As they catch up to developed ones, emerging countries tend to overborrow and often default on their debt. This study by Laura Alfaro and Fabio Kanczuk analyzes the welfare gains from alternative fiscal rules, finding the gains economically important. What is more, a simple, easily contractible threshold rule can generate gains virtually as high as the optimal rule.

This study combines data about projects posted on Kickstarter with the timing of school breaks of top US colleges to find that slack time can lead to an increase in creative projects, particularly those that are relatively complex and high quality. Managers in corporations that emphasize innovation should consider providing their employees with coordinated slack time particularly to advance development of novel ideas.

Startups that do business with VCs that also fund competitors may find they get the short end of the attention stick and produce fewer new products, concludes research by Rory McDonald and colleagues.  
   
 Open for comment; 1 Comment posted.

This paper develops a tradeoff theory of capital structure, testing the idea that firms with low risk assets—and hence underpriced equity—may want to rely disproportionately on debt. The model accommodates both corporate finance and asset pricing evidence, renewing a fruitful connection between asset pricing and corporate finance research.

This study by Kenneth A. Froot and colleagues show that managers’ departures from the Timely Disclosure Hypothesis—the notion that managers release through available announcement channels all of their then-current private information—may be sensitive to post-quarter private information managers have obtained. Managers may act through their stock trading to benefit from these departures.

Partnerships are essential to the professional service and investment sectors. Yet the partnership structure raises issues including intergenerational continuity. This study of more than 700 private equity partnerships finds 1) the allocation of fund economics is typically weighted toward the founders of the firms, 2) the distributions of carried interest and ownership substantially affect the stability of the partnership, and 3) partners’ departures have a negative effect on private equity groups’ ability to raise additional funds.

Entrepreneurs with a new product idea must decide whether to pitch the concept or provide an actual prototype. Which works best? Professor Hong Luo finds answers in Hollywood screenplays.  
   
 Open for comment; 5 Comments posted.

This paper provides the first evidence on how market participants' uncertainty about firms' future prospects affects managerial decisions in financial reporting. Firms are more likely to manage earnings downward during times of elevated uncertainty, particularly when managers face greater incentives or enjoy greater ability to do so.

Using United States data from 1929 to 2013, Jeremy C. Stein and colleagues emphasize the role of credit-market sentiment as an important driver of the business cycle.

Bubble episodes have fascinated economists and historians for centuries, in part because human behavior in bubbles is so hard to explain, and in part because of the devastating side effects of the crash. At the heart of the standard historical narratives of bubbles is the concept of extrapolation—the formation of expected returns by investors based on past returns. This paper presents a simple model of extrapolative bubbles that explains a lot of evidence and makes new predictions.

This paper studies the asset selection of private equity investors and the risk and return properties of passive portfolios with similarly selected investments in publicly traded securities. Results indicate that sophisticated institutional investors appear to significantly overpay for the portfolio management services associated with private equity investments.

Risk-taking is widely understood to be a vital aspect of leadership, yet it may have a dark side. This study of financial risk-taking among politicians shows risk preferences to be an important antecedent of misconduct. Risk preferences as measured by portfolio choices between risky and safe investments were found to strongly predict political scandals. When employing risk-taking leaders, this suggests a potential tradeoff between performance and misconduct.

Although the past few decades have seen a surge in patents of inventions related to financial services, concerns have been raised about the quality of those patents. New research shows that finance patents in aggregate cite fewer non-patent publications and especially fewer academic publications.

Examining a cross-section of 13 angel groups who considered transactions across 21 countries, this study finds that angel investors have a positive impact on the growth of the firms they fund, their performance, and survival, while the selection of firms that apply for angel funding varies across countries.

Since late 2008, central banks have been conducting monetary policy through two primary instruments: quantitative easing (QE), in which they buy long-term government bonds and other long-term securities, and “forward guidance,” in which they guide market expectations about the path of future short rates. This paper analyzes the effects of forward guidance on both short rates and QE. Results show that forward guidance on QE tends to impact longer maturities than forward guidance on short rates, even when expectations about bond purchases by the central bank concern a shorter horizon than expectations about future short rates.

Pian Shu finds that MIT students who self-select into finance are less academically accomplished than those who choose science and technology.

How can a retailer use its own data to determine what to charge for its products on a day-to-day basis? Kris Ferreira explains the value of data-driven-pricing  
   
 Open for comment; 0 Comments posted.

Thanks to tools such as Kickstarter, venture capital is becoming more democratized. Josh Lerner discusses crowd funding, investment trends, and other features of the changing funding landscape.  
   
 Open for comment; 0 Comments posted.

John Beshears and colleagues find evidence to show commitment accounts can help would-be savers with self-control problems.

Once reviled as villains operating on the fringes of the market, activist investors like Carl Icahn are now powerful forces at work in the mainstream of business, says Professor Joseph Fuller. And their influence is only growing.  
   
 Open for comment; 0 Comments posted.