Rahoituksen nykytutkimuksen pääpiirteet? (yleiskuva mitä rahoituksessa nykyään tutkitaan)

Rakenne

Johdanto (1)

rahoituksen tutkimuskenttä (kurssinäkökulma)

mitä käytän lähteenä

työn rakenne ja tutkimuskysymykset

Vuoden 2017 pääteemat rahoituksen tutkimuksessa (pe) (2)

“pääteemat top5” lyhyesti läpi (su) (5)

harjoitustyön johtopäätösten kytkeminen kurssikirjallisuuteen (ke) (2)

Tutkimusaiheita

Number 1

1. Blockchain - This essay evaluates the potential implications of these changes for managers, institutional investors, small shareholders, auditors, and other parties involved in corporate governance. The lower cost, greater liquidity, more accurate record-keeping, and transparency of ownership offered by blockchains may significantly upend the balance of power among these cohorts. ///uusi teknologia, non-financial institutions, financial instruments, capital and ownership structure, value of firms, goodwill.
2. We empirically investigate the effect that relationship lending has on the availability and pricing of interbank liquidity. Our analysis is based on a daily panel of unsecured overnight loans between 1,079 distinct German bank pairs from March 2006 to November 2007, a period that includes the 2007 liquidity crisis that marked the beginning of the 2007–08 global financial crisis. We find that (i) relationship lenders are more likely to provide liquidity to their closest borrowers, (ii) particularly opaque borrowers obtain liquidity at lower rates when borrowing from their relationship lenders, and (iii) during the crisis, relationship lenders provided cheaper loans to their closest borrowers. Our results hold after controlling for search frictions as well as a large set of (time-varying) bank and bank-pair control variables and fixed effects. While we find some indication that lending relationships help banks reduce search frictions in the over-the-counter interbank market, our results establish that bank-pair relationships have a significant impact on interbank credit availability and pricing due to mitigating uncertainty about counterparty credit quality. // pankkien välinen luotonanto, rahan hinnan määräytyminen, läpinäkyvyys.
3. The early stage of the 2007/2008 financial crisis was marked by large value losses for bank stocks. This article identifies the equity funds most affected by this valuation shock and examines its consequences for the nonfinancial stocks owned by the respective funds. We document three key empirical findings. First, ownership links to these distressed equity funds lead to large temporary underperformance of the most exposed nonfinancial stocks. Second, distressed equity funds make the better performing stocks in their portfolio the preferred liquidation choice. Third, stocks with higher overall fund ownership generally performed better throughout the crisis.// markkinahäiriö ja osakerahastot. sijoittaminen.
4. We review the extensive literature on systemic risk and connect it to the current regulatory debate. While we take stock of the achievements of this rapidly growing field, we identify a gap between two main approaches. The first one studies different sources of systemic risk in isolation, uses confidential data, and inspires targeted but complex regulatory tools. The second approach uses market data to produce global measures which are not directly connected to any particular theory, but could support a more efficient regulation. Bridging this gap will require encompassing theoretical models and improved data disclosure. /systemaattinen riski ja sen lähteet, lainsäädäntö
5. There is a tenuous link between market efficiency and economic efficiency in that stock prices are more informative when the information has less social value. We investigate this link in the context of CEO turnover. Our theoretical model predicts that, when the board’s monitoring intensity and the informed trader’s information decision are jointly endogenized, stock price informativeness is negatively related to the board’s monitoring effort. Our empirical tests provide supporting evidence for this negative effect. Moreover, using the passage of the Sarbanes–Oxley Act (SOX) as a quasi-natural experiment, we find that SOX, while strengthening corporate governance, has a negative effect on stock price informativeness, especially among firms with complex organizational structures. // market efficiency, stock market information.
6. International banks greatly reduced direct cross-border and local affiliates’ lending as the global financial crisis strained their balance sheets, lowered borrower demand, and altered government policies. Using bilateral lender–borrower data and controlling for demand, we show that reductions largely varied in line with markets’ prior assessments of banks’ vulnerabilities, with financial statements’ and lender–borrower data playing minor roles. Those banking systems subject to less market discipline, however, were less sensitive to markets’ perceptions. Moving resources within banking groups became more restricted as drivers of reductions in direct cross-border loans differed from those for local affiliates’ lending, especially for more impaired banking systems. /Lending in financial crisis
7. We argue that anomalies may experience prolonged decay after discovery and propose a Bayesian framework to study how that impacts portfolio decisions. Using the January effect and short-term index autocorrelations as examples of disappearing anomalies, we find that prolonged decay is empirically important, particularly for small-cap anomalies. Papers that document new anomalies without accounting for such decay may actually underestimate the original strength of the anomaly and imply an overstated level of the anomaly out of sample. We show that allowing for potential decay in the context of portfolio choice leads to out-of-sample outperformance relative to other approaches.//animalia, arpitaasi, market efficiency, asset pricing
8. Supported by several recent investigations, the empirical pricing kernel (PK) puzzle might be considered as a stylized fact. Based on an economic model with reference-dependent preferences for the financial investors, we emphasize a microeconomic view that explains the puzzle via state-dependent aggregate preferences. We also investigate how the shape of the PK estimated from option and stock market index returns changes in relation to the volatility risk premium.
9. Does market power of banks affect firm performance? To answer this question we examine 25,236 syndicated loan facilities granted between 2000 and 2010 by 296 banks to 9,029 US non-financial firms. Accounting for both observed and unobserved bank and firm heterogeneity, we find that firms that were recently poorly performing obtain loans from banks with more market power. However, in the year after loan origination market power positively affects firm performance, but only if it is not too high. Our estimates thus suggest that bank market power can facilitate access to credit by poorly performing firms, yet at the same time also boosts the performance of the firms that obtain credit.//Rahan saatavuus huonosti menestyvät yritykset
10. We determine the optimal lifecycle purchasing strategy for deferred income annuities (DIAs)—which are distinct from single-premium income annuities (SPIAs)—for an individual who wishes to maximize the expected utility of his/her annuity income at a fixed time in the future. In contrast to the vast portfolio-choice literature for SPIAs, we focus on the stochasticity of the DIA’s payout yield and address concerns that rates are currently “too low” to justify irreversible annuitization. We assume a mean-reverting model for payout yields and show that a risk-neutral consumer who wishes to maximize his/her expected retirement income should wait until yields reach a threshold—which lies above historical averages—and then purchase the DIA in one lump sum. In contrast, a risk-averse consumer who is concerned the payout yield will remain below average for an extended period and worries about losing mortality credits while waiting, should employ a barrier purchasing strategy, as in the portfolio choice problem under transaction costs. We illustrate how this insight is applied in the context of annuitization. In fact, the optimal behavior of a risk-averse consumer resembles an asymmetric dollar-cost averaging strategy, with a portion of the DIA-budget spent even while payout rates are below historical averages. As part of our analysis we offer an easy-to-use asymptotic approximation for the optimal purchasing strategy (threshold) and provide some numerical examples to illustrate the concept.
11. Previous work has documented a greater sensitivity of long-term government bond yields to fundamentals in euro area peripheral countries during the euro crisis, but we know little about the driver(s) of regime switches. Our estimates based on a panel smooth threshold regression model quantify and explain them: (1) investors have penalized a deterioration of fundamentals more strongly from 2010 to 2012; (2) the higher the bank credit risk, measured with the premium on credit derivatives, the higher the extra premium on fundamentals; (3) after ECB President Draghi’s speech in July 2012, it took 1 year to restore the noncrisis regime and suppress the extra premium.//Financial crisis, regime. asset-pricing

**Töissä on selkeä kiinnekohta taannoiseen finanssikriisiin, jota on alettu tutkimaan. Myös asset-pricing,**

Number 2.

1. We test whether ratings are comparable across asset classes. We examine default rates by initial rating, accuracy ratios, migration metrics, instantaneous upgrade and downgrade intensities, and rating changes over bonds’ lives in multivariate regressions. These approaches reveal substantial and persistent differences across broad asset classes, as well as across subcategories of structured finance products. Our results are best explained by variation in rating agency incentives and variation in underlying risk profiles. We conclude that regulations requiring ratings to perform comparably across asset classes will prove difficult to enforce. We advocate instead a regulatory framework that better distinguishes risks and incentives across asset classes.
2. Most existing macro-finance term structure models (MTSMs) appear incompatible with regression evidence of unspanned macro risk. This “spanning puzzle” appears to invalidate those models in favor of new unspanned MTSMs. However, our empirical analysis supports the previous spanned models. Using simulations to investigate the spanning implications of MTSMs, we show that a canonical spanned model is consistent with the regression evidence; thus, we resolve the spanning puzzle. In addition, direct likelihood-ratio tests find that the knife-edge restrictions of unspanned models are rejected with high statistical significance, though these restrictions have only small effects on cross-sectional fit and estimated term premia.
3. The stocks in a momentum portfolio, which contribute to momentum profits, do not experience significant subsequent reversals. Conversely, stocks that do not contribute to momentum profits over the intermediate horizon exhibit subsequent reversals. Merging these separate securities into a single portfolio causes momentum and reversal patterns to appear linked. Stocks with momentum can be separated from those that exhibit reversal by sorting on size and book-to-market equity ratio. Controlling for proxies for behavioral biases, market illiquidity, and macroeconomic factors does not affect our results.
4. Does speculative trade reduce mispricing and help create efficient markets or does it drive prices further from fundamentals? We analyze betting exchange trading on 9,562 UK horse races in 2013 and 2014 to find out. Crucially, as each race is run, the fundamental value of bets is unambiguously revealed. We find that the volume of trade is predictive of fundamentals, suggesting that speculative trade is on average conducive to market efficiency. However, much of this effect is concentrated in the in-running period during races when, even without trade, asset fundamentals would be revealed seconds later.
5. Return-chasing investors almost exclusively consider top-performing funds for their investment decisions. When drawing conclusions about the managerial skill of these top performers, they tend to neglect fund volatility and the cross-sectional information contained in the number of funds and the distribution of skill. In multiple surveys of sophisticated retail investors, we show that they do not fully understand the role of chance in experimental samples of fund populations. Respondents evaluate each fund in isolation and do not sufficiently account for fund volatility. They confuse risk taking with manager skill and are thus likely to over-allocate capital to lucky past winners.
6. Rationality would suggest that advice-seeking investors receive benefits from costly financial advice. However, evidence documenting these benefits for US investors has so far been lacking. This article is the first to document that US mutual fund investors indeed receive one of the many previously hypothesized benefits associated with financial advice. The documented benefit comes from valuable tax-management advice that helps investors avoid taxable fund distributions and becomes even more valuable when investors face distributions that can cause large and hard-to-predict tax liabilities. Additional evidence suggests that financial advice helps with other aspects of tax management such as tax-loss selling.
7. Hedge funds are heavily involved in corporate restructurings. What makes their involvement distinct from other investors is that hedge funds can trade across the securities of a firm, holding either long or short positions in each security. We analyze the choice of a restructuring proposal by a firm’s manager in the presence of a hedge fund as a potential investor in the firm. We show that, under certain market conditions, there is an equilibrium where the firm’s manager makes a proposal for which a hedge fund finds it profitable to short-sell the equity of the firm, buy the debt of the firm, and via its debtholdings lead the firm to a value-reducing outcome to gain on its short equity position. The necessary and sufficient market conditions under which the aforementioned equilibrium occurs are that the debt and equity markets are segregated and that other traders in the equity market are net buyers on average.
8. We find that small buy trades of US agency mortgage-backed securities (MBS) are priced 3–8% lower than large sell trades. No such “crossing” exists in corporate bonds and agency debentures. We attribute the MBS price patterns to impediments to position aggregation in combination with investor suitability rules that disproportionately affect retail-sized trading and show in a model that classic market frictions cannot produce crossing. Our findings imply that valuations placed on securities affected by aggregation and suitability frictions should adjust for position size. Such securities include not only agency MBS, but also asset-backed securities, commercial mortgage-backed securities, collateralized mortgage obligations, collateralized loan obligations, and private-label residential mortgage-backed securities.
9. We examine how investor attention changes when a firm adopts a modern news dissemination technology. We find that after continental European firms begin using an English-language electronic wire service to disseminate company news, they exhibit a stronger initial reaction to earnings surprises, a lower post earnings announcement stock price drift, and an increase in abnormal trading volume near earnings announcements, compared with when they disseminated their news in non-electronic format and in a continental European language. Our results hold for a sub-sample of firms for which the decision to use a wire service was likely exogenous. The effect of wire services on investor attention is due to the format of news (electronic and English-language), not to the increased speed of news transmission.
10. If a given risky prospect is compared with multiple choice alternatives, then a joint test for optimality is more appropriate than a series of pairwise Stochastic Dominance tests. We develop and implement a bootstrap empirical likelihood ratio test for this hypothesis. The test statistic and implied probabilities can be computed by searching over discrete distributions that obey a system of linear inequalities using quasi-Monte Carlo simulation and convex optimization methods. An extension of the Kroll–Levy simulation experiment shows favorable small-sample properties for data sets of realistic dimensions. In an application to Fama–French stock portfolios, pairwise tests classify a portfolio of small growth stocks as admissible, whereas our test classifies the portfolio as significantly non-optimal for every risk averter.
11. Relatively little is known about the empirical performance of infinite-activity Lévy jump models, especially with non-affine volatility dynamics. We use extensive empirical data sets to study how infinite-activity Variance Gamma and Normal Inverse Gaussian (NIG) jumps with affine and non-affine volatility dynamics improve goodness of fit and option pricing performance. With Markov Chain Monte Carlo, different model specifications are estimated using the joint information of the S&P 500 index and the VIX. Our article provides clear evidence that a parsimonious non-affine model with NIG return jumps and a linear variance specification is particularly competitive, even during the recent crisis.
12. This article tests Piotroski and So’s (2012) market expectation errors approach to value-growth investing in European equity markets. As in the USA, European value-growth returns are concentrated among firms with existent market expectation errors, but absent among firms without such errors which can be ex ante identified by interacting book-to-market with FSCORE, an accounting-based measure of the firm’s fundamental strength. The returns to an expectation errors-based value-growth strategy are highly persistent for up to three years after portfolio formation, pervasive among large firms, and cannot be explained by common risk factors. However, consistent with a mispricing-based interpretation, prior external financing activities significantly influence these market expectation errors. A financing-based misvaluation factor can explain the return behavior of value-growth strategies formed along market expectations errors.
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14. We use a dataset from a large retail bank to examine the impact of financial advice on investors’ stock trading performance and behavioral biases. Our data allow us to classify each individual trade as either advised or independent and to compare them in a trade-by-trade within-person analysis. Thus, our study is not plagued by the endogeneity problems typically faced by studies on financial advice. We document that advisors hurt trading performance. However, they help to reduce some of the behavioral biases retail investors are subject to, but this does not overcompensate the negative performance effects of the bad stock recommendations.
15. We argue that the relationship between managerial pay-for-performance incentives and risk taking is pro-cyclical. We study the relationship between incentives provided by stock-based compensation and firm risk for US non-financial corporations over the two business cycles between 1992 and 2009. We show that a given level of pay-for-performance incentives results in significantly lower firm risk when the economy is in a downturn. The documented pro-cyclical relationship between incentives and risk taking is consistent with state-dependent risk aversion. Our findings contribute to the literature on the depressive effects of performance incentives on firm risk by documenting the importance of the interaction between performance incentives and risk aversion.

Number 3

1. Macro-finance addresses the link between asset prices and economic fluctuations. Many models reflect the same rough idea: the market’s ability to bear risk is greater in good times, and less in bad times. Models achieve this similar result by quite different mechanisms. I contrast their strengths and weaknesses. I highlight directions for future research, including additional facts to be matched, and limitations of the models that should prod future theoretical work. I describe how macro-finance models can fundamentally alter macroeconomics, by putting time-varying risk premiums and risk-bearing capacity at the center of recessions rather than variation in the interest rate and intertemporal substitution.
2. This paper studies variance risk premiums in the Treasury market. We first develop a theory to price variance swaps and show that the realized variance can be perfectly replicated by a static position in Treasury futures options and a dynamic position in the underlying. Pricing and hedging is robust even in the underlying jumps. Using a large options panel data set on Treasury futures with different tenors, we report the following findings: First, the term structure of implied variances is downward sloping across maturities and increases in tenors. Moreover, the slope of the term structure is strongly linked to economic activity. Second, returns to the Treasury variance swap are negative and economically large. Shorting a variance swap produces an annualized Sharpe ratio of almost two and the associated returns cannot be explained by standard risk factors. Finally, the returns remain highly statistically significant even when accounting for transaction costs and margin requirements.
3. We study the impact of banks’ market power on the incidence of a bank levy that is imposed on balance sheets. Within the framework of an oligopolistic version of the Monti-Klein model, the pass-through of a bank tax levied on loans is stronger when elasticity of credit demand is low. To test this hypothesis, we investigate the incidence of the Hungarian bank tax that was introduced in 2010 on banks’ assets. This case is well suited for our analysis because the tax rate is much higher for large banks than for small banks, which allows relying on difference-in-difference methodology. In line with model predictions, our estimations show that the tax is likely to be shifted to customers with the smallest demand elasticity, such as households. This result depends on the common trends assumption that is discussed at length.
4. Companies planning a private placement typically gauge the interest of potential buyers before the offering is publicly announced. Regulators are concerned with this practice, called wall-crossing, as it might invite insider trading, especially when the potential investors are hedge funds. We examine privately placed common stock and convertible offerings and find evidence of widespread pre-announcement short selling. We show that pre-announcement short sellers are able to predict announcement day returns. The effects are especially strong when hedge funds are involved and when the number of buyers is high. We also observe pre-announcement trading in the options market.
5. The dramatic increase in the percentage of mutual funds lending equities suggests that lending fees are an increasingly important source of income for investment advisors. We find that funds that lend equities underperform otherwise similar funds in spite of lending income. The effect of lending is concentrated in funds that cannot act on the short-selling signal due investment restrictions set by the fund family to diversify their fund offerings across styles. Our findings suggest that the family organization explains why fund managers lend, rather than sell, stocks with short selling demand.
6. How does the availability of alternative investment opportunities for banks’ depositors affect the reaction of the banking system to aggregate liquidity shocks? And what are the implications, if any, for banking regulation? To answer these questions, I study a Diamond–Dybvig environment, where banks hedge against aggregate liquidity risk in the interbank market or default, and depositors borrow and lend in a hidden-bond market. In this framework, banks offer an endogenously incomplete contract, and default in equilibrium only when facing systemic liquidity risk. In this case, the allocation at default is inefficient, and countercyclical liquidity requirements are welfare-improving.
7. This article shows that commodity portfolios that capture the backwardation and contango phases exhibit in-sample and out-of-sample predictive power for the first two moments of the distribution of long-horizon aggregate equity market returns, and for the business cycle. It also demonstrates that a pricing model based on the corresponding backwardation and contango risk factors explains relatively well a wide cross-section of equity portfolios. The cross-sectional “hedging” risk prices are economically consistent with the direction of long-horizon predictability. Backwardation and contango thus act as plausible investment opportunity state variables in the context of Merton’s (1973) intertemporal capital asset pricing model.
8. We analyze the consequences of consumer education on prices and welfare in retail financial markets when some consumers are naive about shrouded add-on prices and banks try to exploit this. Allowing for different information and pricing strategies we show that education is unlikely to push banks to full price disclosure, which would be efficient, but instead to a new equilibrium in which banks discriminate between consumer types. Welfare analysis reveals that education, while positive for consumers who learn to make better financial decisions, imposes a negative externality on other consumers when banks respond by setting higher prices. Overall, the welfare effects of consumer education can be negative. Our results identify important pitfalls policy makers should take into account when considering the seemingly harmless intervention of consumer education.
9. Using data from a large German brokerage, we find that individuals investing in passive exchange-traded funds (ETFs) do not improve their portfolio performance, even before transaction costs. Further analysis suggests that this is because of poor ETF timing as well as poor ETF selection (relative to the choice of low-cost, well-diversified ETFs). An exploration of investor heterogeneity shows that though investors who trade more have worse ETF timing, no groups of investors benefit by using ETFs, and no groups will lose by investing in low-cost, well-diversified ETFs.
10. We construct a simple model with lumpy investment, cash accumulation, and costly external finance. Based on this model, we propose a new savings specification aimed at examining savings behavior in the presence of investment lumpiness and financial constraints. We then test a key prediction of our model, namely that under costly external finance, savings–cash flow sensitivities vary significantly by investment regime. We make use of a panel of firms from transition and developed economies to estimate the new savings regression which controls for investment spikes and periods of inactivity. Our findings confirm the validity of the model’s prediction.
11. We show that firms with younger CEOs are more likely to experience stock price crashes, including crashes caused by revelation of negative news in the form of breaks in strings of consecutive earnings increases. Such strings are accompanied by large increases in CEO compensation that do not dissipate with crashes. These findings suggest that CEOs have financial incentives to hoard bad news earlier in their career, which increases future crashes. This negative impact of CEO age effect is strongest in the presence of managerial discretion. Overall, the findings highlight the importance of CEO age for firm policies and outcomes.
12. We study risk-taking behavior in tournaments where the optimal strategy is to take no risk. By keeping the optimal strategy constant, while varying the competitiveness in the tournaments, we are able to investigate the relationship between competitiveness and excessive risk-taking. In the most competitive tournament, less than 10% of the subjects played the optimal strategy in the first rounds. The majority playing dominated strategies increased their risk-taking during game of play. When we removed feedback about winner’s decisions each round, and when we reduced the number of contestants in the tournaments, subjects significantly reduced their risk-taking.

Number 4

1. Liquidity plays an important role in global research. We identify high-quality liquidity proxies based on low-frequency (daily) data, which provide 1,000× to 10,000× computational savings compared to computing high-frequency (intraday) liquidity measures. We find that: (i) Closing Percent Quoted Spread is the best monthly percent-cost proxy when available, (ii) Amihud, Closing Percent Quoted Spread Impact, LOT Mixed Impact, High–Low Impact, and FHT Impact are tied as the best monthly cost-per-dollar-volume proxy, (iii) the daily version of Closing Percent Quoted Spread is the best daily percent-cost proxy, and (iv) the daily version of Amihud is the best daily cost-per-dollar-volume proxy.
2. We analyze the problem of recovering the pricing kernel and real probability distribution from observed option prices, when the state variable is an unbounded diffusion process. We derive necessary and sufficient conditions for recovery. In the general case, these conditions depend on the properties of the diffusion process, but not on the pricing kernel. We also show that the same conditions determine whether recovery works in practice, when the continuous problem is approximated on a bounded or discrete domain without further specification of boundary conditions. Altogether, our results suggest that recovery is possible for many interesting diffusion processes on unbounded domains.
3. We investigate the motivations and effects of financial firms’ hiring of former US financial regulatory employees. The number of top executives with regulatory experience per firm has increased 24% over 2001–15, and hiring is associated with positive average announcement returns and a salary premium. In the quarter after hire, market and balance sheet measures of firm risk decrease significantly and measures of risk management activity increase, especially for hires from prudential regulators, who directly monitor financial firm risk. The absence of this result for unregulated firms and for exogenous shocks to regulatory experience suggests that firms hire ex-employees of their regulators when they perceive a need to reduce risk, consistent with a schooling hypothesis. We find little direct evidence of quid pro quo behavior in regulatory event frequency and fines
4. We present a model in which flat (state-independent) capital requirements are undesirable because of shocks to bank capital. There is a rationale for countercyclical capital requirements that impose lower capital demands when aggregate bank capital is low. However, such capital requirements also have a cost as they increase systemic risk taking: by insulating banks against aggregate shocks (but not bank-specific ones), they create incentives to invest in correlated activities. As a result, the economy’s sensitivity to shocks increases and systemic crises can become more likely. Capital requirements that directly incentivize banks to become less correlated dominate countercyclical policies as they reduce both systemic risk-taking and cyclicality.
5. Following recent crises, cross-border capital flows have declined considerably, and many advanced countries’ banks are retrenching. At the same time, banks from emerging and developing countries continue to expand abroad, and banking has become more regional. Research highlights that long-term debt flows are less volatile and that foreign banks with larger presence, more domestic funding, and closer relationships provide more finance and share risks better. While ongoing changes in global banking influence its overall benefits, the crises also revealed the need for a consistent framework for supervising and resolving globally active banks, with the European Banking Union an important model.
6. This article documents a significant time-series momentum effect that is consistent and robust across all examined conventional asset classes from 1969 to 2015. We find that the duration and magnitude of time-series momentum is different in developed and emerging markets, but this is no longer the case when controlling for the currency component. We further demonstrate that time-series momentum captures a significant proportion of international mutual fund performance, but this is predominantly with respect to its long aspect. Finally, the market interventions by central banks in recent years have distorted correlations across assets; this challenges the performance of such portfolios.
7. This article investigates the influence of financial development on patterns of industrial specialization across China’s regions. We find that industrial sectors reliant on access to external finance tend to concentrate in regions with well-developed financial markets. Both foreign direct investment (FDI) and alternative financing channels are shown to play significant roles in shaping patterns of industrial specialization in China. In contrast, proxies for formal financial markets, for example, the banking system and capital markets, have few effects on regional industrial agglomeration. This result remains robust to instrumental variable estimation, alternative model specifications, and controlling for other traditional determinants of regional specialization.
8. This article explores whether financial development reduces external financing constraints faced by firms, a key channel through which finance impacts economic growth. Using an extensive firm-level dataset from Viet Nam, we use a structural Q model of investment estimated using a generalized method of moments technique. We focus on three aspects of financial development: financial depth, state-owned enterprise (SOE) use of finance and, the degree of market-driven, commercial bank financing in the economy. Our data allow us to measure financial development at the province level, providing rich within-country variation. We find that financial development reduces external financing constraints for firms thus facilitating higher investment activity. Financing constraints are decreasing in credit to the private sector, increasing in the use of finance by SOEs and decreasing in the degree to which finance is allocated on market-terms by commercial banks.
9. By artificially inflating capital and creating own shares, cross-ownership can be a key device for managerial entrenchment. This article proposes a game-theoretical method to measure the extent of shareholder expropriation through cross-ownership. By properly accounting for cross-ownership linkages, we show how managers can seize indirect voting rights, and so insulate their firms from outside control. Significant examples of cross-ownership are found not only in civil law countries, but also in the US mutual fund industry. We apply our method to Germany’s Allianz Group. This article paves the way to better regulatory appraisal of management entrenchment through cross-ownership.
10. We examine the price of asymmetric dependence (AD) in the cross section of US equities. Using a *β*-invariant AD metric, we demonstrate that the return premium for AD is approximately 47% of the premium for *β*. The premium for lower-tail AD is equivalent to 26% of the market risk premium and has been relatively constant through time. The discount associated with upper-tail AD is 29% of the market risk premium and has been increasing markedly in recent years. Our findings have substantial implications for the cost of capital, investor expectations, portfolio management, and performance assessment.
11. In this article, we show that when banks increase their use of wholesale funding they shorten the maturity of loans to corporations. This effect appears to be linked to banks’ exposure to rollover risk resulting from their increasing use of short-term uninsured funding. Banks that use more wholesale funding shorten both the maturity of newly issued loans and the maturity of their loan portfolios. These results are not present among banks that rely predominantly on insured deposits. The link between wholesale funding and loan maturity is robust, and holds when we include firm-year fixed effects, suggesting that the decline in loan maturity is bank driven. In line with this premise, we find that the slope of the loan yield curve becomes steeper for banks that use more wholesale funding and that borrowers turn to the bond market to raise funding with longer maturity in response to banks’ loan maturity shortening.
12. Recent years have seen increased demand from institutional investors for passive replication products that track the performance of hedge fund strategies using liquid investable assets such as futures contracts. In practice, linear replication methods suffer from poor tracking performance and high turnover. We propose a model combination approach to index replication that pools information from a diverse set of pre-specified factor models. Compared with existing methods, the pooled clone strategies yield consistently lower tracking errors, generate less severe portfolio drawdowns, and require substantially smaller trading volume. The pooled hedge fund clones also provide economic benefits in a portfolio allocation context.

Number 5

1. We consider a model in which shareholders provide a risk-averse CEO with risk-taking incentives in addition to effort incentives. We show that the optimal contract protects the CEO from losses for bad outcomes and is convex for medium outcomes and concave for good outcomes. We calibrate the model to data on 1,707 CEOs and show that it explains observed contracts much better than the standard model without risk-taking incentives. When we apply the model to contracts that consist of base salary, stock, and options, the results suggest that options should be issued in the money. Our model also helps us rationalize the universal use of at-the-money options when the tax code is taken into account. Moreover, we propose a new way of measuring risk-taking incentives in which the expected value added to the firm is traded off against the additional risk a CEO has to bear.
2. We study the impact of the different tax treatment of capital gains and losses on the optimal location of assets in taxable and tax-deferred accounts. The classical result of Black (1980) and Tepper (1981) suggests that investors should follow a strict pecking order asset location rule and hold those assets that are subject to the highest tax rate preferentially in tax-deferred accounts. We show that with the different tax treatment of realized gains and losses, only tax-efficient equity mutual funds are optimally held in taxable accounts, whereas mutual funds with average tax-(in)efficiency are preferentially held in tax-deferred accounts.
3. I develop and test a model in which the characteristics of entrepreneurs and VCs are jointly determined by real investment opportunities. By inducing the entry of inept agents, booms inflate the dispersion in ability on both sides of the market. Consistent with these predictions, venture fund return data show that 1) new entrants in hot markets are associated with high cross-sectional dispersion in abnormal returns, and 2) the worst performing funds in the sample are disproportionately likely to be new entrants in hot markets.
4. We analyze the limits of regulating bank CEO compensation to reduce risk shifting in the presence of an active board that retains the right to approve new investment strategies. Compensation regulation prevents overinvestment in strategies that increase risk, but it is ineffective in preventing underinvestment in strategies that reduce risk. The regulator optimally combines compensation and capital regulations. In contrast, if the board delegates the choice of strategy to the CEO, compensation regulation is sufficient to prevent both types of risk shifting. Compensation regulation increases shareholders’ incentives to implement an active board, which reduces the effectiveness of compensation regulation.
5. Previous literature on cash management has revealed that firms hoard cash to protect themselves against external financing constraints that might limit future capital budgeting policies. In a theoretical model based on this finding, we analyze how investors’ attitude toward uncertain investment returns affects the valuation of cash and the amount of cash holdings. Subsequently, we show empirically that cash holdings become less valuable with increasing ambiguity aversion in line with our model. We also demonstrate that managers react accordingly and lower cash holdings if their investors tend to be more ambiguity-averse. Several robustness tests confirm our findings.
6. We analyze the effects of spot market short-sale constraints on derivatives trading using a unique Chinese stock market futures trading database. Due to short-sale constraints, investors’ pessimistic views on the underlying index can be expressed solely through short futures positions, while investors’ optimistic views are dispersed through their spot and futures trading. We hypothesize that trading of pessimistic investors (with net short futures positions) contains more information than that of optimistic investors. We document the negative volatility–volume relation is associated with pessimistic investors’ trading, which attenuates with less-restricted spot market short-sale rules. Large pessimistic investors’ net demand can predict future returns, but not the case for optimistic investors.
7. This article explores the effect of an industry’s market structure on the liquidation value of assets. We show that when firms with financial constraints compete for the gains arising from market concentration, they expend insufficient efforts to deploy assets across industries, leading to significant liquidation discounts when compared with an efficient benchmark. Equilibrium distress costs and private costs of leverage should increase with the rents linked to concentration in the product market.
8. We study whether relative optimism leads to home bias in portfolio holdings by looking at two novel databases: a survey that includes expectations of identified professional asset management companies for equity, bonds, and currencies, and the International Monetary Fund portfolio holdings data for equity and bonds. We document that relative optimism for equity is persistent over the period 1997–2012, but relative optimism for bonds and currencies exhibits more time-series variation. Moreover, we show that relative optimism is an economically significant variable that helps explain home bias in portfolio holdings, not only for equity, but also for bonds.
9. In this article, I propose a general-equilibrium model with proportional adjustment costs and industry-specific capital to study the firm migration phenomenon across market-to-book ratio. In my model, investors’ desire to diversify their portfolios and investment frictions generate a mean-reverting dynamics of Tobin’s *q* consistent with the probabilities of migration found in the data, and a non-linear pattern in the conditional volatility of Tobin’s *q*. In addition, since firms’ market-to-book ratios are function of the state of the economy and contain information about stock returns, stock prices inherit these properties, yielding asset-pricing implications in line with the empirical evidence, namely the value premium and a non-monotone relationship between the volatility of stock returns and the Tobin’s *q*.

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1. Using novel monthly data for 226 euro-area banks from 2007 to 2015, we investigate the determinants of banks’ sovereign exposures and their effects on lending during and after the crisis. Public, bailed-out and poorly capitalized banks responded to sovereign stress by purchasing domestic public debt more than other banks, consistent with both the “moral suasion” and the “carry trade” hypothesis. Public banks’ purchases grew especially in coincidence with the largest ECB liquidity injections, which therefore reinforced the “moral suasion” mechanism. Bank exposures significantly amplified the impact of sovereign stress on bank lending to domestic firms, as well as on lending by foreign subsidiaries of stressed-country banks to firms in non-stressed countries. Altogether, our evidence connects this amplification effect and its cross-border transmission to the moral suasion exerted by domestic governments on banks during the crisis.
2. We examine the investor sentiment and limits-to-arbitrage explanations for the positive cross-sectional relation between cash holdings and future stock returns. Consistent with the investor sentiment hypothesis, we find that the cash holding effect is significant when sentiment is low, and it is insignificant when sentiment is high. In addition, the cash holding effect is strong among stocks with high transaction costs, high short selling costs, and large idiosyncratic volatility, indicating that arbitrage on the cash holding effect is costly and risky. In line with the limits-to-arbitrage hypothesis, high costs and risk prevent rational investors from exploiting the cash holding effect.
3. Recent research has identified skewness and downside risk as one of the most important features of risk. We present a new distribution which makes modeling skewed risks no more difficult than normally distributed (symmetric) risks. Our distribution is a combination of the “downside” and “upside” half of two normal distributions, and its parameters can be calculated in closed form to match a given mean, variance, and skewness**.** Value at risk, expected shortfall, portfolio weights, and risk premia have simple expressions for our distribution and show economically meaningful deviations from the normal case already for very modest levels of skewness. An empirical application suggests that our distribution fits the data well.
4. We investigate whether value-relevant foreign information only gradually dilutes into stock prices of multinational firms worldwide. Using an international sample of firms from twenty-two developed countries, we find that a portfolio strategy based on firms’ foreign sales information yields future returns of more than 10% p.a. globally. The return spread due to foreign information is substantial across different geographical regions and cannot be explained by traditional risk factors, firm characteristics, and industry momentum. Our results are in line with limited attention of investors to foreign information being the main driver of this effect worldwide.
5. High growth rate of labor hours per worker signals low future stock returns and high future hiring rate. As labor hours are substituted for hiring, hiring becomes less responsive to future discount rate. The growth rate of the number of labor hours per worker does not appear to be related to future profitability. Our findings are largely consistent with a dynamic labor hours asset pricing model that features large asymmetric costs in adjusting the number of workers and small costs in adjusting the number of hours per worker.
6. Recent evidence on state-dependent variations in market liquidity suggests strong variations in the illiquidity premium across economic states. Adopting a two-state Markov switching model, we find that, while illiquid stocks are affected more by economic conditions than liquid ones are during recessions, the differences in expected returns are relatively small during expansions. Therefore, the expected illiquidity premium displays strong state-dependent variations that are countercyclical. We show that the state of a high illiquidity premium is closely associated with periods of real economic recessions, market declines, and high volatility, which coincides with major events of liquidity dry-up and high liquidity commonality.
7. We document a housing wealth effect on the stock liquidity of local firms. We first demonstrate that the heterogeneity of homeownership rates across geographical areas can explain variations in the impact that changes in house prices have on local stock liquidity. We then show, consistent with expectations that an increase in housing wealth leads to a reduction in household risk aversion, that the liquidity of lottery stocks and stocks dominated by individual investors rises. We also show that it promotes local liquidity commonality and reduces the proportion of firm-specific information revealed in stock returns.
8. We find that higher stock lending fees predict significantly lower future returns after controlling for shorting demand for US stocks during the period 2007–10. These results suggest that active institutional investors on the supply side play an important role in the return predictability of fees and they not only respond to demand but also price in additional information around earnings news announcements. Overall, we find evidence that stock lenders are informed and, together with short sellers, contribute to the price discovery process.
9. We estimate the stock’s likelihood of extreme returns by measuring the extent to which the stock’s trades are correlated with market-wide and industry-wide trades during normal times, referred to as herding. We find that stocks whose trades herd most with aggregate-level trades experience most negative (positive) returns during market crashes (booms). While herding generates extreme returns in both sides, investors appear to demand compensation for the possibility of extreme low returns. This is the case even when we control for standard asset pricing variables and other tail risk proxies.

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kiinnekohdat talouskehitykseen

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