union in Asia

Wei Song
Coventry University, Coventry Business School, United Kingdom
wei.song@coventry.ac.uk

Weiyue Wang
Coventry University, Coventry Business School, United Kingdom
ab8589@coventry.ac.uk

Abstract

The Eurozone debt crisis in recent years makes some Asian policymakers change their attitude towards a currency union. It is necessary to reconsider if a currency union in Asia is needed and how preparation Asian countries should have before creating such a union. This paper aims to investigate the feasibility of a currency union among ASEAN+3, by using cross-country data over the last twenty years. Not only the economic conditions are assessed, but also the political preconditions (e.g. fiscal federalism) are discussed. Taking Optimum Currency Area (OCA) indices of European Monetary Union (EMU) member countries as the benchmark, this study finds that ASEAN+3 are not mature enough to establish a currency union at the moment. Nevertheless, countries in this region have presented a very fast pace to get increasingly converged with the anchor countries (China / Japan). It is also found that China, Japan, South Korea, Malaysia, the Philippines, Singapore, Thailand and Cambodia are more likely to be the founding members of the future Asian currency union.

Financial performance and effective tax rates of Czech subsidiaries under foreign control

David Procházka
University of Economics, Prague, Czech Republic
prochazd@vse.cz

Cristina Procházková Ilinitchi
University of Economics, Prague, Czech Republic
cristina.ilinitchi@vse.cz

Abstract

The paper evaluates the financial performance of Czech entities under control of the EU listed companies and its association with effective tax rates. Using individual corporate data, the empirical evidence indicates a wide dispersion both in performance and taxation. The domicile of the parent has an impact on the subsidiary's effective tax rate. The effective taxation of Czech subsidiaries under control of foreign listed parents is significantly lower than for other Czech companies. Despite exhibiting some kind of tax avoidance, data reveal high variability in relative tax rates, suggesting that the majority of foreign parents from western and northern EU countries prefer to tax profits in the Czech Republic rather than to shift them elsewhere. The shifting profits to the Czech Republic results in superior reported performance of affected subsidiaries. On the other hand, empirical evidence shows that parents from southern EU countries search the way how to avoid taxation. The unclear tax motives of both groups parents hinders from appropriate assessment of financial performance of subsidiaries.

Fairness Dominating Human Behavior in International Ultimatum Bargaining Game

Marc Piazolo
University of Applied Sciences Kaiserslautern, Germany
marc.piazolo@hs-kl.de

Abstract

In 2013, we conducted an international field experiment on human behavior in South Africa and Germany with more than 1,100 participants. For this Ultimatum Bargaining Game, an inheritance of 12,000 ZAR (1,000 EUR) had to be split up between three beneficiaries. The beneficiaries inherited different roles: Andy had the right to propose the distribution of the inheritance. Berta could either accept or reject the proposal. Carlos had no rights at all. The role as proposer was auctioned off. As proposer, a large majority opted for an equal split. This was followed by the two Power Coalitions with 19 % of the votes. Less than 4 % opted for the proposal of Homo Oeconomicus (10,000 | 1,000 | 1,000 ZAR). Statistically significant differences in behavior exist between Germans and South Africans. In general, inequality aversion is much stronger among South Africans. While two thirds of South Africans propose an equal split, less than half of the Germans do. Various characteristics of the participants, like cultural background, rationality, income, gender as well as economic education are found to significantly determine the behavior as proposer.

Stock Market Return Reaction to the Arab Spring Events: Was It Really a Spring or a Fall?

Naime Usul
Bilkent University, Turkey
geredeli@bilkent.edu.tr

Tanseli Sava?er
Bilkent University, Turkey
tsavaser@bilkent.edu.tr

Ba?ak Tanyeri
Bilkent University, Turkey
basak@bilkent.edu.tr

Abstract

This study investigates the effects of the Arab Spring events on the stock market indices of the ten countries in the region. We examine 195 events during the three-year period of December, 2010 to December, 2013. Using the event study methodology, we document significant deviations from zero abnormal returns on event days, with a magnitude ranging from -11 to -1 percent. In addition, we demonstrate significant stock return reactions not only to domestic events but also to regional events. In order to statistically differentiate between the effects of regional vs. domestic events, we categorize them with respect to their country of origin and the number of coincidences with other events. Using panel regression analysis, we investigate the impact of different types of events on the stock index returns. Our results indicate that stock markets are affected the most when there are multiple domestic events with a magnitude of about 4 percent deviation from zero abnormal returns. Furthermore, there are significant spill-over effects, though modest in magnitude ranging from about 0.8 to 1.5 percent.

Are Female Managers More Informative?

Chiara De Amicis
Cass Business School, United Kingdom
Chiara.De-Amicis@cass.city.ac.uk

Sonia Falconieri
Cass Business School, United Kingdom
sonia.falconieri.1@city.ac.uk

Mesut Tastan
London School of Economics, United Kingdom
Mesut.Tastan.1@cass.city.ac.uk

Abstract

Abstract. In this study we analyse the language employed by managers during earnings conference calls from a gender perspective and we measure the market reaction to female versus male held conference calls. We find strong evidences of the fact that the tone of female CEOs and CFOs conveys reliable information regarding future firm profitability and that female executives are less likely than male managers to manage their tone to mislead investors. However, our results show that the market's reaction to earnings conference calls is significantly more silent when the manager holding the call is a woman, suggesting that investors' perceptions are considerably biased by gender stereotypes.

Market timing and performance attribution in the ECB reserve management framework

Antonio Scalia
Bank of Italy, Italy
antonio.scalia@bancaditalia.it

Francesco Potente
Bank of Italy, Italy
francesco.potente@bancaditalia.it

Abstract

We study the performance of a group of foreign exchange reserve managers that are responsible for investing the ECB's official reserves in US dollars, for a value of around $43 billion, using a new dataset which includes detailed portfolio holdings from 2006 to 2010. The ECB reserve managers display a positive ability at security selection overall. Two portfolio managers show market timing ability after adjusting for the non-linearity of the benchmark returns. For one portfolio manager, market timing ability is significantly related to the efficient use of public information. To pin down market timing, we develop a performance attribution model which identifies the contribution of the key portfolio managers' strategies (duration, curve, and spread). We find that, among the active layers, the spread contribution seems the most significant; curve and duration bets, with some exceptions, have generally provided little value added. Our analysis supports the view that portfolio managers adopt diversified investment styles. This may explain the non-negligible result of the aggregate reserve portfolio, averaging 10 basis points on an annual basis, net of transaction costs. The more diversified the investment styles are, the more likely it is that portfolio managers make independent bets, which in turn may positively affect the risk-adjusted return of the aggregate portfolio.

How does access to the unsecured debt market effect investment?

Kizkitza Biguri
BI Norwegian Business School, Norway
kizkitza.biguri@bi.no

Abstract

This paper examines the relation between debt structure and investment, by exploiting differences in secured and unsecured debt holdings. In order to address endogeneity concerns, I exploit two sources of exogenous variation for identi fication. From the fi rms' side, the Jobs and Growth Tax Relief Reconciliation Act of 2003 represents a negative shock to fi rms' creditworthiness. From the credit market's perspective, the asset-backed commercial paper market collapse of 2007 caused a temporary shortage of unsecured commercial paper. Each of these shocks to debt structure is analyzed combining a diff erence-in-diff erences approach with an instrumental variable estimation (Waldinger (2010)), which allows studying i) substitution patterns among debt types and ii) the impact on investment. Results show that greater access to unsecured debt leads to larger investment. When fi rms face more restricted access to the unsecured debt market, they substitute toward secured debt, and reduce investment. The reason behind this result is that unsecured debt is more cost-e ffective in terms of spreads and covenants. These fi ndings suggest that collateral is not key to finance investment, as instead has often been claimed in the literature. Creditworthiness rather than collateral is key to access unsecured debt. Additionally, I shed light on how access to the unsecured debt market relates to the balance sheet and credit channels of monetary policy.

The Intangible Value of Key Talent: Decomposing Organization Capital

Alev Yildirim
City University of New York, United States
ayildirim@gradcenter.cuny.edu

Linda Allen
Baruch College, United States
linda.allen@baruch.cuny.edu

Abstract

Intangible assets are a key contributor to firm value, enabling the firm to differentiate itself from competitors on the basis of its access to specialized, efficient, firm-specific information, activities and procedures, identified as organization capital (OC). Since OC contains a heterogeneous group of disparate items, we isolate firm value creation by decomposing OC into two major parts: (1) key talent in the form of compensation of top executives and (2) the residual component of OC. The results show that OC value creation originates from the key talent of the firm. Furthermore, residual OC creates systematic risk exposure, whereas key talent engenders idiosyncratic risk.

Information Aggregation in Arrow-Debreu Security Markets

Lawrence Choo
Nuremburg, Germany
lawrence.cy.choo@fau.de

Todd Kaplan
University of Haifa and University of Exeter Business School, Israel
toddrkaplan@gmail.com

Ro'i Zultan
Ben Gurion University, Israel
zultan@bgu.ac.il

Abstract

Following the work of Plott and Sunder (1988) and Plott (2000), we test the hypothesis that complete markets can aggregate information into prices. We use a challenging information problem based upon the red-hat puzzle. There are three trader types each having a color hat (either red or black). Each trader sees the color hat of the other two trader types (either red or black) but not their own. There are four securities each paying out only if the number of types with red hats is equal to a specific number (0 to 3). When subjects are relatively experienced, security prices reflect full information significantly better than an alternative model of prices reflecting only private information, however, the subjects' ex-post markets beliefs match the alternative model as well as the full information model. This suggests that it is possible for Arrow-Debreu markets to successfully aggregate information into security prices even when we cannot conclude that market participants deduce the true state.

Credit Supply and Uncertainty: The Role of Social Capital

Maddalena Galardo
Bank of Italy, Italy
maddalena.galardo@bancaditalia.it

Maurizio Lozzi
Bank of Italy, Italy
maurizio.lozzi@bancaditalia.it

Paolo Emilio Mistrulli
Bank of Italy, Italy
paoloemilio.mistrulli@bancaditalia.it

Abstract

A large number of papers have investigated how the recent crisis affected the credit market. However, the literature is still silent on the role played by social capital during the crisis. This contrasts with the view that social capital is a key factor affecting the functioning of financial markets (Guiso et al. (2004)). In this paper we fill this gap and investigate whether social capital has played a role in mitigating the effects of the recent crisis on credit rationing. To this aim, we compare the probability of approving loan requests lodged by over half a million of Italian non-financial corporations in seven quarters both before and after Lehman's default (2007.Q1-2010.Q2). We find that firms headquartered in high-social capital provinces suffered less from the global crisis.

Estimating the term structure with linear regressions: Getting to the roots of the model

Adam Golinski
University of York, United Kingdom
adam.golinski@york.ac.uk

Peter Spencer
University of York, United Kingdom
peter.spencer@york.ac.uk

Abstract

Linear estimators of the risk neutral dynamics of the affine term structure model are inconsistent in the sense that they cannot reproduce the factors used in estimation. This is a serious handicap empirically, giving a worse fit than a conventional maximum likelihood estimator that ensures consistency. We show that a self-consistent estimator of the risk neutral dynamics can be constructed using the eigenvalue decomposition of a regression estimator. The remaining parameters of the model follow analytically given regression estimates of the real-world factor dynamics. The fit of this model is virtually indistinguishable from that of the maximum likelihood estimator. We apply the method to estimate the model of the U.S. Treasury yield curve and a joint model of the U.S. and German yield curves.

Does it pay off? The NPV of Advertising Pension Funds

Ido Kallir
Ono Academic College, Israel
ikallir@gmail.com

Oren Kaplan
College of Management, Israel
orkaplan@colman.ac.il

Abstract

We analyze the impact role of advertising on the net inflows of pension funds, using a unique database that includes monthly information, asset allocation and the Flow of Funds (FoF) for all the pension funds in Israel. We also obtain the monthly $-value advertising per fund. Using these complementary databases to construct a unique empirical setting, we find that, in the majority of cases, the impact of advertising is insignificant and that the industry's NPV is negative. We show that, although superior performance leads to increased advertising, the campaigns are ineffective in terms of additional flow. It remains to be seen whether small fund families can create new flow.

Liquidity Premium in Domestic Brazilian Government Bonds

Gyorgy Varga
FCE - Brazil, Brazil
varga@fce.com.br

Abstract

This article investigates the return differential between liquid and illiquid Brazilian Government bonds to find out if there is a liquidity premium among this asset like the evidence for the United States. The result does not show positive or negative significant premium.

The role of debt-renegotiation scheme in firm's decisions

Anne Epaulard
University of Paris Dauphine, France
anne.epaulard@dauphine.fr

Aude Pommeret
City University of Hong Kong, Hong Kong
aude.pommeret@cityu.edu.hk

Abstract

We study the impact of debt renegotiation on real and financial decisions of firms. In addition to the balance of bargaining power between creditors and debtors, we consider the type of debt renegotiation scheme (debt equity swap, haircut, strategic debt service) available to stakeholders. We solve analytically a model of investment timing, financial structure, default, and debt renegotiation under uncertainty. We then compare firms' decisions across debt renegotiation schemes. We show that the debt renegotiation scheme available to stakeholders matters as much as the balance of bargaining power between creditors and shareholders: optimal leverage, spread, investment timing and renegotiation probability differ depending on the renegotiation scheme and the magnitude of the differences between schemes is as large as that within a given scheme for different shareholder's bargaining power. In addition, we show that interest rate spread (on new debt) is independent of creditor bargaining power under haircut.

Distress Risk, Product Market Competition, and Corporate Bond Yield Spreads

Han-Hsing Lee
National Chiao Tung University, Taiwan
hhlee@mail.nctu.edu.tw

Abstract

The purpose of this paper is to examine whether industry-related risk affects corporate bond yield spreads. We use three types of industry risk variables in our empirical analysis: distress exposure measure, industry condition, and product market competition. The empirical results reveal significant relationships between these industry risk measures and bond yield spreads. Our evidence supports that industry-related risk does play an important role in explaining bond yield spreads.

THE GENDER CONTRIBUTION TO THE CORPORATE GOVERNANCE AND THE CORPORATE PERFORMANCE

Daniela Arzu
Ca' Foscari University, Italy
836945@stud.unive.it

Guido Max Mantovani
HERMES-Universities & Ca' Foscari University, Italy
gmanto@unive.it

Abstract

Firms may have gender differences in governance characteristics, which may lead to differences in the firms' performances themselves, and consequently in the way credit is allocated. The paper demonstrates that there are differences in governance characteristics and, most important, there is a huge difference in the way credit is allocated: it appears that there are more women-led firms which deserve credit, but that do not receive it; furthermore, there is a lower number of women-run firms which are at risk of default. This confirms the analysis of previous papers which claimed that there are differences in the way credit is allocated according to the gender of managers in the firms and that women-led firms are more performing than male ones.

Fractal analysis of Dow Jones Industrial Index returns

Claudio Conversano
Università degli Studi di Cagliari, Italy
conversa@unica.it

Ambrogio Pili
Università degli Studi di Cagliari, Italy

Beatrice Venturi
Università degli Studi di Cagliari, Italy
venturi@unica.it

Abstract

The objective of this paper is to demonstrate through empirical analyzes of prices, yields and volatility of the stock Dow Jones Industrial Average 30 that the Fractal Market Hypothesis (FMH) and the resulting fractal analysis that descends offer estimates and more realistic estimates than do the Efficient Market Hypothesis (EMH).The first part of this work is concerned to find a long-term dependence on stock market index returns through the use of R / S statistic, you determine the length of the average market cycle through the statistic V, later we will find the Hurst coefficient as a measure of the degree of persistence of the time series trend. In the second part the objective will be to simulate, through a Monte Carlo approach, the most likely path that will run the stock index in the future, more precisely build the most likely path that runs from 1 January 2001 to 31 December 2013 assuming not have data for this period; this forecast will be by means of geometric Brownian motion models (typical model provided by EMH) and then by means of the fractional Brownian motion (model that harks back to the FMH); the two models will be compared to determine the one that offers the most accurate estimates and forecasts. The third party wants to use the volatility arising from the simulation yields obtained with MBG and MBF along with that produced by a GARCH (1,1) model simulated with Monte Carlo method, and determine which of the three, allows to find the lowest value Value at Risk (VaR) and Conditional Value at Risk (CVaR) and in the case consider a Normal distribution of returns is if using a Pareto distribution with characteristic parameter calculated as the inverse of the Hurst coefficient found in the first part. For this last part you will use, for simplicity, as a portfolio on which to calculate VaR and CVaR, the Dow Jones 30, credited as being the underlying of a single title replicating such as an Exchange-Traded Commodity (ETC), assuming that this does not have it operating costs, or tracking error, or subject to tax or any kind of expenses.

Forecasting Equilibrium Exchange rates for maximizing portfolio returns: the case of Turkey

Simona Bonifazi di Statte
International University of Monaco,
simona.bonifazi@gmail.com

Kamar Bassem
International Monetary Fund,
bkamar@imf.org

Abstract

Investors often omit the importance of exchange rate fluctuations on maximizing portfolio expected returns. Our research will add to the literature in this field by using models of fundamental equilibrium exchange rates to forecast the behaviour of exchange rates and then use that information to maximize portfolio returns and contribute to investment decision making as a whole. We will apply our econometric analysis to the case of Turkey, which has been rarely investigated in previous literature.

Time Varying Parameter Taylor Rule for the Hungarian Monetary Policy

Gallusz Abaligeti
PTE KTK, Hungary
abaligetig@ktk.pte.hu

Kristóf Németh
PTE KTK, Hungary
nemethkf@ktk.pte.hu

Zoltán Schepp
PTE KTK, Hungary
schepp@ktk.pte.hu

Abstract

We estimate a forward-looking time-varying Taylor rule for the Hungarian economy. We try to provide a retrospective analysis which can help us to understand the background of former monetary policy decisions. An important feature of our study is that the estimation procedure is mainly based on data published by the Hungarian National Bank. According to the empirical evidence, we assumed implicit exchange rate targeting mechanism and a latent time-varying exchange rate target. This resulted in a non-linear state space model (measurement equation), so we used the Extended Kalman filter to estimate the model. Our results point to significant changes in the Taylor coefficients, that is in the priorities of the Hungarian Central Bank. These changes justify for the time-varying specification. The results shows that interest rate smoothing has played a very significant role in policy rate determination. This so-called interest rate inertia was particularly strong in the pre-crisis period. By comparison, in the post-crisis period (from Q4 2008) monetary policy's first priority is the stabilization of the output gap.

Are Risk Managers Affected by Behavioral Biases in Currency Risk Management?

Andreas Hecht
University of Hohenheim, Germany
hecht.andreas@uni-hohenheim.de

Abstract

We evaluate whether risk managers are subject to overconfidence, representativeness bias, and mental accounting biases (Adam, Fernando, & Golubeva, 2015; Beber & Fabbri, 2012) and investigate the effect of prior gains/losses on concurrent FX transactions. Using hand-collected data with company-, year-, and currency-specific hedge ratios, we classify FX transactions as risk management transactions (reducing currency-specific FX exposure) or as speculative transactions (increasing currency-specific FX exposure). We find that hedge ratios increase in prior gains, as well as, in prior losses, if FX transactions are classified as risk management transactions. This finding is consistent with rational FX exposure risk management and inconsistent with the above-mentioned behavioral biases. Further, we find that hedge ratios decrease [increase] following gains [losses] for transactions classified as speculative. That is, prior gains [losses] are associated with higher [lower] current FX exposures, a finding consistent with the behavioral house-money effect. Our findings indicate that aforementioned behavioral biases might not be as relevant for risk managers as extant evidence suggests.

Beyond Market Mood: Stock Sentiment and the Response to Corporate Earnings Announcements

Andrew Mason
Surrey University, United Kingdom
andrew.mason@surrey.ac.uk

Nick Karampatsas
Surrey University, United Kingdom
nk0015@surrey.ac.uk

Soheila Malekpour
Surrey University, United Kingdom
sm00509@surrey.ac.uk

Abstract

Our research is novel in that it simultaneously considers both stock-specific investor sentiment and market-wide investor sentiment in the context of earnings announcements. It forms the basis of a deeper understanding of the mechanisms by which sentiment affects stock prices and its role in the price formation process. We make contributions to the existing literature in several areas. First, this study is the first to establish a relationship between stock-specific investor sentiment and stock price movements around earnings announcements. Second, we find that stock-specific investor sentiment is the key determinant of price adjustment in the context of a significant micro-event i.e. an earnings surprise. Third that the effect of stock-specific investor sentiment is not moderated by market-wide investor sentiment. Finally, we provide evidence that the effect of stock-specific investor sentiment is more pronounced for stocks that are hard to value and difficult to arbitrage.

Testing Momentum Strategies for the us Equities Market and Comparing with Passive Options Investment Strategies

Jose P Dapena
Universidad del CEMA, Argentina
jd@ucema.edu.ar

Julian Siri
Universidad del CEMA, Argentina
julian@in2metrics.com.ar

Juan Serur
Universidad del CEMA, Argentina
juanandresserur@hotmail.com

Abstract

Conventional finance theory considers that ex-ante risk has to be appropriately rewarded by expected returns, and risk is generally measured by the variance or its equivalent, the standard deviation of returns. There are in the financial markets countless quantitative and systematic strategies which may test and eventually lead to excess returns when measured by theses conventional stochastic measures. One of them, the momentum effect, denotes in finance the tendency in the movements of the prices of financial assets to continue in the same direction for certain temporal horizons, so assets that have performed better in the past tend to continue to do so in the future. The objective of this paper is to test the existence of excess returns from momentum strategies, and then test two contemporaneous series that may lead to excess returns, one coming from momentum strategies and the other from previous on passive options portfolio strategies, to evaluate to what extent the excess returns from both are correlated and whether the information conveyed on excess returns from the US equity market is the same in both cases.

Regionally differentiated debt cap rules: a Hungarian perspective

Marton Nagy
Hungarian Central Bank, Hungary
nagymar@mnb.hu

Aniko Szombati
Hungarian Central Bank, Hungary
szombatia@mnb.hu

Peter Faykiss
Hungarian Central Bank, Hungary
faykissp@mnb.hu

Abstract

Budapest, the capital of Hungary has experienced a 50 percent two-year growth rate in its housing prices. This has been significantly higher than the price increase in the rest of Hungary, but calculations show that houses are not yet overvalued in any regions of the country. Still, the characteristics of the housing market in the Budapest metropolitan area make this region the primary candidate for a possible regional housing bubble in the future. International experience has shown that housing bubbles accompanied by lending booms pose a serious risk to financial stability. Therefore, the MNB has started to evaluate the potential macroprudential interventions that could be applied in a regionally differentiated manner. In our analysis, we identify capital requirements and concurrently implemented payment-to-income (PTI) and loan-to-value (LTV) limits (referred to as debt cap rules) as the most promising avenues for intervention. According to our evaluation, debt cap rules outperform capital requirements in several dimensions. Several kinds of challenges arise before actual macroprudential policy intervention could be considered. We highlight a number of calibration issues and review potential spillover effects. We conclude that the regional tightening of the already introduced PTI and LTV limits could support financial stability objectives, but their interaction with other policy areas, including fiscal, social and employment policy would warrant careful consideration and very tight coordination.

Employment Protection Laws and Corporate Liquidity Management

Neslihan Ozkan
University of Bristol, United Kingdom
n.ozkan@bristol.ac.uk

Ahmet Karpuz
University of Bristol, United Kingdom
Ahmet.Karpuz@bristol.ac.uk

Kirak Kim
University of Bristol, United Kingdom
Kirak.kim@bristol.ac.uk

Abstract

This paper investigates the relation between employment protection and corporate liquidity management (i.e., cash holding and cash saving decisions). Theory suggests that employment protection increases firms' labor adjustment costs. We use difference-in-differences estimation method exploiting changes in employment protection laws as a source of variation in labor adjustment costs in 20 countries over the period 1990-2007. We find that, in response to an increase in employment protection, firms increase their cash buffers and propensities to save cash from the funds raised internally and externally. The effect is stronger for firms with relatively small size, high cash flow volatility, and high labor intensity. Overall, our findings suggest that firms' precautionary motives for cash savings increase as labor adjustment costs and therefore operating leverage increases.

Corporate Governance and Dividend Policy in Colombia

Samuel Mongrut
Universidad del Pacifico, Mexico
smongrut@itesm.mx

Julian Usma
Universidad EAFIT, Colombia
smongrut@hotmail.com

Carlos Ramírez
Universidad EAFIT, Colombia
smongrut@gmail.com

Abstract

The study measures the impact of the adoption of the Corporate Governance Code (CGC) on the dividend payout ratio for non-financial firms listed in the National Registry for Securities and Issuers (RNVE) of the Colombian Stock Exchange (CSE). Through the application of a non-balanced panel data model on a sample of 279 companies, from 2004 to 2015, it has been found that those companies that adopted the CGC have paid, on average, higher dividends than those that did not. In addition, the impact of the adoption of the CGCC is amplified by its quality, meaning that better Corporate Governance practices lead to even higher dividend payout. Likewise, companies with a CGC do not only pay higher dividends but also show better margins of profitability and higher returns.

On The Effect of "Green Projects" on Bond Yields: Empirical Evidence on the Primary Market Spreads

Massimo Mariani
LUM Jean Monnet, Italy
mariani@lum.it

Alessandra Caragnano
LUM Jean Monnet, Italy
alessandracaragnano@yahoo.it

Pierluigi Patruno
LUM Jean Monnet, Italy
pierluigipatruno@hotmai.com

Paola Amoruso
LUM Jean Monnet, Italy

Abstract

Environmental concerns have improved the range of environmentally friendly projects, developed by a growing number of companies, banks and municipality, and the related needs of debt financing. This has lead the issue of Green Bonds, widely increasing in number in the last few decades. This paper is aimed to investigates on the performances of Green Bonds, underlying the effect of the underlying projects, focusing on the issue date in the last six years (2010-2016). The aim of the study has been to provide evidences on the impact of these underlying projects. In the light of the performed analysis, it is clear that the "greenness" of the underlying financed project, has a strong impact on its performance, mainly due to the lowered risk related to the projects, and the expanding demand for environmentally friendly goods such as eco-efficient products and renewable energy.

Power to the Small Investors: The Role of Social Media in Corporate Governance

Chaopeng Wu
Xiamen University, China
wuchaopeng@xmu.edu.cn

James Ang
Florida State University, United States
jang@cob.fsu.edu

Di Tang
Xiamen University, China
tangdi@stu.xmu.edu.cn

Abstract

We investigate whether social media, as a low cost communication device, empowers small shareholders to play a meaningful role in corporate governance. The details (counts, intensity, and content) of small investors' reactions in the acquirers' Internet stock message board to 303 large value reducing acquisition attempts are analyzed. We find that they significantly influenced the acquirers' subsequent decision to withdraw the acquisition attempts. Further evidence shows that they are driven by social media's ability to disseminate additional information and insights more broadly, socially shaming the acquirer's managers, and increasing the acquirers' risk of attracting the attention of government regulators.

The joint distribution of income and wealth in Uruguay

Graciela Sanroman
Universidad de la República, Uruguay
graciela.sanroman@cienciassociales.edu.uy

Guillermo Santos
Universidad de la República, Uruguay
guillermo.santos@cienciassociales.edu.uy

Abstract

This paper analyses the joint distribution of income and wealth in Uruguay, and compares it to those of Chile, Spain and the U.S. using data from Surveys of Household Finances and Wealth. First, we separately analyse each variable of interest and find that wealth is much more concentrated and notably more asymmetric than income. Afterwards, we analyse the joint distribution of income and wealth by using empirical copulas. We find that, similarly to other countries, in Uruguay high income households are among the wealthiest, while low income households are mostly in the bottom of wealth distribution. Finally, we estimate mean and quantile regressions for wealth and income in Uruguay and find that education and inheritances are the major sources of heterogeneity.

Bridging TLAC and MREL: Do Bank Business Models Matter?

Rym Ayadi
HEC Montreal, Canada
rym.ayadi@hec.ca

Michel Keoula
HEC Montreal, Canada
rym.ayadi@hec.ca

Giovanni Ferri
Lumsa university, Italy
rym.ayadi@hec.ca

Abstract

In Europe, policy responses to the financial crisis of 2007-2009 that focused on ending bailouts of banks using taxpayers' money, have emphasised the completion of Banking Union and the furthering of international cooperation fostered by the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB). This paper delves into the debate on determining the Minimum Requirement on own fund and Eligible Liabilities (MREL), provides estimates based on a broad set of European banks organised by business model, ownership structure and systemic footprint and explains MREL based on different metrics. In what follows the paper summarises three key areas: a) alignment of MREL calculation with the Total Loss Absorption Capacity (TLAC) put forward by the FSB, b) basis of MREL calculation, and finally c) systemic versus proportionality aspects.

Women on compensation committees and CEO contract design: Evidence from Sweden.

Katarzyna Cieslak
Uppsala University, Sweden
katarzyna.cieslak@fek.uu.se

Abstract

Many countries plan to introduce quotas for boardroom representation of women and the number of studies that link composition of the board of directors in terms of gender and firm outcomes has been growing. However, previous research focused mostly on outcomes of company performance (Campbell and Minguez-Vera, 2008, Adams and Ferreira, 2009, Joecks, et al., 2013, Terjesen, et al., 2016) and risk taking (Adams and Ragunathan, 2013, Sila, et al., 2016). The current study investigates the impact of presence of women on compensation committees on CEO contract design. Using a unique Swedish setting with one of the highest proportion worldwide of women on boards and a sample of 1,525 firm-year observations of Swedish listed firms in years 2006-2013 I find that after controlling for common economic drivers of pay, presence of women on compensation committee is significantly positively related to both total level of pay and severance to the CEO in OLS estimations. No relation has been found with variability of pay. Significant results disappear, however, in the firm-fixed effects and the system dynamic panel data (GMM) estimations. Positive association between women on compensation committees and CEO pay may be driven by unobserved firm-level variable.

A pact with the Devil: When Countries Turn to Dirty Money

Maria Elisa Farias
Universidad de Chile, Chile
farias.melisa@gmail.com

Monica Arruda De Almeida
Georgetown University, United States
ma669@georgetown.edu

Abstract

This paper examines the role of illicit fl?ows of capital (money) during defaults. Developing a theoretical model that represents the case of a small open economy exposed to exogenous shocks, we ?find that institutional aspects (such as reputation of debt repayment) affect liquidity and the probability of default. In addition, liquidity constrained countries would be more prone to receive illicit fl?ows of money. Applying econometric analysis for a panel of data composed for 6 Latin American countries that experienced external default between 1960 and 2012, we fi?nd that debt increases when a country is suspicious of beign involved in illicit fl?ows. In addition, we obtain a positive relationship between debt and default and a negative relationship among these two variables and the indicator of money laundering. These results are very robust suggesting that the probability of default increases when there are suspicious that a country is or has been involved in money laundering activities.

FOUNDING FAMILY OWNERSHIP AND AGENCY COSTS: EVIDENCE FROM THE MARGINAL VALUE OF CASH

Daniel Powell
Philipps-Universität, Marburg, Germany
powell@uni-marburg.de

Marc Steffen Rapp
Philipps-Universität, Marburg; Copenhagen Business School, Germany
msr@m-s-rapp.de

Abstract

We propose a novel approach to study agency costs of founding family ownership. The approach, which is an extension of the "marginal value of cash" concept proposed by Faulkender and Wang (2006, Journal of Finance), combines a (long-run) event study design with the idea of a difference-in-difference specification and aims at mitigating the omnipresent endogeneity concern of family firm research. Studying a sample of German listed firms, we find a generally positive relationship between founding family influence and the (marginal) valuation of cash holdings. The family firm cash valuation premium is present, even when studying reduced samples excluding (i) firms more likely to be financially constrained, or (ii) firms with high investment opportunities, thereby being less prone to free cash flow agency costs. When we analyse future operating performance, we find that family firms are more efficient in translating additional cash into future operating results. In sum, our results provide additional evidence that founding family ownership may mitigate the free cash flow agency problem of listed firms.

Accretio ad absurdum: Program Related Investments and Payout Rates in U.S. Foundations

Rebecca Tekula
Pace University, United States
rtekula@pace.edu

Eileen Lee-Fung
Pace University, United States
el70083n@pace.edu

Abstract

We study program related investments of foundations in the United States. These investments can be made from the tax-advantaged required minimum charitable distributions. Evidence is found that foundations use program-related investments to decrease their required charitable distributions, a strategy that allows endowments to grow at the cost of grantmaking. Foundations making program-related investments make lower charitable payouts than their counterparts, which would in effect be even lower if we removed PRIs from the payout equation.

Forward-Looking Taylor Rules without Forward-Looking Data: Reserve Bank of Australia

Gennady Lyakir
Fashion institute of technology, United States
gennady_lyakir@fitnyc.edu

David Kemme
University of Memphis, United States
dmkemme@memphis.edu

Abstract

We analyze Australia's monetary policy via forward looking inflation targeting rule for 1994 - 2008 inflation targeting period with real-time data. The results indicate that the Reserve Bank of Australia (RBA) is forward-looking and focuses on inflation development three to four quarters ahead. An augmented Taylor rule estimated with real-time data also reveals that the RBA responds to movements in the effective exchange rate and to developments in US monetary policy.

Bankers on the board and stock price crash risk

Min Jung Kang
University of Michigan, Flint, United States
kangmin@umflint.edu

Qunfeng Liao
University of Michigan, Flint, United States
qunliao@umflint.edu

Y.Han (Andy) Kim
SungKyunKwan University, South Korea
ayhkim@skku.edu

Abstract

We examine whether directors from commercial bank have any prediction on stock price crash risk. We find that commercial banker directors' presence predicts a lower stock price crash probability and this is especially true with non-affiliated commercial banker directors. In general, affiliated banker directors do not lower price crash probability and this finding can be explained by affiliated banker directors' association with less conservative accounting (see Erkens et al., 2014). However, if a firm shows increased risk level or weak corporate governance level, firms with affiliated banker directors show reduction in stock price crash risk. These results suggest that affiliated banker directors become active monitors and thereby reduce stock price crash likelihood when its own stake is at risk, such as when firm's risk increases, credit is downgraded, total leverage increases, corporate governance gets weaker, or financial reports is less readable.

Do Central Counterparts Improve the Stability of Derivatives Market? Some Evidence from an Agent-Based Model

Inna Krachkovskaya
University of Cagliari, Italy
inna@asquer.com

Alberto Asquer
SOAS University of London, United Kingdom
aa144@soas.ac.uk

Abstract

In the aftermath of the 2007-08 financial crises, regulatory reforms of the financial system came to include a role for central counterparts, which are expected to improve the stability of derivatives markets. Using an agent-based model simulation, this study suggests that central counterparts help achieving this policy objective. The introduction of central counterparts, however, can also stimulate novel patterns of industrial dynamics, especially in the form of possible fragmentation of the derivatives market into segregated networks around different central counterparts. It seems, moreover, that even the presence of central counterparts does not provide full safeguard to the preservation of the stability of the financial system, depending on the occurrence of relatively high credit default losses.

Use of Options, Short Sales, and Leverage by Mutual Funds

Selim Topaloglu
Queen's University, Canada
selim.topaloglu@queensu.ca

Paul Calluzzo
Queen's University, Canada
paul.calluzzo@queensu.ca

Fabio Moneta
Queen's University, Canada
fmoneta@business.queensu.ca

Abstract

We study the use of complex financial instruments by mutual funds. Using information reported to the SEC in Form N-SAR we identify if mutual funds are permitted to use options, short sales, and leverage and determine when they actually use those instruments. Our results suggest that the use of these complex financial instruments is associated with poor outcomes for investors. Specifically, the use of these instruments is associated with lower performance, higher idiosyncratic risk, and higher fund fees. We find that funds that use complex instruments hold riskier equity positions. It appears that mutual funds attempt to use complex instruments to reduce the risk of the portfolio but in an imperfect and costly way.

Financial implications on data breaches

Ivika Jäger
Stockholm School of Economics, Sweden
ivika.jager@phdstudent.hhs.se

Abstract

This paper looks at the financial implications of data breaches on US publicly listed companies. The event study methodology is used to quantify the announcement effect in stock prices. Further, the paper investigates the cross-sectional variation and the drivers of the cumulative abnormal returns, including both firm and event specific characteristics. Furthermore, the paper looks at the long term financial performance of the affected companies. The analysis reveals an average announcement CAR of -0.66% over a 2-day event window (average drop in MCap of 440m$) and -1.09% weekly CAR (5 trading days, average drop in MCap of 730m$). The CAR persists for 7 trading days and reverses completely by the end of the second trading week after the event. Consistent with previous literature, there appear to be significant differences in the cross-section of events depending on a company's size and industry as well as event characteristics, such as the method of breach and sensitivity of compromised data.

Labour market adjustments to financing conditions under sectoral rigidities in the euro area

Simon Savsek
Europen Central Bank, Germany
simon.savsek@ecb.europa.eu

Sebastian Weber
European Central Bank, Germany
sebastian.weber@ecb.europa.eu

Arno Hantzsche
University of Nottingham, United Kingdom
arno.hantzsche@gmail.com

Abstract

This study analyses the role of labour market institutions for the response of labour market indicators at the sectoral level to changing financial conditions. Using a local projections approach, we estimate impulse responses of two margins of labour market adjustment – employment and real wages – for individual sectors in a panel of 15 euro area countries. Our findings imply that tighter employment protection generally shifts the adjustment burden on the wage margin, while limiting the adjustment of employment. Sectors with relatively rigid employment legislation, such as the manufacturing sector, face larger wage volatility. Sectors with more flexible employment institutions, like construction, are characterised by a smaller wage adjustments and a more significant employment adjustment. In addition, we find that financing conditions have asymmetric effects: when spreads decline, both employment and real wages tend to remain broadly stable, but when spreads increase both employment and real wages tend to fall. Distinguishing easing and tightening shocks confirms the existence of a trade-off: while stricter employment protection or higher union density limit adjustment of employment in the short-run as financing conditions tighten, they also hinder a significant increase in employment when financing conditions ease.

A Meta-analysis on the impacts of monetary policy on aggregate demands and price level in emerging and developing countries

Thi Mai Lan Nguyen
International Institute of Social Sudies, Netherlands
thimailan@iss.nl

Abstract

A large number of the studies employing vector-autoregressive models to examine the impacts of monetary policy in individual developing and emerging countries have shown the heterogeneity in the effect sizes, yet no empirical research has been conducted to investigate the genuine effects. This chapter aims to fill this gap by a meta-regression analysis (MRA) method to synthesize the effects, test for the presence of the publication bias and find out the "true" underlying effects. The outcomes indicate that the reported effects in 41 primary studies on the responses of output and in 35 primary studies on the responses of price level have been affected by the publication bias. The "true" underlying effects after being corrected for the publication bias are either insignificant or relative small. The findings help to deepen the understanding on the ineffective monetary policy in developing and emerging countries.

Ambiguity and Interbank Market Participation: Relationship and Transactional banking

Reina Renard
KU Leuven, Belgium
reina.renard@kuleuven.be

Abstract

The interbank market (IBM) is a crucial source of funding for banks and in this paper it is shown where relationship banking improves IBM liquidity, even in times of financial turmoil. The choice between transactional and relationship banking is modeled via a single-shot-choice setting prior to resolving the uncertainty about the borrower's quality. Although engaging in a relationships is costly, it allows to persuade the loan officers to participate in the IBM. This effect becomes less outspoken in a financial turmoil, which advocates for the formation of relationships in normal times. Moreover, the central aim is to tackle the choice in banking type in a setting where lending banks are either ambiguity or risk averse. The effect of two types of loan officers is formalized by considering CARA-normal preferences. While a risk-averse loan officer knows the probability distribution of the counterparty's creditworthiness, an ambiguity-averse one considers a range of distributions and is cautious when deciding on IBM participation. Relationship banking allows to mitigate this cautious behavior as it implies more precise information about a counterparty's creditworthiness. A unique equilibrium is derived by imposing market clearing in the IBM and a borrowing bank prefers to acquire the necessary funding via the least expensive banking type.

Oil Price Risk in the U.S. Transportation Sector Returns

Gayane Sargsyan
Ohio University, United States
gsargsyan25@gmail.com

Abstract

This paper examines the effect of oil price changes on the U.S. transportation sector excess returns, specifically scoped on the airline industry. Monthly excess returns, oil prices, Small Minus Big (SMB) and High Minus Low (HML) factors, Industrial Production Index (IPI), term spread, U.S. business cycle and stock market crash dummy variables from October 1992 to July 2016 are used to estimate the parameters for the integrated multifactor Arbitrage Pricing Theory (APT) model. Results reveal that a significant and negative correlation exists between oil price changes and transportation sector excess returns. Of the transportation sector components, the airline industry excess returns have three times higher exposure to oil price fluctuations. The transportation sector, overall, appears to behave as a small-cap, value-oriented and neutral market risk fund over the study period. Although there is no statistical evidence that size premium is a significant determinant of the U.S. airline industry excess returns, the airline industry tends to behave as a value-oriented and high market risk fund. ?

Dividend Payout and Performance Compensation Policy in an Emerging Market

Ravichandran Subramaniam
Monash University Malaysia, Malaysia
ravichandran.subramaniam@monash.edu

Chee Ghee Teh
Monash University Malaysia, Malaysia
teh.chee.ghee@monash.edu

Sakthi Mahenthiran
Monash University Malaysia, United States
smahenth@butler.edu

Abstract

This study examines how ownership structure and corporate governance mechanisms moderates the relationship between a company's dividend policy and pay for the performance compensation policy in Malaysian public listed companies (PLCs). The sample consists of 300 of the largest companies listed on Bursa Malaysia for the years 2008 to 2012. Our findings negate Bhattacharyya et al. (2011) findings that executive compensation is negatively associated with dividend payout. Further, this study also found that payment of dividend from earnings is positively associated with executive compensation in Malaysian PLCs that have institutional shareholdings, higher level of CEO education, CEO duality and higher frequency of Board meeting. However, the existence of multi-diversity board members, can lead to lower dividend payouts. On the interaction level, we found that the level of directors' compensation interacts negatively with the level of CEOs education to affect the level of dividend payouts in Malaysian PLCs. Two major implications to the regulators in Malaysia are first, the regulators should disallow the continuance of the CEO duality practices in Malaysian PLCs, as our study shows that CEO duality leads to lower dividend payout to shareholders and second, the regulators should encourage more gender diversity and let the corporate sector evolve naturally rather than setting percentage by using such a 30% rule-of-thumb.

Does it Pay to Participate? Asymmetric Broker Response to Earnings Conference Calls

Andrew Grant
University of Sydney, Australia
andrew.grant@sydney.edu.au

Elvis Jarnecic
University of Sydney, Australia
elvis.jarnecic@sydney.edu.au

Daniel Luke
University of Sydney, Australia
daniel.luke@live.com

Abstract

Earnings conference call tone asymmetrically influences the trading activity of participating and non-participating brokers. Whilst a broker's participation in earnings conference calls may expose their private discernment of the host companies stock, such inquisitions selectively reveal valuable information which guides the trading behavior of participating brokers. We find that whilst non-participants can be deceived by excessively positive tone, participants prove to be more rational buyers. Similarly, participants are more reactive to negative tone in their selling activity; mutually suggesting that non-participants suffer from overconfidence and over-optimism extending from their limited attention. These results hold after controlling for the concurrent earnings surprise, supplementary dividend events, uncertainty of cash flows and the firm's recent performance. This phenomenon, on average, yields participating brokers moderate returns of 0.208% in the 10 days following the event, substantially exceeding non-participant returns by 0.690% (or 18.920% annualized).

Transmission of Foreign Versus Local Bank Shock Events During Crisis Periods

Priyank Gandhi
University of Notre dame, United States
pgandhi@nd.edu

George Issa
University of Sydney, Australia
giss5076@uni.sydney.edu.au

Elvis Jarnecic
University of Sydney, Australia
elvis.jarnecic@sydney.edu.au

Abstract

This paper studies the propagation of overseas and local funding shocks to a local fixed income market via bank security position adjustments. It invokes an event-study, difference-in-differences approach with banks sorted into natural control and treatment groups. Surrounding negative shocks to bank capital, the analysis finds moderate evidence that affected (local) banks decrease their money market holdings when the shock has a local origin, and only marginal evidence that affected (foreign) banks increase their safe Treasury bond assets when the shock has a U.S./European origin. Evidence around positive government intervention shocks is inconclusive.

Markowitz Mean-variance, Mean-VaR and Mean-ES estimation using regularization methods: banding and tapering

Nini Marin Rodriguez
Universidad de Medellín, Colombia
njmarin@udem.edu.co

Abstract

The covariance estimation is a classical high dimensional problem. Sample covariance is known to be a poor input when the sample size is small compared to its dimension. We analyze the performance of banding and tapering estimators to calculate the high dimensional covariance in portfolio selection. The aim is to reduce the sample size to obtain efficient estimate and improving optimal portfolio introducing to the Markowitz Mean-variance portfolio optimization the VaR and ES into the objective function such as risk measure. Finally, a real data example with natural ordering illustrates that tapering estimators for covariance estimation with less data obtain results of portfolio optimization similar to the population estimation obtaining estimators more precise in statistical analysis and portfolio performance evaluation.

Backtesting Basel III: Evaluating the Market Risk of Past Crises in Brazil through the Current Regulation

Marcelo Zeuli
Banco Central do Brasil, Brazil
m_zeuli@yahoo.com

Andre Carvalhal
BNDES- NationalBank of Development, Brazil
carvalhal@bndes.gov.br

Abstract

Are the Basel III recommendations, from the Bank for International Settlement's (BIS) Basel agreement, effective to a broad set of financial crises? We analyzed two of the main Basel III agreement's recommendations to a back test: the capital requirements and the Value at Risk (VaR) methodology adapted to incorporate the BIS's Stressed VaR. We tested the currency exchange and the currency exchange swaps contracts through tests of volatility-based VaR methodologies in the 2002.2 Brazilian confidence crisis scenario. The main results: (a) They confirm the general consensus among economist that there is no methodology able to forecast crises with a high degree of accuracy; (b) To circumvent either the lack of historical information or the lack optimal window for stress patterns, the Stressed VaR can be calibrated with a historical VIX (Volatility Index, Chicago Board Options Exchange), working as a volatility scale; (c) Other densities, apart from the standard normal curve, shall be considered and (d) Daily oscillation limits may have a significant role on crisis mitigation.

Effects of Frequency Components of Returns on Daily Value-At-Risk, of Shares In Emerging And Developed Markets

Milton Biage
Federal University of Santa Catarina, Brazil
milton.biage@ufsc.br

Andre Pereira de Souza Duarte
Federal University of Santa Catarina, Brazil
andreduarte2010@gmail.com

Abstract

In this study, Value-at-Risk was estimated using the technique of wavelet decomposition, to separate the impacts of frequency levels on the volatility of financial assets, and to analyze the impacts of these frequency components on short, medium and long terms, in the variances of daily stock returns, on VaR forecasts. Daily returns of twenty-one shares of the Ibovespa and daily returns of twenty-two shares of the DJIA were used. The FIGARCH model (1,d,1) was applied to the reconstructed returns to model and establish the prediction of conditional variance, applying the rolling window technique. The Value-at-Risk was then estimated, and the results showed that the DJIA shares showed more efficient market behavior than those of Ibovespa. The differences in behavior identified between these two markets induces to affirm that VaRs, to be used in the analysis of financial assets from different markets, with different governance premises, should be estimated by series of returns reconstructed by aggregations of components of different frequencies. Based on the premise that models with smaller samples may represent real models better, a total of 890 samples were used, considerably smaller than those used in similar studies. A set of backtesting was applied to confront the estimated VaRs, which demonstrated to characterize as having the great possibility to be consistent with exact VaRs models.

Smart or Dumb Money? The Timing Abilityof Mutual Fund Investors in an EmergingMarket

Ignacio Arango Gómez
EAFIT university, Colombia
iarang14@eafit.edu.co

James Byder
EAFIT University, Colombia
jbyder@eafit.edu.co

Abstract

We study the timing ability of mutual fund investors in an emerging market. We show that this is consistent with a smart money effect in mutual funds with investors correctly anticipating future performance. We make use of a unique dataset provided to us by one of Colombia's largest brokerage firms allowing us to analyze timing ability at the individual level. Our results suggest the prevalence of the smart money varies amongst different groups of investors.

Risk Exposure, Liquidity and Bank Performance: New Evidence from the Recent Financial Crisis of 2007-2008

Miroslav Mateev
American University in the Emirates, United Arab Emirates
mateev@mateevfinance.com

Petko Bachvarov
School of Management, University of Bath, United Kingdom
petkobachvarov@gmail.com

Abstract

In this paper we investigate the banks performance during the financial crisis of 2007-2008 and ask the question of why some banks performed so poorly during the crisis. We examine the performance of a group of 102 large and medium sized banks across the world, using the variation in the cross-section of stock returns of these banks. Previous empirical analysis reports that the fragility of banks financed with short-term funds raised in capital markets, as well as the insufficient capital are among the factors that can explain the poor bank performance during the crisis. Our analysis brings new evidences in support of these findings. We find that financial institutions with less leverage, lower return and less funding fragility ahead of the crisis did perform better during the crisis. Differences in banking regulations across countries are generally uncorrelated with the performance of banks during the crisis. However, we do find that banks in countries with more restrictions of bank activities but less supervisory power performed better. We find no support for analyses that attribute an important role to governance during the crisis; however, the ownership is strongly negatively correlated with bank risk taking. When we compare banks performance during the crisis with their performance after the crisis we find that, not surprisingly, in the post-crisis period risk taking activities do not play a leading role in banks behavior as it was observed during the crisis.

Analysis of Spillover Effects of Foreign Direct Investment in Indian Manufacturing Industries using Malmquist Index

K.V. Bhanu Murthy
University of Delhi, India
Bhanumurthykv@yahoo.com

Deepa Saran
University of Delhi., India
dr_deepasaran@rediffmail.com

Meghna Malhotra
University of Delhi, India
meghna.hrc@gmail.com

Abstract

This paper studies disembodied technological progress of foreign firms and domestic firms in Indian manufacturing firms during the period 2000-01 to 2009-10. Also, empirical tests are conducted to find out whether there are technological spillovers from the foreign firms to domestic firms. For this purpose Malmquist index is used to compare the Total Factor Productivity of foreign firms with domestic firms and to study technological spillovers from foreign firms to domestic firms. The empirical results from Malmquist index show signs of technological spillovers from the foreign firms to domestic firms in most of the industries except in basic metal, electrical equipment and machinery and equipment industry. However, in some industries like food, textiles, chemicals, drugs and pharmaceuticals, rubber and plastics, non-metallic mineral products, automobile and transport industry it is quite evident while in other industries like petroleum and metal products industry it is not so clearly evident. The performance in terms of productivity is found to be higher in case of foreign firms' vis-à-vis domestic firms in 10 out of 13 manufacturing industries under study.

A study on leverage in stock companies in times of recession and expansion: evidence from the BRICs

Samuel de Paiva Naves Mamede
Mackenzie Presbiterian University, Brazil
samucamamede@gmail.com

Abstract

Recent finance literature has been concerned with the effects of the periods of recession and expansion in the financial integration of markets, economic growth of companies and diversification of investment portfolios. Financial integration and liberalization show that companies have access to external sources of finance, i.e. companies can issue stocks or bonds in international financial markets (Neaime, 2016). From the Modigliani and Miller's (1963) approaches, much has been discussed with regard to the understanding of how firms make decisions related to finding the sources of financing (leverage) of their respective businesses, even though they occur in periods of growth or periods of economic recession. The periods of recession and economic expansion have challenged the "Modern Finance Theory", that has the presuppositions about market efficiency, are often violated, and capital structure theories are not an exception (Bandyopadhyay and Barua, 2016). Recessions can reduce considerably the supply of resources for loan, otherwise companies may need to have more debts and position themselves in a leveraged way during the financial turmoil, given the possible absence of domestic resources (Welch, 2011). As a result, the effects of crises on leverage remain largely unknown, especially in emerging countries. Considering the leverage, Riccetti, Russo and Gallegati (2013) have shown that this is a robust financial accelerator in the capitals structure. The researchers explained that a negative shock on corporate output, through recession, made banks less willing to lend resources, with consequent credit constraint and also an increase in the lending rate. In addition, companies are less likely to invest because of the reduced realized profit, resulting in an increase in the cost of financing and leverage (Massari, Roncaglio and Zanetti, 2008). Therefore, the reduced investments lead to a discussion about the role of leverage in order to do not let companies enter again in a vicious circle in periods of recession. The possible differences in the characteristics of recessions and expansions cause a variation in the influence of leverage (Hennessy and Zechner, 2011). In this context, through the explanatory variables that influence the leverage decisions, the relationship between the leverage and the economic cycles of the emerging and BRIC countries – Brazil, Russia, India and China – will be investigated. According to Stock and Watson (2002), leverage rates increased after the change in economic cycles in the mid-1980s. When one speaks of leverage in periods of economic cycles, there is a question: whether leverage and its benefits are greater in expansions than in recessions. A structure of expansion and recession patterns has a pronounced effect on optimized financing policies (Doukas et al., 2010). The use the of debt, for example, increases when recessions become milder and less volatile due to a reduction in the expected costs of non-payment (Gorton, 2009; Drobetz et al., 2014). In this way, the research intends to contribute to the theoretical and empirical discussion about the level of leverage in stock companies in periods of recession and expansion in the BRICs (emerging markets). One of the contributions of this research will be to show the importance of economic cycles in leverage.

The application of the theoretical concept of leverage provides financing strategies if management can estimate the parameters of leverage levels. Therefore, the management of a company should incorporate internal and external sources beyond the expected economic cycles.

Capital Change and the Cost of Equity: Evidence from Bulgarian Banks

Sophia Kassidova
, Bulgaria
sophiapk@gmail.com

Abstract

This paper studies the cost of equity and capital of four Bulgarian listed banks in the framework of the Modigliani-Miller (MM) theory of capital structure. It measures the impact of an increase in capital ratios on the equity risk (equity beta) of these banks. It finds that, historically, while more equity results in lower banks' systematic risk no causal relationship can be found between an increase in capital ratios and the predicted by the theory, decrease in banks' systematic risk. MM irrelevance argument holds that a decrease in equity risk will lead to a decrease in the shareholders' required (and expected) return on equity and thus offsetting the higher equity (capital) level. Thus, the results cannot find evidence in support of the so-called "Modigliani-Miller" offset.

Optimal execution with uncertain order fills

Marina Di Giacinto
Università degli studi di Cassino e Università Cattolica del Sacro Cuore, Italy
digiacinto@unicas.it

Tai-Ho Wang
Baruch College - The City University of New York, United States
ai-Ho.Wang@baruch.cuny.edu

Xue Cheng
Peking University, China

Abstract

The classical price impact model of Almgren and Chriss is extended to incorporate the uncertainty of order fills. The extended model can be recast as alternatives to uncertain impact models and stochastic liquidity models. Optimal strategies are determined by maximizing the expected final P&L and various P&L-risk tradeoffs including utility maximization. Closed form expressions for optimal strategies are obtained in linear cases. The results suggest a type of adaptive VWAP, adaptive POV and adaptive Almgren-Chriss strategies. VWAP and classical Almgren-Chriss strategies are recovered as limiting cases with different characteristic time scale of liquidation for the latter.

CAPM: an absurd model

Pablo Fernandez
IESE Business School, Spain
fernandezpa@iese.edu

Abstract

The CAPM is about expected return. If you find a formula for expected returns that works well in the real markets, would you publish it? Before or after becoming a billionaire? The CAPM is an absurd model because its assumptions and its predictions/conclusions have no basis in the real world. According to the dictionary, a theory is "an idea or set of ideas that is intended to explain facts or events"; and a model is "a set of ideas and numbers that describe the past, present, or future state of something". With the vast amount of information and research that we have, it is quite clear that the CAPM does not "explain facts or events", nor does it "describe the past, present, or future state of something".

The other January effect on stock exchange in the EU enlargement countries in 2004 and 2007.

Blazej Podgorski
Kozminski University, Poland
bpodgorski@alk.edu.pl

Abstract

The following article presents the results of research for the young EU countries for the occurrence of so called “the other January effect”. This anomaly is an effect of combining “the January effect” with “the momentum effect” and assumes the investing in companies during the 11 months period based on the observation of the interest rates return in January. To verify the main hypothesis there were used 3 methods: parametric tests, non-parametric tests, and dynamic panels model. The empirical findings do not confirm the existence of anomaly.