Summary of *Do Fund Managers Misestimate Climatic Disaster Risk?*

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1. **What are the research questions?**
   - Do Fund Managers overreact Climatic Disaster Risk
2. **Why are the research questions interesting?**
   - How does climate change affect financial markets?
   - Climate risk needs to be better reflected in prices.
   - Limited empirical research on how climate risk affects asset pricing.
   - Funds are the marginal price-setting traders
   - Misestimation may impair stock price efficiency, returns, and lead to inefficient capital allocation.
3. **What is the paper's contribution?**
   - Literature on behavioral biases.
     - prior:
       - hubris, overconfidence, and optimism.
     - Extend:
       - Salience bias.
   - Literature on how climate risk affects asset pricing.
     - prior:
       - firms exhibit biases when assessing climate risk.
       - market prices accurately reflect temperature fluctuations risk.
     - Extend:
       - Fund Managers overreact to large climatic disasters.
       - Innovatively proposing the DID model.
   - contributes to literature on signaling channel of monetary policy.
     - prior:
       - Policymakers'actions reveal private knowledge to market, affecting economy.
     - Extend:extracting two distinct policy shocks:standard interest rate, credit risk shocks.
4. **What hypotheses are tested in the paper?**
   - H1: Mutual funds located close to firms in the disaster zone subsequently underweight such firms, relative to funds located further away from the disaster zone.
   - H2A (Information Hypothesis): If mutual fund managers underweight disaster zone stocks because of superior information, then such stocks should under perform in the near future.
   - H2B (Salience Hypothesis): If mutual fund managers underweight disaster zone stocks because of salience bias, then such stocks should not under perform in the near future.

   a) Do these hypotheses follow from and answer the research questions?

   - Yes.

   b) Do these hypotheses follow from theory? Explain logic of the hypotheses.

- H1 is based on the idea that proximity influences perception and decision-making. Fund managers closer to disaster areas might perceive greater risk and thus underweight affected firms.
- H2A (Information Hypothesis) suggests that if fund managers have superior information about the disaster's impact, they might underweight affected stocks, which should then underperform due to this information reflecting in their stock prices.H2B (Salience Hypothesis) is rooted in behavioral finance, proposing that the prominence of a disaster might lead to biased decision-making. If managers underweight stocks due to this bias, there's no rational basis for expecting underperformance, as the decision isn't based on fundamental analysis.

5. **Sample: comment on the appropriateness of the sample selection procedures.**
   - 3,268 unique funds, with 1,700 located within 100 miles of the disaster zone. The sample size is sufficient and meets the research requirements.
6. **Comment on the appropriateness of variable definition and measurement.**
   - The temporal factor should be taken into account.
7. **Comment on the appropriateness of the regress/predict model specification.**
   - Despite the article employing various methods to control for potential confounding variables, there is still a possibility of omitted variables, such as the personal characteristics of fund managers or investor sentiment, which could affect the holdings of stocks.
8. **What dificulties arise in drawing inferences from the empirical work?**
   - Whether the observed effects can be fully attributed to climatic disasters.
9. **Describe at least one publishable and feasible extension of this research.**
   - Collect more data on the personal characteristics of fund managers, such as educational background, professional experience, risk preference, etc., to assess how these factors affect their response to climatic disasters.