18th Paris December Finance Meeting

December 17, 2020

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Meeting's organization

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Numbers

400 papers were submitted for presentation at the meeting and only one out of five papers was accepted, indicating rigorous selection criteria.

In 2020, the submissions are received from the U.S. (90), France (68), Germany (54), the U.K. (29), Canada (25), Switzerland (23), the Netherlands (16), Austria (9), China (8), Italy (8), Sweden (7), Hong-Kong (7), Norway (7), Denmark (7), Spain (7), Belgium (5), Finland (5), Russian Federation (4), Japan (3), Ireland (2), Singapore (2), Cyprus (2), Luxembourg (2), Chile (2), Mexico (2), Portugal (1), Turkey (1), Vietnam (1), India (1), Kazakhstan (1), Pakistan (1).

The Paris December Finance Meeting is considered as one of the top 2 European conferences in terms of the quality of the papers presented.

Contents

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Patrice Fontaine (EUROFIDAI, CNRS); Jocelyn Martel (ESSEC Business School)

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Program – Overview

Online

13:30 **Asset Pricing 1**
Chairman: Abraham Lioui (EDHEC)

13:30 **Banking & Financial Intermediation 1**
Chairman: Jonsub Lee (Seoul National University)

13:30 **Behavioral Finance 1**
Chairman: Vesa Pursiainen (University of St. Gallen)

13:30 **Corporate Governance 1**
Chairman: Alberta di Giuli (ESCP Europe)

13:30 **Entrepreneurial Finance**
Chairman: Peter Gruber (University of Lugano)

13:30 **FinTech and Cryptocurrencies (Sponsored by FinTech Chair)**
Chairman: Hervé Alexandre (Université Paris IX - Dauphine)

13:30 **Green Finance (Sponsored by Amundi)**
Chairman: Marie Brière (Amundi & Université IX - Dauphine)

13:30 **Market Microstructure 1 (Sponsored by BEDOFIH)**
Chairman: Sophie Moinas (Toulouse School of Economics)

15:00 Break

15:30 **Asset Pricing 2**
Yannick Malevergne (Université de Paris 1 Panthéon-Assas)

15:30 **Banking Regulation & Systemic Risk (Sponsored by ACPR Chair)**
Chairman: Christophe Pérignon (HEC Paris)

15:30 **Behavioral Finance 2**
Chairman: Milo Bianchi (Toulouse School of Economics)

15:30 **Corporate Finance 1**
Chairman: Pascal François (HEC Montréal)

15:30 **Hedge Funds / Mutual Funds 1**
Chairman: Serge Darolles (Université Paris IX - Dauphine)

15:30 **Market Microstructure 2**
(Sponsored by BEDOFIH)
Chairman: Laurence Lescourret (ESSEC Business School)

15:30 **Mergers & Acquisitions**
Chairman: Edith Ginglinger (Université Paris IX - Dauphine)

15:30 **Private Equity & Venture Capital**
(Sponsored by ARDIAN)
Chairman: Sujiao Zhao (Bank of portugal)

17:00 Break

17:30 **Asset Pricing 3**
Chairman: Fabricio Perez (Wilfrid Laurier University)

17:30 **Banking & Financial Intermediation 2**
Chairman: Michael Troege (ESCP Europe)

17:30 **Behavioral Finance 3**
Chairman: Jean-François Gajewski (University Lyon III)

17:30 **Corporate Finance 2**
Chairman: Catherine Casamatta (Toulouse School of Economics and Toulouse School of Management)

17:30 **Corporate Governance 2**
Chairman: Ettore Croci (Universita Cattolica del Sacro Cuore)

17:30 **Hedge Funds / Mutual Funds 2**
Chairman: Jocelyn Martel (ESSEC Business School)

17:30 **International Finance**
Chairman: Sonia Jimenez (Grenoble INP)

17:30 **Investment Policy / Capital Budgeting**
Chairman: Radu Burlacu (Université Grenobles - Alpes)

17:30 **Porfolio Management**
Chairman: Patrice Fontaine (Eurofidai, CNRS)

19:00 Concluding Remarks & Best Paper Awards

Sessions & Abstracts

Asset Pricing 1 13.30
Chairman: Abraham Lioui (EDHEC)

▪ **FED TAILS: FOMC ANNOUNCEMENTS AND STOCK MARKET UNCERTAINTY**
Authors: Beckmeyer Heiner (University of Muenster); Branger Nicole (University of Muenster); Grünthaler Thomas (University of Muenster)
Presenter: Grünthaler Thomas (University of Muenster)
Discussant: Zareei Abalfazl (Stockholm University)

Uncertainty around FOMC announcements builds up days ahead of the meeting and fully resolves once the policy decision is announced. Disentangling tail uncertainty shows that the perception of bad economic states is the primary driver of this pattern, albeit policy operations are meant to be stabilizing. Investors are afraid of the revelation of bad states and are willing to pay a hedging premium of approx. 9% per meeting. FOMC announcements are special as uncertainty around other macroeconomic news releases is not driven by tail uncertainty. Not only does tail uncertainty predict pre-announcement stock market returns but also changes in the fed fund target rate for horizons up to one year. Our results indicate that policy makers closely monitor downside uncertainty and use this information as part of their decision-making process.

▪ **MACHINE LEARNING AND THE STOCK MARKET**
Authors: Zareei Abalfazl (Stockholm University); Brogaard Jonathan (David Eccles School of Business, University of Utah)
Presenter: Zareei Abalfazl (Stockholm University)
Discussant: Maglione Federico (Cass Business School / Scuola Normale Superiore)

Practitioners allocate substantial resources to technical analysis while academic theories of market efficiency rule out technical trading profitability. We study this long-standing puzzle by designing a machine learning algorithm to search for profitable technical trading rules while controlling for data-snooping. Our results show that an investor could have been able to find profitable technical trading rules ex ante and this out of sample profitability decreases through time, implying that markets have recently become more efficient. The decay in out of sample profitability is consistent with the surge in computing power and the subsequent increase in price informativeness.

▪ **THE IMPACT OF CREDIT RISK ON EQUITY OPTIONS**
Authors: Maglione Federico (Cass Business School / Scuola Normale Superiore)
Presenter: Maglione Federico (Cass Business School / Scuola Normale Superiore)
Discussant: Grünthaler Thomas (University of Muenster)

The aim of this work is to understand and measure to what extent equity options price credit risk. With the exception of Toft and Prucyk (1997), which is a dated work based on the simplistic assumption of a reference company issuing perpetual debt, all the work in the literature which try to establish a link between the credit default swaps and equity options rely on reduced-form models (Carr and Linetsky 2006, Carr and Wu 2010, Carr et al. 2010). Thus, the connection between the firm's fundamentals and the pricing of these derivative contracts are ignored. With a novel structural model, which stems from Geske (1977, 1979), equity is priced as a compound call option written on the firm's asset. The proposed structural model is first able to reconcile some puzzling findings documented by Carr and Wu (2017) on increasing leverage due to increasing business risk. Moreover, as the price equity options is shown to depends on the probability of the option expiring in-the-money, conditional on the firm's survival, this decomposition allows to construct a new measure of impact of credit risk on options. It is then shown that put options, contrary to calls, are sensitive to changes in the default risk in the underlying company. In addition, this measure is able to forecast future changes of the negative skew of long-term maturity options written on the equity of the same company. Finally, I show that the implied volatilities estimated á la Black-Scholes tend to average out the effect of credit risk over the moneyness space, leading to potential biases when applied for risk management purposes.

Banking and Financial Intermediation 1 — 13.30

Chairman: Jonsub Lee (Seoul National University)

- **THE RISING TIDE LIFTS SOME INTEREST RATES: CLIMATE CHANGE, NATURAL DISASTERS AND LOAN PRICING**

Authors: Herpfer Christoph (Emory); Correa Ricardo (Federal REserve Board); He Ai (USC); Ugur Lel (UGA Terry)
Presenter: Herpfer Christoph (Emory)
Discussant: Xu Chenzi (Standford GSB)

We investigate the effect of climate change, through natural disasters, on corporate borrowing costs. We test for this relation by exploiting banks' loan pricing to unaffected, but at-risk, borrowers after a climate change related disaster. We find that banks charge about 8 basis points higher rates to these indirectly affected borrowers, after controlling for a wide range of alternative explanations. Consistent with time varying attention to climate change, this effect increases to 17 basis points in years after major reports on climate change and is concentrated in the year around disasters. Borrowers with the largest exposure to climate change, and those with the least ability to absorb adverse shocks, suffer the highest increase in rates. Our analysis suggests that the total cost for U.S. borrowers from worsening climate change related natural disasters exceeds $250 million every year.

▪ LIFE INSURANCE CONVEXITY

Authors: Grochola Nicolaus (Goethe University Frankfurt); Kubitza Christian (University of Bonn); Gründl Helmut (Goethe University Frankfurt)

Presenter: Kubitza Christian (University of Bonn)

Discussant: Vardoulakis Alexandros (Federal Reserve Board)

Life insurers massively sell savings policies that guarantee minimum withdrawal payouts. When market interest rates increase, these guarantees become in-the-money. Hence, an increase in interest rates leads to more withdrawals of life insurance policies. We document this effect by exploiting partly hand-collected insurer-level data covering more than two decades. A one-standard deviation increase in interest rates relates to an increase in withdrawal rates by roughly 0.35 standard deviations. As a result, the duration of life insurance policies decreases with higher interest rates. A reduction in duration implies that life insurers may be forced to sell assets when interest rates rise. We build a granular model of life insurers' cash flows to estimate the resulting price impact and fire sale costs. Under plausible assumptions, the model predicts that forced sales reduce asset prices by up to 1% and reduce insurers' equity capital by up to 15bps. Forced sales are primarily driven by insurers' long-dated assets investments, which slow down an increase in policy returns when interest rates rise.

Behavioral Finance 1 13.30

Chairman: Vesa Pursiainen (University of St. Gallen)

▪ RETURN PREDICTABILITY, EXPECTATIONS, AND INVESTMENT: EXPERIMENTAL EVIDENCE

Authors: Bianchi Milo (Toulouse School of Economics); Andries Marianne (Toulouse School of Economics); Huynh Karen K. (Toulouse School of Management); Pouget Sébastien (Toulouse School of Economics and TSM)

Presenter: Bianchi Milo (Toulouse School of Economics)

Discussant: Gamm Fabian (University of Mannheim)

We design an experiment to study how investors form their expectations and make risky investments under different market conditions. Together with the past realizations of a risky asset, our subjects observe a signal a that, in some rounds, helps predict future returns. When subjects perceive a as useless, they irrationally extrapolate from recent return realizations. When they perceive a as useful, instead, they correctly incorporate it and extrapolate much less. We interpret those findings in a forecast model in which subjects have imperfect ability to detect predictability and face uncertainty about the correlation between signal a and future returns. We also find that the level of risky investment and its elasticity to forecasts are larger when a is perceived as useful, suggesting that subjects recognize that predictability in our setting reduces risk. Yet, the elasticity of investments to forecasts remains low -- a puzzle relative to their high risky investment.

- A SURPRISE THAT KEEPS YOU AWAKE: OVERNIGHT RETURNS AFTER EARNINGS ANNOUNCEMENTS

Authors: Gamm Fabian (University of Mannheim)
Presenter: Gamm Fabian (University of Mannheim)
Discussant: Klos Alexander (Kiel University)

I dissect stock returns after earnings announcements into their overnight and intraday components and document strong positive abnormal overnight returns for several weeks after both large positive and negative earnings surprises. This finding is in line with attention-induced buying pressure. Consistently, overnight returns are higher when retail investor attention towards the surprise is high. Corresponding intraday returns have the opposite sign, which makes this pattern invisible in close-to-close returns. The effect is stronger during high sentiment periods as well as for hard-to-arbitrage firms and weaker if the average investor holds the stock at a gain.

- STREAKS IN DAILY RETURNS

Authors: Rottke Simon (University of Amsterdam); Klos Alexander (Kiel University); Koehl Alexandra (Kiel University)
Presenter: Klos Alexander (Kiel University)
Discussant: Bianchi Milo (Toulouse School of Economics)

A simple return extrapolation model suggests that streaks in returns, which we define as n-day consecutive over-/under-performance relative to the market, predict future returns. We test this prediction using daily data from international equity markets and find strong empirical support. US-based value-weighted trading strategies have annualized Sharpe ratios around 2 (depending on the specification). We replicate the results in international markets and are able to increase the Sharpe ratio to above 3 by diversifying across regions. We argue that liquidity is unlikely to explain the results as streak portfolio returns based on mid-quote-prices are strongest among stocks with the lowest bid-ask spreads.

- INSIDER TRADING AND GENDER

Authors: Odegaaard Bernt Arne (University of Stavanger); Eckbo Espen (Darthmouth College)
Presenter: Odegaaard Bernt Arne (University of Stavanger)
Discussant: Kuzmina Olga (New Economic School and CEPR)

We provide comprehensive, gender-based estimates of the performance of primary insiders' non-routine trades on the Oslo Stock Exchange. Regardless of gender, the time-series of insider holdings fail to indicate that insiders "buy low and sell high". However, there is evidence that the dramatic increase in the network of female directors following Norway's 2005 board gender-balancing law has increased the market reaction to female insider purchases. Moreover, female insider purchases spike following the market crash in 2008, both absolutely and relative to male insiders, which contradicts the conventional view that females are more risk averse than males.

- GENDER DIVERSITY IN CORPORATE BOARDS: EVIDENCE FROM QUOTA-IMPLIED DISCONTINUITIES

Authors: Kuzmina Olga (New Economic School and CEPR); Melentyeva Valentina (ZEW - Leibniz Centre for European Economic Research, University of Mannheim)
Presenter: Kuzmina Olga (New Economic School and CEPR)
Discussant: Berzins Janis (BI Norwegian Business School)

We use data across European corporate boards to investigate the effects of quota-induced female representation, under minimal possible identification assumptions. We find that having more women in board causally increases Tobin's Q, despite some negative effects on operating performance and more likely employment downsizings. We interpret this evidence as firms scaling down inefficient operations. Our results highlight that gender quotas are not necessarily a costly way of promoting equality.

- CONFLICTS IN PRIVATE FAMILY FIRMS

Authors: Berzins Janis (BI Norwegian Business School); Zaldokas Alminas (Hong Kong University of Science and Technology)
Presenter: Berzins Janis (BI Norwegian Business School)
Discussant: Odegaaard Bernt Arne (University of Stavanger)

We use Norwegian household-level data and full structures of family relationships to understand how succession decisions are made when the family has multiple potential heirs. We argue that the decision on ownership distribution in family firms is related to the potential of future family conflicts, and that such within-family dynamics have implications for firm investment and growth. We identify the causal effect by looking at whether the founder has experienced a divorce or a separation in the distant past. We instrument the founder's divorce with the frequency of divorces in the extended family relationships outside of the nuclear family, which makes the founder's divorce more socially acceptable. Since some family conflicts are inevitable and family heirs might not be able to trade their shares, founders should consider adjusting their inheritance to minimize the possibility of heir feuds and adverse effects on firm growth.

Entrepreneurial Finance 13.30
Chairman: Peter Gruber (University of Lugano)

▪ TWO-SIDED MARKETS: THE ROLE OF TECHNOLOGICAL UNCERTAINTY

Authors: Siyahhan Baran (Institut Mines-Telecom Business School); Ghoddusi Hamed (School of Business, Stevens Institute of Technology, NJ 07030, USA.); Rodivilov Alexander (School of Business, Stevens Institute of Technology, NJ 07030, USA.)
Presenter: Siyahhan Baran (Institut Mines-Telecom Business School)
Discussant: Sun Hanwen (University of Bath)

This paper examines the effect of technological uncertainty on the optimal pricing and investment decisions in a two-sided market. A platform offers a basic good and a developer offers a complementary good. The performance of the complementary good is stochastic and is endogenously determined by the pricing policy the platform adopts. Heterogeneous consumers join the platform either before uncertainty is resolved or after. In the former case, consumers obtain the basic good and an option to benefit from the complementary good in the future. The platform trades of building an earlier mass of consumer base and extracting profits from late adopters. Consumers are divided into three groups: early adopters, late adopters, and those who never join the platform. A platform's pricing policy depends on the value of the complementary good and the cost of its development. If the cost is small, a price skimming policy is optimal. When the cost is higher, price skimming remains optimal if the value of the complementary good is either small or relatively high. For intermediate values, the platform adopts a price penetration policy. We discuss some examples from the empirical literature in light of the model.

▪ IS GOVERNMENT CONTRACTING FAIR? ESTIMATING THE VALUE OF FEMALE POLITICIANS FOR WOMEN-OWNED FIRMS

Authors: Gerasimova Nataliya (Norwegian School of Economics); Rohrer Maximilian (Norwegian School of Economics)
Presenter: Rohrer Maximilian (Norwegian School of Economics)
Discussant: Siyahhan Baran (Institut Mines-Telecom Business School)

This paper provides novel evidence that female U.S. House Representatives causally increase the U.S. government’s demand for products and services provided by female entrepreneurs. Using detailed data on individual contracts between the U.S. government and private firms around close U.S. congressional

elections, we report that the election of a female representative increases the probability of government contracts being awarded to female entrepreneurs by 3.0 to 6.8 percentage points. Furthermore, contract performance is either improved or unaffected, which speaks against the misallocation hypothesis. We find no support for role-model effects as changes in the pool of female entrepreneurs cannot explain our findings. Thus, the evidence suggests that female politicians improve the business environment for female entrepreneurs by reducing the gender bias in the U.S. government procurement contracting system.

- THE FLIGHT OF THE MILLIONAIRES: FREEDOM OF MOVEMENT AND TRADE CREDIT

Authors: Luo Changqin (University of Economics and Law); Sun Hanwen (University of Bath); Yang Guochao (University of Economics and Law); Zhang Bohui (Chinese University of Hong Kong, Shenzhen (CUHK-Shenzhen))
Presenter: Sun Hanwen (University of Bath)
Discussant: Rohrer Maximilian (Norwegian School of Economics)

We examine whether entrepreneurs' freedom of movement can be a potential concern for creditors when extending trade credit. Utilizing a Difference-in-Differences approach that relies on the staggered changes of controlling shareholders' overseas residency status in Chinese firms, we show that their mobility negatively influences firms' ability to obtain trade credit. The fleeing entrepreneurs concern of trade creditors is especially detrimental to firms that are perceived as less trustworthy ex ante. Our results, through the lens of trade credit, shed light on the hidden costs of entrepreneurs' freedom in corporate financing activities by echoing the idea that "freedom is never free".

FinTech and Cryptocurrencies (FinTech Chair)

Chairman: Hervé Alexandre (Université Paris IX - Dauphine)

Dauphine | PSL
CHAIRE FINTECH

13.30

- COLLECTIBLES TOKENIZATION & OPTIMAL SECURITY DESIGN

Authors: Vorsatz Blair (University of Chicago Booth School of Business)
Presenter: Vorsatz Blair (University of Chicago Booth School of Business)
Discussant: Cong Lin (Cornell University)

I develop a model of collectibles tokenization to understand whether recent tokenization efforts create or destroy value. While issuing divisible security tokens against illiquid collectibles lowers transaction costs and facilitates greater portfolio diversification, security design complications arise because ownership rights and viewing rights are necessarily separated. Current efforts squander the viewing rights, likely making tokenization welfare-reducing, thereby explaining limited adoption. Instead, renting the viewing rights would make tokenization welfare-improving. While collectibles rental markets are immature, I show empirically that only modest rental yields are needed to make tokenization welfare-improving, which suggests this security design shortcoming can be resolved.

▪ INCENTIVES ON THE LIGHTNING NETWORK: A BLOCKCHAIN-BASED PAYMENT NETWORK

Authors: Bertucci Louis (Institut Louis Bachelier)
Presenter: Bertucci Louis (Institut Louis Bachelier)
Discussant: Vorsatz Blair (University of Chicago Booth School of Business)

The Lightning Network is a decentralized payment network built on top of a blockchain, in which intermediary nodes provide a trustless routing service for end users. We provide an overview of the current state of the network and show that it can be well approximated by a scale free generative model with a fitness parameter, which suggests that nodes behave strategically on the network. Those strategic interactions between nodes can be described by a Bertrand competition model with capacity constraints. We show that there is a unique equilibrium in which a centralized network is never optimal, and the routing fee is strictly greater than the marginal cost. When nodes are heterogeneous in their opportunity cost of capital only, the equilibrium network structure can match the current state of the network.

▪ CRYPTO WASH TRADING

Authors: Tang Ke (Tsinghua University); Cong Lin (Cornell University); Li Xi (Newcastle University); Yang Yang (Tsinghua University)
Presenter: Cong Lin (Cornell University)
Discussant: Bertucci Louis (Institut Louis Bachelier)

To investigate whether centralized exchanges of cryptocurrencies engage in wash trading, we devise a set of statistical tests using first significant digits, size clustering, and tail distribution on transactions involving Bitcoin, Ethereum, etc., at 3 regulated and 26 unregulated major crypto exchanges. All regulated exchanges feature trades consistent with statistical benchmarks and behavioral patterns from traditional financial markets; most unregulated exchanges, especially those less prominent, exhibit anomalous patterns unexplained by investors' activities. We estimate that unregulated exchanges on average engage in wash trading for over 70% of their total reported volume. We also document that wash trades improve exchange ranking, and exchanges vying for dominance engage more in wash trading, consistent with their economic incentives. Finally, we discuss the regulatory implications of such manipulation in the emerging crypto sector and in financial markets in general.

- A SUSTAINABLE CAPITAL ASSET PRICING MODEL (S-CAPM): EVIDENCE FROM GREEN INVESTING AND SIN STOCK EXCLUSION

Authors: Zerbib Olivier David (Tilburg University, ISFA, CREST (ENSAE-Ecole Polytechnique))
Presenter: Zerbib Olivier David (Tilburg University, ISFA, CREST (ENSAE-Ecole Polytechnique))
Discussant: Fouquau Julien (ESCP Business School)

This paper shows how sustainable investing affects asset returns through exclusionary screening and environmental, social, and governance (ESG) integration. I develop an asset pricing model with partial segmentation and disagreement. I characterize a taste premium that clarifies the relationship between ESG and financial performance and two exclusion premia generalizing Merton's (1987) premium on neglected stocks. By using the holdings of 348 green funds investing in U.S. stocks between 2000 and 2018 to proxy for sustainable investors' tastes, I estimate the model applied to green investing and sin stock exclusion. The annual taste effect ranges from -1.09% to +0.11% for the different industries and the average exclusion effect is 2.98%.

- GREEN SENTIMENT IN FINANCIAL MARKETS: A GLOBAL WARNING

Authors: Bessec Marie (LEDa - Université Paris Dauphine, PSL University); Fouquau Julien (ESCP Business School)
Presenter: Fouquau Julien (ESCP Business School)
Discussant: Kadach Igor (IESE)

We use textual analysis to measure the growing concern about climate issues and to assess its impact on stock prices in the United States. Using a dataset of 71,785 articles published in The Wall Street Journal from 2010 to 2019, we create several scores capturing media coverage of environmental issues and investigate their influence on S&P500 constituents in a Fama-French model. We find a significant impact of green sentiment on the stock returns of nearly 25% of firms. The response varies across the different sectors. The effect is negative in energy and materials, particularly in chemicals and metals. A positive impact is found in real estate and utilities. An assessment of the results at company level shows that this impact is related to their environmental performance. The results are robust to the use of alternative lexicons and weighting schemes, various specifications and sample periods.

- THE BIG THREE AND CORPORATE CARBON EMISSIONS AROUND THE WORLD

Authors: Kadach Igor (IESE); Azar Jose (IESE); Duro Miguel (IESE); Ormazabal Gaizka (IESE)
Presenter: Kadach Igor (IESE)
Discussant: Zerbib Olivier David (Tilburg University, ISFA, CREST (ENSAE-Ecole Polytechnique))

This paper examines the role of the "Big Three" (i.e., BlackRock, Vanguard, and State Street Global Advisors) on the reduction of corporate carbon emissions around the world. Using novel data on engagements of the Big Three with individual firms we find evidence that the Big Three focus their engagement effort on large firms with high CO2 emissions in which these investors hold a significant stake. Consistent with this engagement influence being effective, we observe a strong and robust negative association between Big Three ownership and subsequent carbon emissions among MSCI index constituents, a pattern that becomes strong in the later years of the sample period. Additional tests exploiting several sources of plausibly exogenous variation in Big Three ownership and in the cost of CO2 emissions suggest that these correlations probably reflect a causal link.

Market Microstructure 1 (BEDOFIH)

Chairman: Sophie Moinas (Toulouse School of Economics)

BEDOFIH

13.30

- THE CONDUITS OF PRICE DISCOVERY: A MACHINE LEARNING APPROACH

Authors: Shkilko Andriy (Wilfrid Laurier University); Kwan Amy (University of Sydney); Philip Richard (University of Sydney)
Presenter: Shkilko Andriy (Wilfrid Laurier University)
Discussant: Grotteria Marco (London Business School)

Theory models suggest that market conditions should have substantial effects on order submission strategies and price discovery. Empirical analyses of such conditional effects are methodologically challenging and therefore uncommon. We bypass these challenges using a machine learning technique that allows for multiple conditioning variables in the presence of non-linearities. The analysis confirms theory predictions in that price discovery is affected, and often dominated, by such conditions as the state of the limit order book and prior order history. Furthermore, the technique allows us to rank the importance of conduits through which information flows into prices. The current state of the limit order book stands out as the primary conduit.

▪ REAL-TIME PRICE DISCOVERY VIA VERBAL COMMUNICATION: METHOD AND APPLICATION TO FEDSPEAK

Authors: Grotteria Marco (London Business School); Gomez Cram Roberto (London Business School)
Presenter: Grotteria Marco (London Business School)
Discussant: Dugast Jérôme (Université Paris Dauphine - PSL)

We advance the hypothesis and establish empirically that investors' expectations adjust slowly to Central Banks' messages. From the videos of post-FOMC-meeting press conferences, we extract the words, and timestamp them at the millisecond. We align the transcripts with high-frequency data for several financial assets to provide granular evidence on the investors' expectations formation process. When the Chairman discusses the changes between current and previous policy statement, price volatility and trading volume spike dramatically, and prices move in the same direction as they did around the statement release. Our approach allows us to quantify in monetary terms the value of information rigidity.

▪ EQUILIBRIUM DATA MINING AND DATA ABUNDANCE

Authors: Dugast Jérôme (Université Paris Dauphine - PSL); Foucault Thierry (HEC Paris)
Presenter: Dugast Jérôme (Université Paris Dauphine - PSL)
Discussant: Shkilko Andriy (Wilfrid Laurier University)

We analyze how information processing power and data abundance affect speculators' search for predictors. Speculators optimally search for a predictor whose signal-to-noise ratio exceeds an endogenous threshold. Greater computing power raises this threshold, and therefore price informativeness, because it reduces the cost of search. In contrast, data abundance can lower this threshold because (i) it intensifies competition among speculators, which reduces the benefit of finding a good predictor and (ii) it increases the total expected cost of finding a predictor. In the former (latter) case, price informativeness increases (decreases) with data abundance. We present additional testable implications of these effects.

15:00 Break

Asset Pricing 2 15.30
Chairman: Yannick Malevergne (Université de Paris 1 Panthéon-Assas)

▪ MOMENTUM? WHAT MOMENTUM?

Authors: Theissen Erik (University of Mannheim); Yilanci Can (University of Mannheim)
Presenter: Theissen Erik (University of Mannheim)
Discussant: Chen Yong (Texas A&M University)

Risk-adjusted momentum returns are usually estimated by constructing momentum portfolios and then running a full-sample regression of their returns on a set of factors (portfolio-level risk adjustment). This approach implicitly assumes constant factor exposure of the momentum portfolio. However, momentum portfolios are characterized by strong turnover and time-varying factor exposure. We propose to estimate the risk exposure at the stock-level. The risk-adjusted return of the momentum portfolio in month t then is the actual return minus the weighted average of the expected returns of the component stocks (stock-level risk adjustment). Based on evidence from the universe of CRSP stocks, from sub-periods and size-based sub-samples, from volatility-scaled momentum strategies (Barroso and Santa-Clara 2015) and from an international sample covering 22 developed countries we conclude that the momentum effect may be much weaker than previously thought

- SHORT SELLING EFFICIENCY

Authors: Chen Yong (Texas A&M University); Da Zhi (University of Notre Dame); Huang Dayong (University of North Carolina at Greensboro)
Presenter: Chen Yong (Texas A&M University)
Discussant: Lorenz Friedrich (University of Muenster)

Short selling efficiency (SSE), measured each month by the slope coefficient of crosssectionally regressing abnormal short interest on an overpricing score, significantly and negatively predicts stock market returns both in-sample and out-of-sample, suggesting that mispricing gets corrected after short sales are executed on the right stocks. The predictive power is stronger in the presence of large short interest and during periods of recession, high volatility, and less public information. Finally, low SSE precedes the months when the CAPM performs well and signals efficient market. Overall, our evidence highlights the importance of the disposition of short sales in stock markets.

- NONLINEAR DYNAMICS IN CONDITIONAL VOLATILITY

Authors: Lorenz Friedrich (University of Muenster); Schmedders Karl (IMD Lausanne); Schumacher Malte (University of Zurich)
Presenter: Lorenz Friedrich (University of Muenster)
Discussant: Sichert Tobias (Stockholm School of Economics)

Investors pay a substantial premium to hedge against fluctuations in volatility—the variance risk premium (VRP). The asset-pricing literature has presented numerous models with jumps in economic fundamentals to reproduce the properties and the time variation of the VRP. This paper shows that these quantitative results are almost exclusively driven by an inaccurate measure of conditional volatility. Solved accurately, conditional volatility exhibits—counterfactually—a strong procyclical pattern and the models do not deliver a sizeable VRP in response to jumps in state variables. The notion that the VRP is purely a compensation for fluctuations in macroeconomic uncertainty does not hold.

▪ THE BANK ENTRY CHANNEL OF MONETARY POLICY TRANSMISSION

Authors: Bisetti Emilio (HKUST); Karolyi Steve (Carnegie Mellon University); Lewellen Stefan (Pennsylvania State University)
Presenter: Bisetti Emilio (HKUST)
Discussant: Weitzner Gregory (McGill University)

We argue theoretically and show empirically that monetary policy can shape the structure of local deposit markets by affecting banks' entry decisions. Using network-based shocks to bank entry barriers, we find that entry becomes more responsive to monetary policy when entry barriers are lower. In turn, entry affects credit provision and monetary policy pass-through: local establishment and employment grow more in response to expansionary monetary policy when bank entry barriers are lower, and these real effects are stronger for small and medium-sized establishments. Our results suggest that expansionary monetary policy might be less effective when bank entry costs are high, as is currently the case.

▪ FINANCIAL REGULATORY ACTIONS OVER THE CYCLE

Authors: Pina Goncalo (ESCP Business School); Berenberg-Gossler Paul (Hertie School)
Presenter: Pina Goncalo (ESCP Business School)
Discussant: Bisetti Emilio (HKUST)

This paper shows that regulatory actions against misconduct in the financial industry are driven by business cycles. Using text mining techniques, we construct a new database of regulatory actions based on US asset managers filings distinguishing between state, federal, and self-organized regulators. Our data cover 9,750 regulatory actions and fines across 49 states over the 1990-2019 period. We then show that the number of regulatory actions responds to economic boom periods and higher following busts. To establish causal evidence, we combine our data with information on 24 million federally administered military contracts that affect state-level business cycles. Exploiting these contracts, we find that after a positive state-level output shock, regulatory actions decrease up to 60 months at the state regulatory level, but increase at the federal-level. Measures based on regulatory fines mirror this pattern. Our findings suggest that state-level regulatory actions are pro-cyclical, and federal-level regulatory actions are counter-cyclical, suggesting that different levels of regulatory agencies respond differently to business cycles.

▪ DEBT MATURITY AND INFORMATION PRODUCTION

Authors: Weitzner Gregory (McGill University)

Presenter: Weitzner Gregory (McGill University)

Discussant: Pina Goncalo (ESCP Business School)

The maturity of a firm's liabilities affects the information financiers produce about the firm's assets. In my model, long-term financing creates an excessive tendency for financiers to acquire information and screen out lower quality borrowers. In contrast, short-term financing deters information production at origination but induces it when firms are forced to liquidate, depressing the market value of assets due to adverse selection. Through the feedback effect between firms' maturity structures and asset prices, increases in uncertainty can impair the aggregate volume of short-term financing and investment. The analysis can jointly rationalize i) the widespread use of short-term debt by financial firms, ii) periodic disruptions in short-term funding markets and iii) regulations that curb short-term funding markets in normal times and support them in periods of market stress.

Behavioral Finance 2 — 15.30

Chairman: Milo Bianchi (Toulouse School of Economics)

▪ EXPECTATIONS UNCERTAINTY AND HOUSEHOLD ECONOMIC BEHAVIOR

Authors: Kuhnen Camelia (University of North Carolina-Chapel Hill); Fermand Elyas (University of North Carolina-Chapel Hill); Li Geng (Federal Reserve Board); Ben-David Itzhak (Ohio State University)

Presenter: Fermand Elyas (University of North Carolina-Chapel Hill)

Discussant: Pursiainen Vesa (University of St. Gallen)

We show that there exists significant heterogeneity across U.S. households in how uncertain they are in their expectations regarding personal and macroeconomic outcomes, and that uncertainty in expectations predicts households' choices. Individuals with lower income or education, more precarious finances, and living in counties with higher unemployment are more uncertain in their expectations regarding own-income growth, inflation, and national home price changes. People with more uncertain expectations, even accounting for their socioeconomic characteristics, exhibit more precaution in their consumption, credit, and investment behaviors.

▪ UNTANGLING THE CREDIT CARD DEBT PUZZLE

Authors: Vihriälä Erkki (Aalto University)

Presenter: Vihriälä Erkki (Aalto University)

Discussant: Fermand Elyas (University of North Carolina-Chapel Hill)

This paper documents new facts and untangles mechanisms regarding the credit card debt puzzle that describes the co-holding of high-cost debt and low-yield assets. First, I capture more accurately the costs of co-holding because I identify households who are on decreasing and increasing paths of co-holding. Second, liquidity-based theories are insufficient to explain co-holding because co-holding occurs even with high liquidity and low credit limit risk, and few co-holding households take up an offer of low-cost liquidity. Third, my results suggest that limited intra-household financial pooling contributes to co-holding because couples are more likely to co-hold than individuals, and the intra-household distribution of assets and liabilities affects household demand for low-cost liquidity. Finally, my results suggest that anchoring to the minimum credit card payment contributes to co-holding.

- WHEN PAPER LOSSES GET PHYSICAL: DOMESTIC VIOLENCE AND STOCK RETURNS

Authors: Pursiainen Vesa (University of St. Gallen); Lin Tse-Chun (The University of Hong Kong)
Presenter: Pursiainen Vesa (University of St. Gallen)
Discussant: Vihriälä Erkki (Aalto University)

We find a significant negative relationship between stock returns during the week and the reported incidence of domestic violence during the weekend. Our findings suggest that wealth shocks caused by the stock market can affect stress levels within families, escalate arguments, and trigger violence. The effect of stock returns on reported domestic violence is primarily attributable to negative returns, and the incidence of domestic violence increases with the magnitude of loss. The effect also increases with local stock market participation. Using Google search volumes as an alternative proxy for the incidence of domestic violence yields similar results.

Corporate Finance 1 15.30
Chairman: Pascal François (HEC Montréal)

- CONSTRUCTION, SYSTEMATIC RISK, AND STOCK-LEVEL INVESTMENT ANOMALIES

Authors: Aretz Kevin (Alliance Manchester Business School); Kagkadis Anastasios (Lancaster University Management School)
Presenter: Aretz Kevin (Alliance Manchester Business School)
Discussant: Tena Vincent (Toulouse School of Management)

We offer evidence that the tendency of high real-investment stocks to underperform others (“investment anomaly”) is almost entirely attributable to firms physically constructing new capacity. The conditioning ability of construction work does not come from constructing firms making larger investments, relying on other financing sources, or being differentially profitable over or after the investment year. Yet, it may arise from their profits becoming less sensitive to their industries’ conditions after that year. Setting up a real options model of the firm in which newly-built capacity becomes operational only after a time-to-build period but ultimately produces profits which are less sensitive to negative demand shocks over some random time, we show that our evidence is consistent with neoclassical finance theory.

- WILL ASSET MANAGERS SURVIVE TO THE ADVENT OF ROBOTS? AN OPTIMAL CONTRACTING APPROACH

Authors: Tena Vincent (Toulouse School of Management)
Presenter: Tena Vincent (Toulouse School of Management)
Discussant: Wang Chunrong (John Molson School of Business, Concordia University)

In this paper, we study the adoption of automation technology in asset management. We build a principal-agent model in continuous time in which delegation of asset management to an agent is subject to moral hazard and will become automatable at an uncertain time. While the characteristics and the advent of the automation technology are exogenous and publicly observable, automation may not be as efficient as the agent. We derive an optimal long-term contract that adjusts the provision of incentives to the availability of such a technology so that automation impacts the agent since the contracting date. Our model suggests that the empirically observed layoffs that accompany the emergence of an automation technology may have a contractual foundation. Compared to the situation where automation is never feasible, we predict that (1) some poor performers are kept employed longer only to be instantaneously substituted at the technology advent, and (2) bonuses are front-loaded and then dropped once the technology becomes available.

- CREDIT DEFAULT SWAPS AND THE COST OF CAPITAL

Authors: Wang Chunrong (John Molson School of Business, Concordia University); Bhabra Harjeet (Sobey School of Business, Saint Mary's University); Francois Pascal (Department of Finance, HEC University); Walker Thomas (John Molson School of Business, Concordia University)
Presenter: Wang Chunrong (John Molson School of Business, Concordia University)
Discussant: Aretz Kevin (Alliance Manchester Business School)

This study uses the universe of US public firms to examine the impact of credit default swap (CDS) trading on a firm's cost of capital during the period 2001-2018. Our results show that the initiation of CDSs significantly reduces a firm's weighted average cost of capital (WACC). We also find that highly levered firms reduce their debt, while firms with low leverage increase their usage of debt. CDS referenced firms adjust their debt placement by using more arm's length debt, while they simultaneously reduce the usage of revolving credits and term loans from banks. The change in capital financing choices may be ascribed to the increased rollover risk induced by CDS trading and reflects the fact that CDS trading increases debt renegotiation costs and simultaneously reduces capital supply side frictions.

▪ THE VOLCKER RULE AND THE HEDGE FUND LIQUIDITY CIRCLE

Authors: Yu Lijie (University of Manchester); Bowe Michael (University of Manchester); Kolokolova Olga (University of Manchester)
Presenter: Yu Lijie (University of Manchester)
Discussant: Barras Laurent (McGill University)

The implementation of the Volcker Rule (section 619 of the 2010 Dodd-Frank Act) profoundly impacts the funding liquidity of hedge funds, their liquidity risk exposure and liquidity provision to the market. Using a sample of 5,697 hedge funds, we find that following the legislation, capital flows to hedge funds decline, and their flow-performance sensitivity increases. In addition, hedge funds reduce their market liquidity exposure and realign their market-making activities towards the most liquid segment of stocks. These results provide support for the Brunnermeier-Pedersen model of the link between market liquidity and funding liquidity.

▪ HEDGE FUND PERFORMANCE UNDER MISSPECIFIED MODELS

Authors: Barras Laurent (mcgill university); ardia david (HEC montreal); Gagliardini Patrick (university of lugano - SFI); Scaillet Olivier (university of geneva - SFI)
Presenter: Barras Laurent (mcgill university)
Discussant: Schoenleber Lorenzo (Collegio Carlo Alberto)

We develop a new approach for evaluating hedge fund performance. Our approach accounts for model misspecification which is expected given the multiple factors that drive hedge fund returns. It is also simple, informative about the entire alpha distribution, and designed for formal comparison tests between models. The empirical results show that the standard hedge fund models perform exactly like the CAPM and produce large and positive alphas. In contrast, performance drops significantly with alternative models that include new factors examined in the recent literature. Overall, the results suggest that hedge funds commonly follow mechanical strategies such as carry trade, time-series momentum, liquidity and correlation trading.

▪ LIQUIDITY SUPPORT AND DISTRESS RRSILIENCE IN BANK-AFFILIATED MUTUAL FUNDS

Authors: Maddaloni Angela (European Central Bank); Bagattini Giulio (Frankfurt School of Finance and Management); Fecht Falko (Frankfurt School of Finance and Management)
Presenter: Maddaloni Angela (European Central Bank)
Discussant: Yu Lijie (University of Manchester)

We study whether the stability of mutual funds and the propensity of a run among investors depend on the ownership structure. Flows of funds run by banks or by

firms that belong to the same financial group as a bank are less volatile and less sensitive to bad past performance. This enables bank-affiliated funds to better weather distress and to hold lower precautionary cash buffers in comparison with their unaffiliated peers. Banks provide liquidity support to distressed affiliated funds increasing their stakes in funds that are experiencing large outflows. We find that liquidity support and other benefits of bank affiliation are stronger if the parent bank is more liquid and better capitalised. Analyzing the aftermath of two exogenous shocks to financial markets -- the Brexit referendum and political uncertainty in Italy -- we show that distress in the banking system spills over to the mutual fund sector via ownership links.

Market Microstructure 2 (BEDOFIH)

Chairman: Laurence Lescourret (ESSEC Business School)

15.30

▪ ARBITRAGE WITH FINANCIAL CONSTRAINTS AND MARKET POWER

Authors: Fardeau Vincent (Higher School of Economics)
Presenter: Fardeau Vincent (Higher School of Economics)
Discussant: Zoican Marius (University of Toronto)

I study how financial constraints affect liquidity provision and welfare under different structures of the arbitrage industry. In competitive markets, financial constraints may impair arbitrageurs' ability to provide liquidity, thereby reducing other investors' welfare. Instead, in imperfectly competitive markets, I characterize situations in which imposing constraints on arbitrageurs leads to a Pareto-improvement relative to a no-constraint case. Further, unlike the competitive case, a drop in arbitrage capital does not always lead to a reduction in market liquidity. A subtle interaction between financial constraints and arbitrageurs' market power generates these Pareto-improvment and novel comparative statics.

▪ TRADING ON LONG-TERM INFORMATION

Authors: Garriott Corey (Bank of Canada); Riordan Ryan (Queen's University)
Presenter: Garriott Corey (Bank of Canada)
Discussant: Panayides Marios (University of Cyprus)

Predatory trading discourages informed investors from gathering information and trading on it. However, using 11 years of equity trading data, we do not find evidence that informed investors are being discouraged. They have roughly constant volumes and profits through the sample. They are sophisticated, trading patiently over weeks and timing their trading to achieve negative price impacts, leaving price efficiency unchanged. We identify shorter-term traders and, in contrast to theory, find that they supply liquidity by trading in the opposite direction of the informed. Inefficient prices may be the result of informed investors' sophisticated trading and not of predatory short-term trading.

▪ TRADING FEES AND INTERMARKET COMPETITION

Authors: Panayides Marios (University of Cyprus); Rindi Barbara (U. of Bocconi); Werner Ingrid M. (The Ohio State University)

Presenter: Panayides Marios (University of Cyprus)

Discussant: Fardeau Vincent (Higher School of Economics)

Regulators, exchanges, and politicians are considering reining in maker-taker pricing, which is used as a competitive tool by trading venues to acquire order ow. Examining the 2013 reduction in trading fees operated by BATS on its European venues, we document significant effects on market quality and market share both on BATS and in competing venues. Interestingly, we identify cross-sectional differences which suggest that traders in large (small) capitalization stocks are more sensitive to changes in make (take) fees. Our results are consistent with the predictions derived from a model of two competing order books that employ trading fees.

Mergers & Acquisitions 15.30

Chairman: Edith Ginglinger (Université Paris IX - Dauphine)

▪ INSTITUTIONAL OWNERSHIP AND MERGERS AND ACQUISITIONS

Authors: Luu Ellie (University of Bristol); Kim Kirak (University of Bristol); Xu Fangming (University of Bristol)

Presenter: Luu Ellie (University of Bristol)

Discussant: Wang Teng (Federal Reserve Board)

We study the role played by institutional investors in the U.S. takeover market. An increase in a firm's institutional ownership raises its likelihood of receiving a takeover bid, mainly driven by stock offers. We support the causal relationship using Russell index reconstitution as the instrument. Our additional analysis shows that institutional investors help mitigate the information asymmetry between bidders and targets, allowing target firms to accept a larger fraction of stock payment. The positive relationship between a target's institutional ownership and a stock-based offer is pronounced when information asymmetry associated with the bidder and the transaction is higher, suggesting that institutional investors act as an information conduit between the two parties. Moreover, the positive impact is stronger when the bidder's shares — the currency of transactions — are correctly priced. Our evidence suggests that institutional investors play an important role in alleviating information asymmetry in takeover transactions and assessing the associated values.

▪ STRESS TEST FAILURES AND CORPORATE MERGERS AND ACQUISITIONS

Authors: Wang Teng (Federal Reserve Board); Qiu Buhui (The University of Sydney)
Presenter: Wang Teng (Federal Reserve Board)
Discussant: Croci Ettore (Universita Cattolica del Sacro Cuore)

This study documents that corporate borrowers of banks that failed stress tests subsequently conduct fewer mergers and acquisitions (M&A). The effect is stronger for treated firms with weaker corporate governance or more susceptible to managerial agency problems. We further document increased financial covenant usage in M&A-related bank loan contracts, as well as improved M&A deal quality, after stress test failures, suggesting that stress testing failures triggered enhanced bank screening on borrowers' M&A projects. Moreover, refrained from M&A activity that can hurt shareholders, treated firms subsequently improve their profitability. Our empirical evidence highlights a beneficial spillover effects of bank stress tests.

▪ DRIVERS AND PERFORMANCE EFFECT OF CORPORATE ASSET SALES AROUND ACQUISITIONS

Authors: Aktas Nihat (WHU Otto Beisheim School of Management); Baros Aleksandra (Università Cattolica del Sacro Cuore); Croci Ettore (Università Cattolica del Sacro Cuore)
Presenter: Baros Alexandra (Università Cattolica del Sacro Cuore)
Discussant: Luu Ellie (University of Bristol)

Corporate divestitures often accompany acquisitions, representing on average 33% of the acquisition value. Relying on a worldwide sample, we provide support for the efficient restructuring view of acquisition-related divestitures. About 60% of these divestitures occur following the acquisition completion, especially in large deals. We also document that acquirers divest more when they are diversified and acquisitive. On average, divestitures are associated with an increase of 1.85% in the value creation around focal acquisitions. Examining returns for divestitures, we find that those around acquisitions are not transactions with weak bargaining positions. Overall, asset sales are a tool to ease an acquisition and bolster the associated synergies.

Private Equity & Venture Capital (ARDIAN) 15.30

Chairman: Sujiao Zhao (Bank of portugal)

▪ A THEORY OF LIQUIDITY IN PRIVATE EQUITY

Authors: Maurin Vincent (Stockholm School of Economics); Robinson David (Duke University); Strömberg Per (Stockholm School of Economics)
Presenter: Maurin Vincent (Stockholm School of Economics)
Discussant: Schwienbacher Armin (SKEMA Business School)

We develop a model of private equity in which many empirical patterns arise endogenously. Our model rests solely on two critical features of this market: moral

hazard for General partners (GPs) and illiquidity risk for Limited Partners (LPs). The equilibrium fund structure incentivizes GPs with a share in the fund and compensates LPs with an illiquidity premium. GPs may inefficiently accelerate drawdowns to avoid default by LPs on capital commitments. LPs with higher tolerance to illiquidity then realize higher returns. With a secondary market, return persistence decreases at the GP level but persists at the LP level.

- TRADEMARKS IN ENTREPRENEURIAL FIRM SUCCESS: EMPIRICAL EVIDENCE FROM VENTURE BACKED PRIVATE FIRMS AND INITIAL PUBLIC OFFERINGS

Authors: Yu Qianqian (Lehigh University); Chemmanur Thomas (Boston College); Rajaiya Harshit (Boston College); Tian Xuan (Tsinghua University)
Presenter: Yu Qianqian (Lehigh University)
Discussant: Maurin Vincent (Stockholm School of Economics)

We analyze the role of trademarks in entrepreneurial finance, hypothesizing that trademarks play two important roles: a "protective" role, leading to better product market performance; and an "informational" role, signaling higher firm quality to investors. We develop testable hypotheses relating the trademarks held by private firms to characteristics of venture capital (VC) investment in them, their probability of successful exit, IPO and secondary market valuations, institutional investor IPO participation, post-IPO operating performance, and post-IPO information asymmetry. We test these hypotheses using a large and unique dataset of trademarks held by VC-backed private firms and present causal evidence supporting them.

- THE IMPACT OF VENTURE CAPITAL HOLDING ON THE FIRMS' LIFE-CYCLE: EVIDENCE FROM IPO FIRMS

Authors: Schwienbacher Armin (SKEMA Business School); Amini Shima (Leeds University Business School); Mohamed Abdul (Leeds University Business School); Wilson Nicholas (Leeds University Business School)
Presenter: Schwienbacher Armin (SKEMA Business School)
Discussant: Yu Qianqian (Lehigh University)

Venture capital firms often continue to stay as shareholders and on the board of directors of their investee companies even after they have gone public. This paper examines the impact of venture capital ownership beyond the IPO listing on important consequential, corporate decisions in a firm's lifetime, including time to dividend initiation. Using a sample of 1,409 US firms listed between 2000 and 2017, we find that venture capital firms delay the time to initiate dividends by approximately two years. The presence of venture capital firms further delays the use of external growth strategies (through acquisitions) and postpones the introduction to the corporate bond market while relying more quickly on seasoned equity offerings. Several robustness checks are performed, including controlling for possible reverse causality. These results are consistent with the view that venture capital firms extend the growth phase of the firms' life-cycle prior to becoming a mature firm. We further show that the presence of VC funds in the firm at time of these decisions leads to positive stock price reactions, suggesting they offer a certification effect for continued growth opportunities.

17:00 Break

Asset Pricing 3 17.30

Chairman: Fabricio Perez (Wilfrid Laurier University)

▪ DOES THE LONG-RUN RISK EXPLAIN THE CROSS-SECTION OF CORPORATE BOND RETURNS?

Authors: Jo Chanik (University of Toronto); Elkamhi Redouane (University of Toronto); Nozawa Yoshio (Hong Kong University of Science and Technology)
Presenter: Jo Chanik (University of Toronto)
Discussant: Lopez Aliouchkin Ricardo (Syracuse University)

We test whether long-run consumption risk can explain the cross-section of corporate bond risk premiums. We find that a one-factor model with long-run consumption growth explains the risk premiums on bond portfolios sorted on credit spreads, maturity, credit rating, downside risk, idiosyncratic volatility, and the betas with respect to shocks to financial intermediary's capital of He, Kelly, and Manela (2017). Furthermore, the estimated risk aversion coefficient declines as we increase the horizon to measure consumption growth, and a model with relatively low values of risk-aversion can match the observed risk premiums if we use 24-month growth rate as a risk factor.

▪ DOWNSIDE RISK AND THE CROSS-SECTION OF CORPORATE BOND RETURNS

Authors: Lopez Aliouchkin Ricardo (Syracuse University); Augustin Patrick (McGill University); Cong Linxiao Francis (McGill University); Tedongap Romeo (ESSEC Business School)
Presenter: Lopez Aliouchkin Ricardo (Syracuse University)
Discussant: Zi Chao (University of Illinois at Urbana-Champaign)

We rationalize in a theoretical framework the empirically documented importance of volatility and downside risk in the cross-section of corporate bond returns. Our framework features time-varying macroeconomic uncertainty and generalized disappointment aversion. The model yields three downside risk factors versus one documented in the empirical literature. We find that our factors are able to explain the cross-sectional variation of corporate bond returns both at the individual bond- and portfolio-level. Our factors provide significant explanatory power beyond other established factors in the literature. Moreover, we find that volatility downside risk matters, while pure volatility risk is marginally significant. Last, we show that our three downside risk factors subsume the documented predictability of the Bai, Bali, and Wen (2019) downside risk factor.

▪ IS THERE A SHORTFALL IN PUBLIC SECTOR CAPITAL? AN ASSET PRICING APPRAISAL

Authors: Zi Chao (University of Illinois at Urbana-Champaign)
Presenter: Zi Chao (University of Illinois at Urbana-Champaign)
Discussant: Jo Chanik (University of Toronto)

I assess the overall supply of public sector capital in the U.S. through the lens of asset prices. Using a two-sector general equilibrium model, I demonstrate how the supply of public sector capital may become a source of priced risk, for which the price of risk changes sign as public sector capital becomes over- or under-supplied. Taking two complementary empirical approaches, I find consistent results suggesting that assets with higher sensitivity to variations in public investment have higher average returns. Together my findings imply that public sector capital is \textit{undersupplied}, and greater public investment is favorable for investors.

Banking and Financial Intermediation 2 17.30
Chairman: Michael Troege (ESCP Europe)

▪ INTERMEDIARY LEVERAGE SHOCKS AND FUNDING CONDITIONS

Authors: Garcia René (Universite de Montreal); Fontaine Jean-Sébastien (Banque du Canada); Gungor Sermin (Banque du Canada)
Presenter: Garcia René (Universite de Montreal)
Discussant: Bostandzic Denefa (Heinrich-Heine-University Duesseldorf)

The leverage of financial broker-dealers responds to demand- and supply-like shocks. Supply shocks relax their funding constraint and raise leverage, while demand shocks also raise leverage but tighten the constraint. The shocks play opposite roles in financial markets. Leverage supply shocks improve liquidity and carry a positive price of risk, while leverage demand shocks worsen liquidity and carry a negative price of risk. Because of this difference in signs, disentangling the two types of shocks strengthens the evidence for intermediation frictions in asset pricing, resolves some of the existing puzzles, and can help understand the different mechanisms driving broker-dealer leverage.

▪ FINANCIAL TECHNOLOGY AND LOCAL LENDING

Authors: Bostandzic Denefa (Heinrich-Heine-University Duesseldorf); Weiß Gregor (Leipzig University)
Presenter: Bostandzic Denefa (Heinrich-Heine-University Duesseldorf)
Discussant: Fringuellotti Fulvia (Federal Reserve Bank of New York)

We study the effects of innovations in financial technology by banks on local competition for deposits and credit supply. To identify the causal effect of financial technology on deposits and lending, we exploit the geographic heterogeneity in human capital available to bank headquarters to explain banks' patenting activities. Banks that innovate increase their local market power by gaining deposits in a zero sum game at the expense of local non-innovating competitors. Innovative banks make use of both the additional liquidity as well as process innovations itselves and expand aggregate local mortgage and small business lending without impairing the quality of their loan portfolio. Finally, we show that the innovation-induced credit supply shock spurs local economic growth and employment.

▪ CREDIT, INCOME AND INEQUALITY

Authors: Fringuellotti Fulvia (Federal Reserve Bank of New York); Delis Manthos (Montpellier Business School); Ongena Steven (University of Zurich, Swiss Finance Institute, KU Leuven, CEPR)
Presenter: Fringuellotti Fulvia (Federal Reserve Bank of New York)
Discussant: Garcia René (Universite de Montreal)

Analyzing unique data on loan applications by individuals who are majority owners of small firms, we detail how a bank's credit decisions affect the future income of accepted versus rejected applicants. We use the bank's cutoff rule, which is based on the applicants' credit scores, as a source of exogenous variation in the decision to grant loans. We show that application acceptance increases recipients' income five years later by more than 10% compared to denied applicants. This effect is mostly driven by the use of borrowed funds to undertake investments and is more pronounced in low-income areas and during a crisis period, namely when individuals are more credit constrained.

Behavioral Finance 3 17.30

Chairman: Jean-François Gajewski (University Lyon III)

▪ ON AMBIGUITY-SEEKING BEHAVIOR IN FINANCE MODELS WITH SMOOTH AMBIGUITY

Authors: Makarov Dmitry (Higher School of Economics, Russia)
Presenter: Makarov Dmitry (Higher School of Economics, Russia)
Discussant: Papadovasilaki Dimitra (Lake Forest College)

Ambiguity-seeking behavior is universally disregarded in a large theoretical finance literature with smooth ambiguity preferences. This paper questions the three rationales for this practice. First, smooth ambiguity models are not ill-defined under ambiguity-seeking. Second, a representative investor need not be ambiguity-averse when an average individual trader is ambiguity-averse. Third, individual traders need not be ambiguity-averse when a representative investor is ambiguity-averse. Our constructive suggestion is that researchers should calculate the allowed levels of ambiguity-seeking for which their model is well-posed, and then let the data speak for themselves whether ambiguity-seeking or ambiguity-aversion can better explain empirical evidence.

- INVESTOR BELIEFS IN THE MIDST OF A MARKET CRASH AND THE COVID 19 PANDEMIC: SURVEY AND EXPERIMENTAL EVIDENCE

Authors: Papadovasilaki Dimitra (Lake Forest College); Guerrero Federico (University of Nevada, Reno); Sundali James (University of Nevada, Reno); Ridinger Garret (University of Nevada, Reno)
Presenter: Papadovasilaki Dimitra (Lake Forest College)
Discussant: Mansouri Sasan (Goethe University Frankfurt)

Abstract: In March of 2020, the stock market fell 34%, due to the Covid-19 pandemic. How do market crashes affect the way investors form beliefs regarding future market returns? To investigate, we surveyed two mTurk panels during the March 2020 meltdown. One after the S&P 500 fell 9.5% on March 12, and another on March 13 after S&P 500 rose by 9.3%. Most mTurkers reported that beliefs were formed in line with rational and thoughtful processes. We compare these findings with the results of a controlled laboratory experiment where subjects provided incentivized forecasts and allocated money between a risky and a riskless asset for 56 periods, with one condition experiencing a severe market crash. Running a horserace comparison between 27 belief models, we find that recent returns encourage extrapolative beliefs and that investors have long memories regarding prior crashes (Gennaioli and Shleifer, 2018; Malmendier and Nagel, 2011.

- "LET ME GET BACK TO YOU" – A MACHINE LEARNING APPROACH TO MEASURING NON-ANSWERS

Authors: Mansouri Sasan (Goethe University Frankfurt); Barth Andreas (Goethe University Frankfurt); Woebbeking Fabian (Goethe University Frankfurt)
Presenter: Mansouri Sasan (Goethe University Frankfurt)
Discussant: Makarov Dmitry (Higher School of Economics, Russia)

It is relatively easy for us humans to detect that a question we asked has not been answered – we teach this skill to a computer. More specifically, we develop a measure that detects the rejection, avoidance or dodging of a question. Using a supervised machine learning framework on a large training set of 47,892 classified responses to questions, we identify 1027 trigrams that signal whether or not the respondent provides a non-answer. We show that this dictionary has economic relevance by applying it to a validation set of contemporaneous stock market reactions after earnings conference calls. Our findings suggest that obstructing the flow of information leads to significantly lower cumulative abnormal stock returns and higher implied volatility. Our metric is designed to be of general applicability for Q&A situations, and hence, is capable of identifying non-answers outside the contextual domain of financial earnings conference calls.

Corporate Finance 2 — 17.30

Chairman: Catherine Casamatta (Toulouse School of Economics)

- **DOES LIMITED LIABILITY MATTER? EVIDENCE FROM A QUASI-NATURAL EXPERIMENT**

Authors: Nguyen Nga (University of Calgary); Koskinen Yjro (University of Calgary); Pandes Ari (University of Calgary)

Presenter: Nguyen Nga (University of Calgary)

Discussant: Chen Alvin (Stockholm School of Economics / Swedish House of Finance)

We use the enactment of limited liability legislation across Canadian provinces to examine the effect of the change in liability status on firm outcomes for a group of Canadian public firms known as income trusts. We show that the switch from unlimited to limited liability increases the trusts' net external financing, investments, profitability, payouts, and equity volatility. Our results are stronger for energy trusts, which are more capital-intensive. Furthermore, our event study results show significantly positive cumulative abnormal returns around the introduction of limited liability legislation. Overall, we present a novel approach to test the impact of limited liability on firms.

- **FINANCIAL AND REAL EFFECTS OF GOVERNMENT MONITORING: EVIDENCE FROM COMMERCIAL BANK LOANS**

Authors: De Simone Rebecca (London Business School)

Presenter: De Simone Rebecca (London Business School)

Discussant: Nguyen Nga (University of Calgary)

I use a 2009 redesign of corporate tax enforcement in Ecuador to document that tax enforcement affects firms' cost of capital and real decisions in settings where agency frictions constrain lending. Firms included in a group that was disproportionately monitored, i.e., audited annually by the Ecuadorian tax authority, accessed significantly cheaper new bank debt despite paying more taxes. Additionally, monitored firms increased their investments in human and physical capital. I use a regression discontinuity design to control for selection bias in their decision about which firms to monitor. Finally, I provide evidence that tax enforcement reduces agency frictions between the firm and its lenders, which is reflected in the lower interest rate on new debt. The implications are that (1) credible tax enforcement can play a corporate governance role, and, (2) tax enforcement is an effective and fiscally positive way to stimulate firm investment where agency frictions constrain lending.

- FIRM PERFORMANCE PAY AS INSURANCE AGAINST PROMOTION RISK

Authors: Chen Alvin (Stockholm School of Economics / Swedish House of Finance)
Presenter: Chen Alvin (Stockholm School of Economics / Swedish House of Finance)
Discussant: De Simone Rebecca (London Business School)

The prevalence of pay based on risky firm outcomes for non-executive workers presents a puzzling departure from conventional contract theory, which predicts insurance provision by the firm. I revisit this puzzle in a framework with workers who prefer early resolution of uncertainty. When workers at the same firm compete against each other for promotions, the optimal contract features pay based on firm outcomes as insurance against unfavorable promotion prospects. The model's predictions are consistent with observed phenomena such as performance-based vesting, option-like payoffs, and overvaluation of equity pay by non-executive workers. It also generates novel predictions linking organizational structure to firm performance pay.

Corporate Governance 2 — 17.30

Chairman: Ettore Croci (Universita Cattolica del Sacro Cuore)

- GROUP-MANAGED REAL OPTIONS: VOTING, POLARIZATION, AND INVESTMENT DYNAMICS

Authors: Lazrak Ali (UBC Sauder), Garlappi Lorenzo (UBC Sauder), Giammarino Ron (UBC Sauder)
Presenter: Lazrak Ali (UBC Sauder)
Discussant: Petit-Romec Arthur (SKEMA Business School)

We analyze a dynamic investment problem where decisions are made through voting within a group of agents with heterogeneous beliefs. We show that disagreement generates inefficient underinvestment—the group rejects projects that are unanimously deemed profitable by each member— and inertia—investment is delayed relative to a single-agent case. When facing both investment and abandonment timing decisions, the group behavior cannot be replicated by that of a representative or "median" member. These coordination frictions hold in groups of any size, for general voting protocols and are exacerbated by polarization, investment reversibility, and more stringent voting rules.

▪ THE ROLE OF THE MEDIA IN CORPORATE GOVERNANCE: EVIDENCE FROM SHAREHOLDER PROPOSALS

Authors: Petit-Romec Arthur (SKEMA Business School); Di Giuli Alberta (ESCP Business School)

Presenter: Petit-Romec Arthur (SKEMA Business School)

Discussant: Meyer Niclas (Hanken School of Economics)

This paper examines the role played by the media in the shareholder proposal process. We find a positive relation between media coverage and the number of governance proposals. The effect is mostly concentrated in proposals submitted by non-institutional shareholders and driven by negative news. Negative media coverage is also associated with the success of proposals and changes in executive compensation and board turnover. Instrumental variable analysis suggests that the relationship between media coverage and shareholder proposals is causal. Our results shed light on a new channel through which the media can play a corporate governance role.

▪ ESG AND CEO TURNOVER

Authors: Meyer Niclas (Hanken School of Economics); Korkeamäki Timo (Aalto University School of Business); Colak Gonul (Hanken School of Economics)

Presenter: Meyer Niclas (Hanken School of Economics)

Discussant: Lazrak Ali (UBC Sauder)

We investigate corporate reactions to problems related to Environmental, Social, and Governance (ESG) issues by observing the connection between negative media attention to these issues and CEO turnover. We use a sample of large US and European firms, which allows us to consider covariates not only at individual, firm, and industry levels, but also at the country level. We find that ESG-related negative news has a robust and significant impact on CEO replacement odds, and this impact is proportional to the severity of an event. Also, CEO turnover probability is inversely proportional to the stock market reaction to an ESG incident in both common-law and civil-law countries, however, the negative media attention on itself ("shaming") can trigger CEO turnover only on latter group of countries.

Hedge Funds / Mutual Funds 2 17.30

Chairman: Jocelyn Martel (ESSEC Business School)

▪ DON'T TAKE THEIR WORD FOR IT: THE MISCLASSIFICATION OF BOND MUTUAL FUNDS

Authors: Chen Huaizhi (University of Notre Dame); Cohen Lauren (Harvard University); Gurun Umit (University of Texas at Dallas)

Presenter: Chen Huaizhi (University of Notre Dame)

Discussant: Bonelli Maxime (HEC Paris)

We provide evidence that bond fund managers misclassify their holdings, and that these misclassifications have a real and significant impact on investor capital flows. In particular, many funds report more investment grade assets than are actually held in their portfolios to important information intermediaries, making these funds appear significantly less risky. This results in pervasive misclassification across the universe of US fixed income mutual funds. The problem is widespread - resulting in up to 31.4% of funds being misclassified with safer profiles, when compared against their true, publicly reported holdings. "Misclassified funds" – i.e., those that hold risky bonds, but claim to hold safer bonds – appear to on-average outperform the low-risk funds in their peer groups. Within category groups, "Misclassified funds" moreover receive higher Morningstar Ratings (significantly more Morningstar Stars) and higher investor flows due to this perceived on-average outperformance. However, when we correctly classify them based on their actual risk, these funds are mediocre performers. These Misclassified funds also significantly underperform precisely when junk-bonds crash in returns. Misreporting is stronger following several quarters of large negative returns.

- IS MUTUAL FUND FAMILY RETIREMENT MONEY SMART?

Authors: Yadav Pramodkumar (Drexel University)
Presenter: Yadav Pramodkumar (Drexel University)
Discussant: Chen Huaizhi (University of Notre Dame)

Using data on investments of fund family employees in their 401(k) plans, I show that employee flows predict fund performance up to two years. The predictive power is stronger when fund family employees are located close to fund managers, pointing to employees exploiting their proximity to managers to learn about the managers' skill. The results are not driven by plan design, portfolio managers' ownership, or cross-subsidization. The top quintile of funds in terms of employee flows outperforms the bottom quintile by 1.6% annually in terms of Carhart Alpha, suggesting that other investors can benefit by mimicking fund employees.

- LABOR MOBILITY AND CAPITAL MISALLOCATION IN THE MUTUAL FUND INDUSTRY

Authors: Bonelli Maxime (HEC Paris)
Presenter: Bonelli Maxime (HEC Paris)
Discussant: Yadav Pramodkumar (Drexel University)

If capital won't come to fund managers, then fund managers will go to capital. I document that fund managers move across mutual fund firms to manage amounts of capital that better match their skill, which improves the allocative efficiency of capital across fund managers. For causal identification, I exploit exogenous shocks to fund managers' ability to switch firms due to state-level changes to non-compete laws. In states that strengthen the enforceability of non-compete agreements, the propensity of fund managers to switch mutual fund firms is halved, capital misallocation across managers increases by about 10%, and the monthly total value added of managers declines by over $25 million. These results indicate that fund managers' mobility across firms plays an important role in the efficient reallocation of capital within the mutual fund industry.

International Finance 17.30

Chairman: Sonia Jimenez (Grenoble INP)

▪ INTERNATIONAL YIELD CO-MOVEMENTS

Authors: Ermolov Andrey (Gabelli School of Business, Fordham University); Bekaert Geert (Columbia Business School and NBER)

Presenter: Ermolov Andrey (Gabelli School of Business, Fordham University)

Discussant: Korsaye Sofonias Alemu (University of Geneva, Swiss Finance Institute)

We decompose 5 year nominal bond yields into real and inflation components in an international context using inflation-linked and nominal bonds since 2004. Real rate variation dominates the variation in inflation-linked and nominal yields, but liquidity and inflation risk premiums are also important. Cross-country nominal and inflation-linked yield correlations have declined since the Great Recession. Real rates are the main source of the correlation between nominal yields. A slow-moving risk aversion variable from a habit model explains a substantive part of the variation in real yields and cross-country yield correlations, thereby outperforming a measure of the monetary policy stance.

▪ THE GLOBAL FACTOR STRUCTURE OF EXCHANGE RATES

Authors: Korsaye Sofonias Alemu (University of Geneva, Swiss Finance Institute); Vedolin Andrea (University of Boston, Questrom School of Business); Trojani Fabio (University of Geneva, Swiss Finance Institute)

Presenter: Korsaye Sofonias Alemu (University of Geneva, Swiss Finance Institute)

Discussant: Bruno Valentina (American University, Kogod School of Business)

We provide a model-free framework to study the global factor structure of exchange rates. To this end, we propose a new methodology to estimate model-free global stochastic discount factors (SDFs) pricing large cross-sections of international assets, such as stocks, bonds, and currencies, independently of the currency denomination and in the presence of trading frictions. We derive a unique mapping between the optimal portfolios of global investors trading in international markets with frictions and international SDFs, which allows us to recover such SDFs from asset return data alone. Trading frictions shrink portfolio weights of some assets to zero, leading to endogenously segmented markets and robust properties of international SDFs. From the cross-section of numeraire invariant SDFs, we extract one local risk factor (currency basket) and one global risk factor (global SDF). We show that the global SDF factor alone provides an excellent in-and out-of-sample fit for the cross-section of international asset returns across all denominations, significantly improving upon the performance of

benchmark factor models. Finally, we estimate the cost to obtain the portfolio home bias observed in the data and find it to be small.

- DOLLAR AND EXPORTS

Authors: Bruno Valentina (American University, Kogod School of Business); Shin Hyun Song (BIS)
Presenter: Bruno Valentina (American University, Kogod School of Business)
Discussant: Ermolov Andrey (Gabelli School of Business, Fordham University)

The strength of the US dollar has attributes of a barometer of dollar credit conditions, whereby a stronger dollar is associated with tighter dollar credit conditions. Using finely disaggregated data on export shipments, we examine how dollar strength impacts exports through the lens of dollar financing availability. We find that exporters who are reliant on dollar-funded bank credit suffer a decline in exports due to increased funding costs. We argue that the US dollar is a global financial factor with real effects on the economy.

Investment Policy / Capital Budgeting 17.30

Chairman: Radu Burlacu (Université Grenobles - Alpes)

- THE EFFECTS OF SKILLED IMMIGRATION RESTRICTIONS ON CORPORATE INVESTMENT: EVIDENCE FROM H-1B VISA APPLICATION DEADLINES

Authors: Xu Sheng-Jun (University of Alberta)
Presenter: Xu Sheng-Jun (University of Alberta)
Discussant: Matray Adrien (Princeton)

I study how access to foreign skilled workers affects corporate investment. Restrictions on high-skilled immigration may induce firms to lower investment due to complementarity between skill and capital, and also to delay investment due to ex-ante uncertainty over the ability to hire. I exploit a temporal discontinuity in firms' ability to apply for temporary work visas ("H-1B visas") for prospective employees, and find that rationing of H-1B visas leads to lower investment in tangible capital. Using the historical distribution of immigrants throughout the United States to identify exposure to immigrant supply shocks, I further find that firms tend to periodically delay investment until annual uncertainty over H-1B hiring is resolved. Specifically, I find that firms located in more exposed regions periodically increase investment after the H-1B application deadline every year, but only in industries that are more dependent on H-1B workers.

- THE EFFECT OF REAL ESTATE PRICES ON PEER FIRMS

Authors: Kumar Anil (Aarhus University); Kjenstad Einar C. (Aarhus University)
Presenter: Kumar Anil (Aarhus University)
Discussant: Xu Sheng-Jun (University of Alberta)

We investigate the peer effects from corporate real estate. Shocks to real estate prices shift firms' debt capacity, which has a significant impact not only on firm investment but also on the investment of peer firms: a $1 of increase in the price of peer real estate assets induces a $0.072 increase in investment. The peer effect from corporate real estate is stronger when firms or their peers have more investment opportunities; financially constrained firms invest more out of their own price shocks, while the peer effect is stronger for unconstrained firms; and we find significant peer effects within - but not between - groups of small and large firms, respectively. Overall, we document a new channel through which real estate is an economically significant determinant of corporate finance.

Portfolio Management 17.30
Chairman: Patrice Fontaine (Eurofidai, CNRS)

▪ LIFE-CYCLE RISK-TAKING WITH PERSONAL DISASTER RISK

Authors: Fugazza Carolina (University of Torino); Bagliano Fabio (University of Torino); Nicodano Giovanna (University of Torino)
Presenter: Fugazza Carolina (University of Torino)
Discussant: Cederburg Scott (University of Arizona)

Inspired by a growing body of empirical work, this paper models a non-linear labour income process allowing for a personal disaster, such as long-term unemployment or disability, during working years. This entails an uncertain but potentially large permanent shock to earnings. Personal disaster risk allows to match the flat investment profile in age, which is observed in the US, when the calibration of both the disaster probability and the expected permanent loss in the disaster state is conservative.

▪ STOCKS FOR THE LONG RUN? EVIDENCE FROM A BROAD SAMPLE OF DEVELOPED MARKETS

Authors: Cederburg Scott (University of Arizona); Anarkulova Aizhan (University of Arizona); O'Doherty Michael (University of Missouri)
Presenter: Cederburg Scott (University of Arizona)
Discussant: Zhou Dexin (Baruch College)

We characterize the distribution of long-term equity returns based on the historical record of stock market performance in a broad cross section of 39 developed countries over the period from 1841 to 2019. Our comprehensive sample mitigates concerns over survivorship and easy data biases that plague other work in this area. A bootstrap simulation analysis implies substantial uncertainty about long-horizon stock market outcomes, and we estimate a 12% chance that a diversified investor with a 30-year investment horizon will lose relative to inflation. The results contradict the conventional advice that stocks are safe investments over long holding periods.

▪ SOCIAL PROXIMITY TO CAPITAL: IMPLICATIONS FOR INVESTORS AND FIRMS

Authors: Zhou Dexin (Baruch College); Kuchler Theresa (NYU); Peng Lin (Baruch); Li Yan (Baruch)

Presenter: Zhou Dexin (Baruch College)
Discussant: Fugazza Carolina (University of Torino)

We show that institutional investors are more likely to invest in firms from regions to which they have stronger social ties. Firms in regions with stronger social ties to places with substantial institutional capital have higher valuations and higher liquidity. These effects are largest for small firms with little analyst coverage. We find no evidence that investors generate differential returns from investments in locations to which they are socially connected. Our results suggest that the social structure of regions affects firms' access to capital and contributes to geographic differences in economic outcomes.

19:00 Concluding Remarks & Best Paper Awards

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