

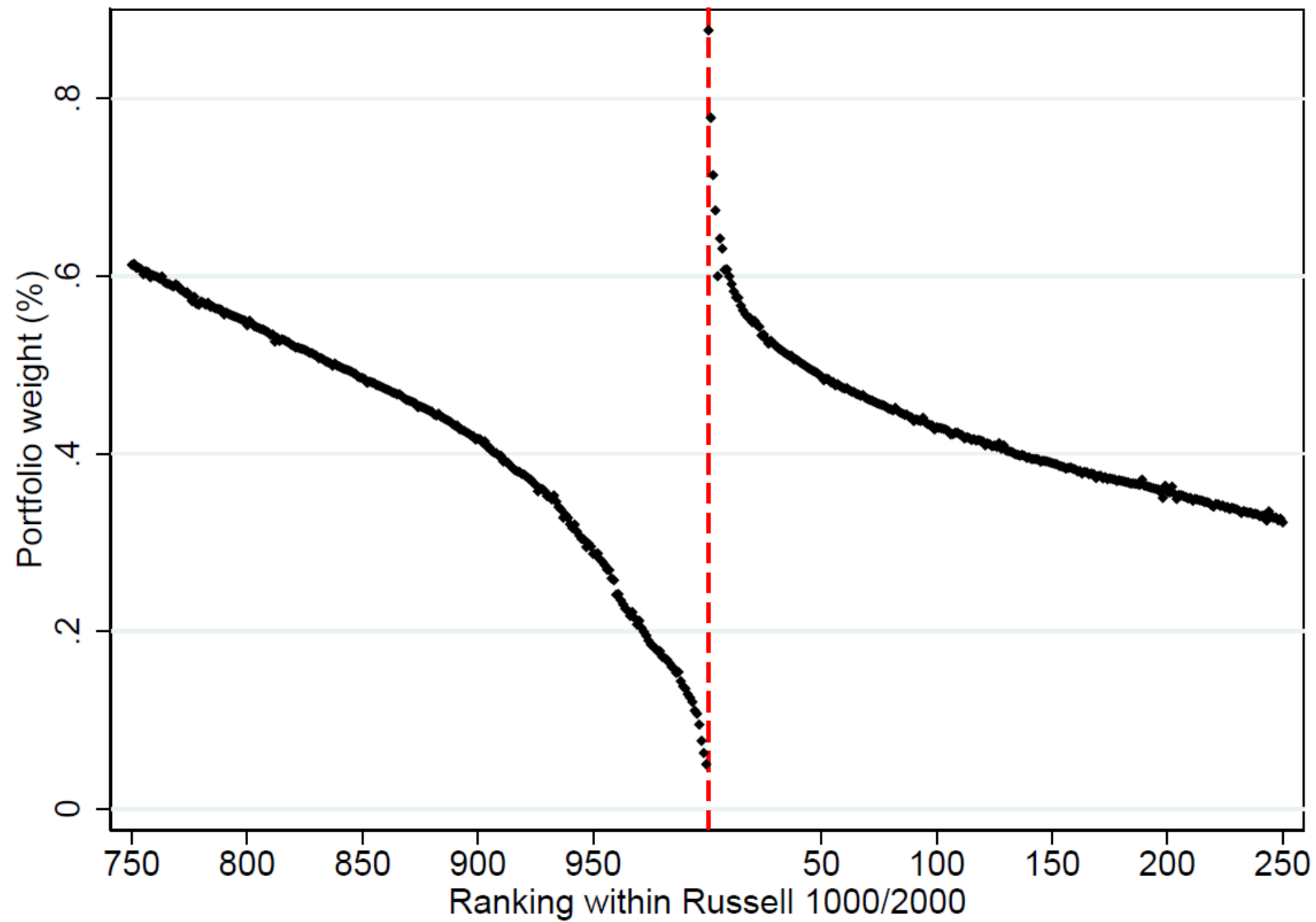
Assignment 2

- Data:
 - <https://www.dropbox.com/sh/akannyobwcwhksy/AACkjGBZeuiXY1afSXFp7Ghra?dl=0>
- Due date/time: February 22, 11.59pm
- Email zip file/github with code, results and log file (log file is very important)

Empirical Framework

$$Y_{it} = \alpha + \beta \text{Passive}\%_{it} + \sum_{n=1}^N \theta_n \left(\text{Ln}(\text{Mktcap}_{it}) \right)^n + \gamma \text{Ln}(\text{Float})_{it} + \delta_t + \varepsilon_{it}$$

- What data do we need?
- Annual information on
 - Outcome variables
 - ISS-RiskMetrics (director, governance)
 - Compustat
 - Percent of a firm's shares held by passive funds
 - Merging couple of datasets!
 - Inclusion into Russell 1000 or 2000
 - Russell data
 - End-of-May market cap
 - CRSP
 - End-of-June float-adjusted market cap
 - Russell data



S12 mutual fund holdings data

- Stock holdings of mutual funds
- Quarterly reporting since May 2004
- Before May 2004, twice a year or quarterly on a voluntary basis: need adjustment for the period before May 2004
 - Assume holdings from the previous date stay constant, and use monthly stock prices from CRSP to compute the dollar values.
- Identifier: fundno-fdate

CRSP Mutual fund data

- Fund names
- Classify mutual funds as active or passive funds
 - Passive funds if
 - Name search (index, Russell, S&P, ...)
 - Classified the fund as an index fund
 - All others that can be matched are active funds
 - The ones that cannot be matched are left unclassified
- Identifier: `crsp_fundno-fdate`

Merging

READ FILE: Guide for Mutual Fund Links (MFLINKS).pdf CLOSELY

How to merge?

- MF Link-1:
 - crsp_fundno-wficon
- MF Link-2:
 - fundno-fdate-wficon

Steps:

- Step-1
 - Merge S12 mutual fund holdings and MF Link-2 by using fundno-fdate, which gives wficon
- Step-2
 - Merge CRSP Mutual fund data and MF Link-1 by using crsp_fundno, which gives wficon
- Step-3
 - Merge S12 mutual fund holdings and CRSP Mutual fund data by using wficon

Russell 1000 and 2000 indexes

- Sample of stocks found in Russell 1000 and 2000. 250 bandwidth around the cutoff
- 1998-2006
- End-of-June float-adjusted market cap to determine the rank of each stock within the index

Compustat

- Annual accounting data
- Winsorized at 1% and 99%

ISS (Riskmetrics)

- Director dataset
 - Percentage of independent directors
- Governance dataset
 - Removal of a limit for shareholders to call a special meeting
 - Dual class share structure
 - Removal of poison pill (the paper uses FactSet)