



MIAMI, FLORIDA

# WORLD FINANCE & BANKING SYMPOSIUM

—  
December 16<sup>th</sup> – 17<sup>th</sup> 2022



**FIU** | Business  
FLORIDA INTERNATIONAL UNIVERSITY

ISBN: 978-989-54931-5-9

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## False Positives in Anomaly Discovery in Latin America

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### Abstract

We analyze the significance of 41 asset pricing anomalies in Latin America. We examine economic significance via portfolio simulations that dilute the effect of microcaps. To mitigate false discoveries, we employ a multiple hypothesis testing framework. Few anomalies are economically significant. Expanding the holding periods for long-short anomaly portfolios points to the same direction. Anomalies are seldomly significant when we test for statistical significance. Anomalies are more prevalent in small than in large stocks, but their presence is far from widespread. In all, many anomalies in the extant literature do not survive out-of-sample scrutiny in this region.

## **Your Land is My Land: Civil Conquest, Asset Protection, and Real Estate Value**

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### **Abstract**

I explore the impact of changes to adverse possession laws, which govern the security of real estate, on home values. Contrary to legal theory favoring adverse possession, lowering legal protections lowers real estate asset value. Using housing price panel data and the quasi-random shock of a change in Pennsylvania adverse possession law, I confirm the financial hypothesis that strong legal protections are causally related to economic value of residential real estate assets. My findings cast doubt on the legal hypothesis that redistributing underutilized real estate increases economic value by creating incentives to improve the land for its owners or occupiers.

## **Analysis of Electronic Banking Security Problems**

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### **Abstract**

Owing to the propagation of technological evolutions and globalization, the banking systems are around the world have shifted their business model from brick and mortar to providing an online platform to consumers. Internet banking or online banking is a type of banking in which any transaction can be conducted over the internet. This includes all the transactions or services that are provided at the branch can now be done online using your laptop or desktop. This helps you save a lot of time and effort and make your banking easy for you. Also, now you don't have to wait for or banking hours to get your things done. All you need is to start your internet banking for this you can get in touch with your respective banks and understand their procedure. From there you get your login ID and password. And you are all set to start your online banking without any hassle. The underlying paper includes a discussion of the recurrent challenges and possible solutions of these challenges as prevailing in the online banking system.

## How Do Firms Choose Legal Form of Organization?

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### Abstract

In this study, we analyze the firm's choice of legal form of organization (LFO). We find that only about one in three firms begins operations as a proprietorship, while almost as many begin as limited liability companies and as corporations. Moreover, this distribution is remarkably stable over the first seven years of the firm's life. Fewer than one in ten firms changes LFO during its first seven years. Those that do change LFO disproportionately move to a more complex form, primarily from proprietorship to a form with limited liability. Our analysis of the firm's initial choice of LFO reveals that a firm chooses LFO based upon factors that include access to capital markets, tax consequences, and personal liability and risk exposure. At start-up, the entrepreneur chooses a LFO that can accommodate the expected future complexity of her firm.



## Seven Trends at the Frontier of Blockchain Banking

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### Abstract

Blockchain and other distributed ledgers go far beyond cryptocurrencies. They are becoming core banking activities and offerings. These top seven DLT trends make the leading-edge possibilities accessible. Cryptocurrencies such as Bitcoin and Ethereum, which emerged after the 2008 financial crisis, have grown increasingly popular as investment alternatives. Still, the impact of the underlying technology has not yet been fully realized. Digital ledger technology (DLT), known as blockchain, simultaneously enables anonymous or pseudonymous financial activities without central control and renders participants accountable for their transactions. Even as innovation continues in earnest in this field, regulatory efforts are also progressing in breadth and clarity. This allows a keen observer to track the trends around DLT, including their potential impact on banks and other financial services institutions. The broader the market grows, the more opportunity is available in the emerging field of blockchain banking. In this BCG report, we chronicle the top seven major trends for blockchain and DLT, taking a global view and highlighting the aspects of the technology that are most relevant to banks around the world. These seven trends are as follows: ? Smart Contracts. Digital implementations of formal agreements ? Initial Coin Offerings. Alternative methods for raising startup funding ? Asset-Backed Digital Tokens. Tradable cryptocurrencies linked to other sources of value ? Nonfungible Tokens (NFTs). Cryptocurrency tokens with their own inherent value ? Central Bank Digital Currencies (CBDCs). Proposals for new nationally backed cryptocurrencies ? Decentralized Finance. Blockchain-based banking and financial applications ? Robo-advisory Services. Automated guidance and support for DLT activity Although innovation is thriving across the globe, with many product launches in Europe and the US, the most active geographic center of innovation is the Asia-Pacific region. (See ?Where in the World Is Cryptocurrency Flourishing??) The region?s lead is prodigious, in part because of activity in China, but it is not necessarily permanent or exclusive. Over the next few years, new DLT products and services will be introduced everywhere. And there is a surprisingly robust potential fit between these novel fintech advances and conventional bank lines of business.

## **Macroeconomic, industry-specific and bank-specific determinants in the profitability of Brazilian banks: dynamic panel evidence**

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### **Abstract**

This paper seeks to identify the effect of macroeconomic, industry-specific and bank-specific determinants on the profitability of the Brazilian banking sector. Profitability is measured by return on assets (ROA), return on equity (ROE) and economic value added (EVA). We incorporate in the analyses independent variables of this sector that have not been considered in previous studies. To address for profit persistence, we apply a dynamic panel data model and the GMM technique described by Arellano and Bover (1995) over the quarterly period from 2009q1 to 2019q4. The main results show that the macroeconomic variables of credit, activity and interest rate contribute to the understanding of the determining factors of bank profitability in Brazil. Regarding industry-specific and bank-specific determinants, total operating expenses to total assets ratio and net interest margin are the two most important determinants of the bank profitability respectively. Thus, we see that these variables are important drivers to understand the banking profitability in Brazil, as well as indicators to be monitored by the monetary authority to ensure the financial health of the banking system.

## PYTHON BLACK-SCHOLES MODEL AND THE BASICS OF OPTION PRICING ? CASE STUDY OF STOCK MARKET

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### Abstract

The Black-Scholes model, also known as the Black-Scholes-Merton (BSM) model, is a mathematical model used to determine the fair prices of options contract. The model owes its name to economists Fischer Black and Myron Scholes. Robert C. Merton was the first to publish a paper expanding the mathematical understanding of the options pricing model and coined the term "Black-Scholes options pricing model". The model revolutionized financial landscape and earned Merton and Scholes the Nobel Memorial Prize in Economic Sciences in 1997. The Black-Scholes (BS) pricing model is still a de facto standard method of pricing financial options. Even though there has been much research into improved and possibly more realistic models, the fact is that the BS model is implicitly assumed in the way most option prices are quoted in practice, in terms of the model parameter called implied volatility. Anyone working with options in the finance industry will have to know the basics of this valuation method. In this paper, I will guide you through the minimal amount of theory needed to implement the pricing method in Python and then look at a basic calculation example. In addition, we will examine the effects of changing the input parameters like current market price, volatility, Effect of Time with Non-Dividend Paying Stock and Dividend Paying Stock to the value of calls and puts. Finally, this paper end with conclusion and how the different factors affecting the options price and introduced a famous option pricing model including input parameters, assumptions, and the formula.

## Managerial Ownership in a Private Firm Framework

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### Abstract

We empirically study the relation between managerial ownership and firm performance in a unique private firm setting. The simplicity of the ownership structure and nature of our sample firms helps isolate the incentive-aligning effect of managerial ownership from the influence of other effects. We find that managerial ownership is positively associated with firm performance. This positive association is concave but not reversed as ownership increases, indicating a diminishing effect of ownership on performance. We use managerial effort and a change of corporate policy to further mitigate the endogeneity concerns. Our findings support managerial ownership as an effective incentive-aligning tool.

## **The effect of collateral on small business rationing of term loans and lines of credit**

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### **Abstract**

Theories of loan contracting in the presence of asymmetric information highlight the key role of collateral in mitigating against credit rationing. Loan applications that are secured against collateral are viewed positively by banks as a sign of entrepreneurial commitment and as a means of de-risking lending which ends in default. However, theory also allows for the use of collateral by 'bad' borrowers who are pretending to be 'good' borrowers in order to receive a better loan contract offer. In this paper we explore the extent to which collateral can reduce the incidence of absolute loan denial and partial rationing associated with smaller loans than requested being offered. Where we differ from other work is in our ability to allow for collateral to act differently in respect of lines of credit and term loans. Using a large UK data set we find that this distinction is important, and that the presence of collateral is associated with reductions in partial rationing for lines of credit but increases in rationing for term lending. We argue that even the request (or offer) of collateral for a term loan indicates that either the bank or the firm believes it is a risky bet.



## FINANCIAL SIMULATION TEAM PERFORMANCE AFTER REQUIRING A MINIMUM PRACTICE SCORE

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### Abstract

Establishing a minimum individual practice performance to encourage student participation and preparedness and ultimately contribute to a student's successful learning experience when participating in a team-based financial simulation. What is the best way to deploy simulation assignments to students? Is there a benefit in requiring a minimum number of points for students to achieve during an individual simulation practice game before competing in a team competition? This research aims to use comparative data from three classes to define the effectiveness of setting a points requirement for the practice simulation game

## **Evidence On the Deterrence Effects of Financial Misrepresentation Enforcement Actions**

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### **Abstract**

In this paper, I examine the dynamics of the deterrence effect of SEC enforcement actions on the earnings manipulation of industry peers. Specifically, I examine the magnitude of the deterrence effect, how fast industry peers react, which strategy they prefer and whether there is a reversal subsequently. Using 882 cases of SEC enforcement actions on financial misconduct, I find that, on average, earnings management (based on accruals and real activities) of peer firms in the event quarter/year drops sharply. However, there is no deterrence effect in local firms. In addition, post Sarbanes-Oxley Act (SOX) enforcement actions, larger investigated companies, severe enforcement actions, concentrated industries, and weakly governed or geographically distant industry peers show stronger deterrence effects. The results are significant economically and statistically after a series of robustness tests.

## **Do words create reality? The development of fintech-banking as seen in financial reports**

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### **Abstract**

In this work, we propose a way to examine the development of fintech banking in the previous decade (2010?2020) through a new index that measures innovation tendency. The index is based on textual analysis of financial statement relying on a sample of 127 banks from 18 countries for the years 2012?2019. The results were compared to the expected trends in the market as may be predicted by the "disruptive innovation" model, given that "fintech" represents the phenomenon known as technologically innovative disorder. The comparison indicates that the proposed index can explain the variance between banks and countries in terms of the development of innovation in banks. The index was found to be significant positively correlated with the granting of a regulatory license to a digital bank without branches. Thus a digital bank may have the effect of innovative disruption to traditional banking in the country in which it was established. While the index reflects a past situation, it shows that banks that have identified the introduction of the innovative disruption have preceded others by using "innovative" terms in their financial statements, so tracking the development of financial statements is of material forecasting value. Based on the literature on the subject, it can be said that if banks' propensity for innovation increases as fintech becomes more established in the country, an innovation - supporting banking regulation is an important factor in maintaining the competition in banking services a head of the entry of the large technology companies, since the tendency of a regulated market is to wait for the regulator's instructions.

## **Integrating Culture, Governance, and Control in Managing Enterprise Risk: A Case Study**

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### **Abstract**

Based on actual events, this case study explains the role of culture, governance, and control in developing and implementing an Enterprise Risk Management (ERM) program for a U.S. multinational nonprofit firm over a six-year period, 2015-2021. The focus on nonprofit sector is timely as it has rapidly grown in recent years increasingly adopting new business models in managing operations. Intended for use in advanced accounting, auditing, and finance courses in MBA, Master of Science in Accountancy, and Master of Science in Finance programs, the case challenges students to analyze questionnaire and publicly available data to identify and prioritize the firm's key risks. It further provides exposure to producing detailed mitigation strategies whose performance are reviewed post ERM implementation, including during the 2020 Coronavirus pandemic. Finally, students are asked to provide post implementation review of the ERM program's maturity and its impact on financial and operational performance of the firm highlighting benefits resulting from risk diversification, information signaling, exploitation of natural hedges, and board's governing efficiency.

## ECB's Extraordinary Monetary Policies from 2011 to 2018 and banks' investment choices

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### Abstract

We examine the implications of all three major ECB's unconventional monetary policies, LTRO, asset purchase programs and deposit facility rate for bank investments among loans, government securities and cash deposited in central banks across two sets of euro area countries: non-crisis vs. crisis countries. Our results highlight that unconventional policies represent the driving force for bank credit in times of financial distress as the standard macroeconomic and bank-specific factors could affect banks' incentives adversely in such times. We distinguish the effects of the first round LTRO and the effects of the targeted LTRO in order to capture if the introduction of a borrowing constraint on banks' loans holdings would impact differently banks' investment choices between loans and government securities. We document that targeted LTRO actually played a key role in turning around the adverse bank investment behavior between loans and government bonds in crisis countries and by that, in attenuating the financial stress across the eurozone. This result has monetary policy implications as it suggests that the structure of the program is the key driver to the desired effects rather than its magnitude. We find that the effects of the asset purchase programs are homogenous across the two country sets and uniformly affect higher loadings on government securities. The timely contribution and policy relevance of this paper are highlighted by the set of monetary policy measures put in place by the ECB to help the economy to absorb the shock of the COVID 19 crisis and to support access to credit for firms.



## ANALYZING U.S. GDP-DEBT-INFLATION LINKAGES IN THE TIME-FREQUENCY DOMAIN

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### Abstract

We add to the discussion on the role of debt-to-GDP and inflation on the U.S. real GDP per capita and its growth rate during the period from 1966 to 2022. We use Global Wavelet Power Spectrum, Multivariate Coherency and Partial Coherency, Phase-Difference and Gain. This framework enables us to work with heteroskedastic and non-stationary data. We find complex phasic and anti-phasic relations between business and growth cycles, versus debt and inflation, with distinct leaderships and elasticities over time and at different frequencies. We have interesting findings over NBER recessions, and our most recent evidence captures the effects of the pandemic.

## Hedging political risk in international equity portfolios

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### Abstract

We show that internationally diversified portfolios carry sizeable political risk premia that expose investors to tail risk. We develop a portfolio selection model for skewed distributions, with a new asymptotic inference test, to obtain political efficient frontiers and hedge political risk. We find that politically hedged international portfolios outperform a broad market index and other benchmarks for US, Eurozone, and Japanese investors. Political risk hedging is not subsumed by currency hedging. The diversification gains of politically hedged portfolios persist under transaction cost frictions and increase for long-horizon investors. Political risk induces home equity bias but does not explain the puzzle.

## **Sovereign ratings and firm investments: A cross-country evidence**

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### **Abstract**

This paper explores the impacts of sovereign rating changes on domestic firm investments. Utilising a large sample of 1,589 rated firms in 40 countries during the period of 1995 to 2021, we document significant impacts of sovereign rating events on firm investments, proxied by total, short- and long-term investment. The results remain robust when we control for the corporate creditworthiness. Specially, firms domiciled in a recently downgraded sovereign reduce their total investments, and shift their investment from long- to short-term investment, given their unaffected credit ratings after undesirable sovereign rating events. Conversely, firms' investment is unaltered by the sovereign upgrades. Our findings also confirm that the impacts of sovereign rating changes are contingent on the firm's financial constraints, as it is more visible in firms with financial constraints proxied by firm size, age, and KZ index. Further, the corporate-sovereign rating spillover is considerably affected by the government debt overhang as it negatively moderates the impacts of sovereign downgrades on corporate investment. Our findings remain reliable under a battery of robustness tests, which can propose several practical implications for both businesses and governments.

## COLOMBIA'S HEALTH PROJECTS USE REAL OPTIONS AS AN EVALUATION METHOD

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### Abstract

In order to evaluate the implementation of a computerized axial tomography service at the State Social Enterprise (ESE), Hospital San Rafael de Yolombó, the theory of real options is used. This demonstrates that while the Net Present Value (NPV) and IRR calculations are well-known and simple to use, they are still static and do not consider the possibility of utilizing the flexibility that may be provided by market conditions. This study employs this method with the investment choice, and its findings demonstrate that profit is produced in the project while accounting for market unpredictability.

## Choosing the currency to borrow in: An experiment among bank customers

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### Abstract

In this project, I intend to empirically understand the choice of households in emerging market economies to borrow in local or foreign currency when applying for bank credit via an experiment with a group of bank customers applying for a mortgage and personal loans. In particular, I will attempt to derive the elasticities of (1) the chosen fraction of total financing in foreign currency ? for households given household characteristics (risk aversion, income in foreign currency, other financials) following their responses to the experiment, if they were to borrow in a mix of currencies, and (2) the level of borrowing in foreign currency if it were the only currency available for borrowing. For the purposes of this project, the foreign currency in question is the U.S. dollar. I intend to conduct the experiment on a select group of customers of a large commercial bank in 2 emerging or transition economy countries simultaneously. Such a setting will allow conditioning on exchange rate risk, which is presumed to be the primary source of heterogeneity in currency choices in the cross-section of economies.

## The execution of public expenditure and the impact on the HDI: The Case of Angola

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### Abstract

This work studies the distribution of public expenditure in Angola, focusing on the analysis of priority social areas and the impact those expenditures on the Human Development Index (HDI). Public governance with regard to public expenditure, as a way of creating an environment that promotes development and equity, has a long way to go in Angola. There are insufficient public policies oriented towards the well-being of the population, and accountability and transparency by authorities is lacking. The economic context, characterized by a strong dependence on natural resources and a weak diversification of the economy, together with a political context, in which the elite in power lives anchored in dependence on the oil sector, very strongly determine the state of governance in Angola. In this study, the empirical analysis covers the period from 2003 to 2018 and consists of the estimation of two econometric models in order to assess the importance of a set of independent variables, namely those related to expenditure in the priority social sectors, on the HDI. The main conclusions of this study confirm Angola as a country with low levels of governance. Public policies in Angola are weak, particularly with regard to the conception and execution of the general public budget. As a result, the real needs in priority social spending are neglected, which essentially affects key social sectors, such as health, education and social protection.

## **Competitive Threats from Foreign Rivals and Stock Price Crash Risk: Evidence from Antitrust Leniency Programs**

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### **Abstract**

We empirically examine the impact of competitive threats from potential foreign rivals on bad news hoarding/disclosure decisions. We find that stronger antitrust enforcement around the world causes domestic U.S. firms to exhibit lower levels of stock price crash risk. This is consistent with managers disclosing rather than hoarding bad news in order to deter entry threats from potential foreign rivals. Further, cross-sectional analyses show that the negative impact of competitive threats from potential rivals on stock price crash risk varies with external market forces, corporate risk-taking and information asymmetry in predictable ways. The evidence indicates that competitive threats from potential foreign rivals constrains firms' stock price crash risk, particularly when agency conflicts leave investors more vulnerable to bad news hoarding.

## Shareholder Litigation Rights and Bond At-Issue Yield Spreads: Evidence from the Adoption of Universal Demand Laws

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### Abstract

We treat the staggered adoption of universal demand (UD) laws by different states in the United States as a quasi-experimental setting, and investigate the effect of UD laws on bond yield spreads at issuance. The adoption of UD laws raises the hurdle for shareholders to bring derivative lawsuits against firms and weakens shareholder litigation rights. Using a sample of bond issuances from 1985 to 2009, we find that the adoption of UD laws is positively associated with yield spreads of bonds issued by U.S. firms. Further, we support two mechanisms through which UD law adoption influences bondholders: managerial preference for the quiet life and deteriorated quality of disclosure information. Overall, our findings indicate that bond investors perceive weakened shareholder litigation rights as a risk to issuing firms and demand a premium to the increased risk exposure due to the adoption of UD laws.



## World Bank Country Classification, Better Than a Guess?

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### Abstract

We may well have placed all our eggs in one basket by decreeing that everything on earth can be expressed in relationship to a single common denominator: wealth, or its exchange equivalent, money. Nearly everything we do is measured in wealth and nearly every endeavour we fail to realize is expressed in wealth shortfall. It is not surprising, then, that phenomena such as international indicators and the World Bank country classification are built on the concept of wealth. It is arguably the most influential factor in determining the quality of life in a country is its wealth. While the declared objective of World Bank country classification is the fight against poverty, using gross national income per capita (pcGNI) as an indicator of change initiation, the present paper challenges the reliability of pcGNI and underlines its other limitations, particularly its silence as to the impact of wealth on the quality of life of individuals, and their need to fully live a decent life.

## Study of Systemic Risks to Indian stock markets from rising share of ETFs

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### Abstract

The objective of this paper is to study the significance of i) tracking error of ETFs ii) tracking error of index funds iii) compare tracking error of ETFs and index funds iv) compare tracking error of different types of ETFs. We also conduct an attribution study to understand the factors behind the tracking errors. We selected 10 ETFs and 4 index funds. Our study shows that: a) The tracking errors for both ETFs and index funds are significant b) The ETFs have lower tracking error than index fund c) The ETFs tracking non-Nifty indices have higher tracking errors than the ones tracking the Nifty. d) Our attribution analysis highlighted that the total expense ratio skews the tracking error in favour of ETFs. Further, for the less liquid passive funds, rebalancing was also a significant contributor to the overall tracking error.

## Size, value and volatility

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### Abstract

We examine the relationship between total stock market risk and the returns on several long-short portfolios that have been widely regarded as priced risk factors in much of prior literature. We find that shocks to implied volatility and to expected realized volatility are related to the returns on the size and value portfolios in a way that is consistent with a straightforward risk-based interpretation. The results are largely consistent across geographic regions and across 1-month, 3-month and 6-month horizons. Additionally, the response of size and value portfolios to positive and negative volatility shocks is asymmetric.

## Peer-based R-Squared and Mutual Fund Performance

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### Abstract

Numerous factors are used in asset pricing models, yet only a few are considered for mutual fund benchmarking. We propose a new R<sup>2</sup>-based measure of mutual fund stock selection skills using the monthly returns of fund holdings and their respective peers. Peer-based R<sup>2</sup> (PBR<sup>2</sup>) is negatively associated with funds' future performance. The performance prediction remains robust up to 4 quarters following the initial formation of fund portfolios. We show that PBR<sup>2</sup> is a better indicator of managerial skill and fund performance than Amihud and Goyenko (2013)'s R<sup>2</sup> (AGR<sup>2</sup>), especially after 2010, the end of its published sample period. Fund flow analyses reveal that investors attend to AGR<sup>2</sup>, not PBR<sup>2</sup>, which causes the decreasing returns to scale in the low-AGR<sup>2</sup> funds.

## THE IMPACT OF CORRUPTION ON CORPORATE

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### Abstract

Understanding the Trade Off, Pecking Order and Agency theories is essential to realize that there is still a puzzle to be solved: they fail to settle the determinants that companies should choose in the capital structure analysis. The main objective of this research is to analyze the impacts of choosing new factors and/or determinants of companies' capital structure. The logical intuition is based on the relationship and interaction of classic variables, widely used in the financial and accounting areas, relying on the skills of the CEO, as well as on the use of restricted factors, such as corruption, immigration and refugees. Using econometric procedures such as cross section, panel data and moderation of instrumental variables, this research includes the 1.675 US companies in the sample, extracted directly from the Wharton Research Data Service database, for the period from 2010 to 2019. This research offers an unprecedented insight into the identification, interaction and discussion of new factors in the choice of the capital structure determinants, as these elements may add value to the companies' debt policy, although they have never been fully used. In general, the results of this study provide empirical evidence that the level of corruption in an economy has a direct and positive effect, assuming the following conclusions: (i) corruption is significant in environments with a higher concentration of refugees, which brings a direct and positive relationship with the level of indebtedness of organizations located in the states that absorb this workforce; (ii) with regard to the groups of refugees, companies joining the program for receiving refugees in the states, through state governments, have the following opportunities: the ability to obtain credit, more easily from financial institutions by reducing interest rates, that is, generating the impact directly on the capital structure and, naturally, becoming more competitive in relation to their competitors. Some sectors, such as energy, telecommunications and retail - are finding ways to integrate refugees into their workforce or to directly support refugee-owned businesses, so that they can participate in opportunities with easier credit and also in creating new business with public bodies. Consequently, the creation of new business with public bodies, over the years, influences the practice of corrupt acts or illegal benefits between both parties.

## Four Decades of Research on Equity Premium: a Systematic Literature Review

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### Abstract

This paper offers a comprehensive view of the research on Equity Premium in the last four decades and investigates the main trending topics in the field. A systematic literature review was undertaken, employing Histcite and Bibliometrix R Package. Two main streams of research were found. The first, which dominated the field until the millennium turn, developed various Consumption Capital Asset Pricing Models' specifications to solve Mehra and Prescott (1985)'s puzzle and others. The second stream has gained strength in the last decades and intends to forecast Equity Premium to support investment strategies. The paper concludes these streams could benefit from a higher interaction with each other as they have complementary strengths and weaknesses. Bibliometric analyses also reveal that future research could bring a more international perspective and better explore the measurement of Equity Premium by prospective data, such as analysts' forecasts, surveys and the SVIX. The impact of COVID-19 in research trends are already felt in the trending topics of 2020 and must remain pertinent in the following years.

## Is there a Protestant Retirement Pension Ethic?

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### Abstract

This article documents a positive and statistically significant relationship between the global ranking of a country's pension system and the fraction of that country's population that identify as Protestant Christians. The results are robust to different measures of Protestantism as well as controlling for other demographic characteristics such as median age of the population, life expectancy, fertility rate, and the fraction of the population above the typical age of retirement. This work is consistent with scholarship that indicates religious beliefs matter for economic outcomes and in particular the results resonate with the famous Weber hypothesis.

## Are All Short-Term Institutional Investors Informed?

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### Abstract

We examine whether being a hedge fund has any differential effect on the previously documented empirical relation between investment horizon and informativeness of institutional investors' trades. We find that the positive and significant relation between short-term institutional demand and future stock returns exists only among hedge funds, while such relation does not exist for non-hedge fund institutions with short investment horizon. We also provide evidence that our results are not driven by a (false) presumption that hedge funds represent majority of the short-term institutional investors and/or hedge fund demand constitute lion's share of the short-term institutional demand.



## **Market Reaction to Appointment of Women Directors on the Boards of Indian Companies**

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### **Abstract**

This study examines the stock market reaction to appointment of women directors on boards of companies in India. Our sample comprises 93 such appointments from 2014 to 2021. We use a standard event study to find out the abnormal returns around the appointment of women directors. Our event study period is 20 days before to 20 days after the date of appointment. We find a positive significant abnormal return suggesting that the market reacts favorably to such appointments.

## Margin Requirements Based on a Stochastic Correlation Model

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### Abstract

We demonstrate that margin requirements of CCPs show a significantly different behaviour when calculated with a portfolio-wise treatment instead of taking the weighted sum of the margin requirements of the components without accounting for their correlation structure. This is shown via simulating trajectories of a joint stochastic volatility-stochastic correlation model. Results indicate that an unnecessarily large over-margin requirement is set by regulators when the applied risk measure is not calculated via a portfolio-wise treatment. Finally, accounting for the correlation structure of the assets during the margining process would not lead to an overly prudent method, neither would it cause greater procyclicality.

## Equity-Based Compensation, Downwardly Rigid Wages and Financial Constraints

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### Abstract

During downturns, rigid average wages squeeze firms' cash flows forcing them to cut investment and hiring, due to financial constraints (Schoefer, 2021). Given a significant increase in the use of broad-based equity-compensation schemes, the question arises whether these effects of wage rigidity could be moderated by equity-based pay. Namely, could the ability to adjust the part of the total labor compensation paid in the form of future equity claims during downturns make employment more stable while making wages livable in the future? Using hand-collected data for 2000 firms from 2008 to 2020, I find that adjusting equity-pay can indeed moderate the financial effects of wage rigidity. The moderating role of equity pay is more significant when wages are more rigid, as I also show with a theoretical model.

## Optimal Portfolio Selection in the Modular Neural Networks and their Hybrids

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### Abstract

The Modular Networks and their Neuro-Genetic Hybrids are examined to address multiple aspects of the modern portfolio theory: i) the investor behavior, ii) the incorporation of the behavior to the stochastic differential equations to describe the price efficiently under the new trends of Chaotic Dynamics described by Tsallis Statistics on entropy in the frame of Fractal Market Hypothesis, iii) the selection of the optimal classifier between 40 Modular models of plain and hybrid form to optimize investment portfolio

## **Does Banking Competition Really Increase Credit for All? The Effect of Bank Branching Deregulation on Small Business Credit**

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### **Abstract**

In this paper, I quantify the extent to which financial constraints limit the scope of activity of small firms, influence their labor decisions, and impact their ultimate survival. Using the U.S. branching deregulation from the 1990s, I document that local markets within deregulated states experienced an increase in their number of branches, driven by the entry of larger out-of-state banks and a decrease in the number of branches of existing local banks. As a result, small businesses were affected disproportionately. On average, in the treated markets, the overall lending to small businesses initially declined by 5.4% and remained lower for several years. The decline in credit supply eventually led to a decrease in the number of small businesses; however, many firms were able to stay in operation by decreasing their demand for labor. Specifically, there was an immediate decline in the employment and hours worked at small firms in newly deregulated markets, and even as small business lending recovered, these levels remained depressed for many years after that. Overall, the results demonstrate the critical dependence of small businesses on relationship lending by local banks and show how temporary negative credit supply shocks can have persistent adverse effects on labor.

## **Macprudential policies, bank risk and economic uncertainty: Evidence from emerging Asian economies**

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### **Abstract**

This paper examines the impact of macroprudential policies on the nexus between economic uncertainty and bank risk in emerging Asian economies. Using bank-level panel data from approximately 600 commercial banks in 11 emerging Asian economies during the period 2000-2016, we find consistent evidence that bank risk increases with economic uncertainty, while macroprudential measures play an ameliorative role in uncertainty-induced bank risk. Our baseline findings are largely driven by macroprudential measures that aim to dampen the credit cycle more than those that target increasing the resilience of the banking sector. Our further analyses of the heterogeneous impacts of macroprudential measures by specific type on the risk of banks show that liquidity-based instruments, reserve requirements and currency instruments play a more conspicuous role in the economic uncertainty-bank risk nexus than capital-based and asset-side macroprudential instruments.

## SPACs and IPOs? ex-post transaction performances: Which approach can win?

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### Abstract

The growing phenomenon of Special Purpose Acquisition Companies (SPAC) in Italy and the United Kingdom needs further investigation and understanding of whether a target company's decision to go public through a SPAC merger or a traditional IPO significantly impacts the ex-post operational performances. Accordingly, based on a sample of 113 companies, the objective is to predict the target listing and the impact of listing type (IPO vs. SPAC) on the ex-post operational performance using Logistic Regression and a K-Nearest Neighbors machine learning model. Finally, a linear regression model also was included to study the effect of going public through a SPAC merger or traditional IPO on the one-year ex-post ROA. The analysis shows that the type of listing is relevant in determining a change in ROA but only if other indicators, such as the country of listing, the size of the target, and the capital intensity, are also considered in the models, suggesting that the SPACs features can significantly affect operational return in the post-transaction period.

## CSR of Multinational Enterprises: The Influence of Host Country's Sustainability Development Consciousness

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### Abstract

This paper studies the way foreign host countries affect multinational firms' CSR performance. We seek to answer to the query whether internationalization brings positive or negative influence on firm CSR behavior. Using sustainable development goal (SDG) reports published by the United Nations, we find that foreign host countries' sustainable development consciousness (SDC) significantly affects U.S. multinational enterprise (MNE) CSR performance in a positive way. This positive effect of host country SDC on MNE's CSR is more pronounced when the MNE has heavier foreign business, when the industry faces higher CSR sensitivity, litigation risk, or consumer awareness, and also when the host country has a longer cultural distance from the U.S. By identifying SDC as an important host country characteristic that affects MNE CSR, our paper potentially explains the inconsistency in the literature regarding the relation between internationalization and CSR. Moreover, our results indicate the existence of a positive spillover of social responsibility from high-SDC host countries to the MNEs, lending confidence in the UN's agenda of universal sustainable development.



## **Does gender diversification of boardrooms influence financial performance of companies? Evidence from Polish capital market in years 2010-2019.**

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### **Abstract**

Gender balance and diversity on corporate boardrooms, and the impact of these factors on firm performance, are debated by economists, policymakers, and researchers. And there is no clear opinion in the literature on the impact of gender parity in top management on the financial performance of companies. Both positive and negative relationships between these phenomena are indicated. This study aims in answering the question: does women in boardrooms affect the performance of companies continuously listed on the Warsaw Stock Exchange (Poland) in 2010-2019. Research consists in identification of statistically significant correlation between share of women in boards and companies' performance as measured by (1) several financial ratios and (2) taxonomic measures constructed applying variety of financial ratios. Investigations were conducted for all companies selected and separately for banks, other financial and nonfinancial firms. Presented results show that in general the impact of women participation on boards of public companies in Poland on their financial performance is insignificant, although a few examples of positive impact were also detected, mostly in case of banks

## **Algorithmic Stablecoins within Decentralized Autonomous Organizations (DAO): How can Artificial Intelligence help achieving Stability?**

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### **Abstract**

The growth of stablecoins within the Decentralized Finance (Defi) ecosystem has been explosive in the last two years. However, about 95% of all stablecoins are still in the hands of centralized institutions, which contradicts the very essence of Defi and the blockchain technology, namely decentralized and trustless. However, so far, the second generation of non-custodial stablecoins has failed to achieve the goal of stability, and thus, is not yet a reliable alternative to fiat-backed stablecoins. We explore how a smart Decentralized Autonomous Organization (DAO), augmented with Artificial Intelligence and Machine Learning can be used to combine decentralization, stabilization and efficiency. We focus on four main avenues of improvements that may help algorithmic stablecoins protocols to be more resilient, namely organizational and decision-making processes, oracles, automated market makers, and yield farming.

## State-Dependent Flexible Inflation Targeting

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### Abstract

This study proposes a monetary policy framework that is based on varied interactions between inflation and benchmark short-term interest rates at three discernible ranges of inflation. The proposed variant of inflation targeting assumes state dependency in the relationship between the benchmark interest rate and inflation. It is labeled "State-Dependent Flexible Inflation Targeting" (SDFIT). It assumes flexible parameters of a range-based instrument rule. The underlying hypothesis is that there is a positive relationship between the rate of inflation and the benchmark short-term interest rate when inflation (or inflation forecast) is outside the target range. Their relationship is neutral when inflation remains within the range. The study identifies three specific ranges or zones of four monthly inflation measures in the United States and examines interactions between inflation rates and the federal funds effective rate in each zone. The tests generally confirm a positive association between the federal funds rate and inflation in the low and the high inflation zones. The tests show their low correlation when inflation remains within the intermediate zone. I propose a policy instrument rule with flexible parameters. The proposed SDFIT prioritizes the inflation objective when inflation is either too low or too high. If inflation remains within the target range, its weight parameter is minimized, allowing policy-makers to focus on alternative policy objectives.

## Go Green: Does Macroeconomic Uncertainty Matter?

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### Abstract

Using a variety of different time and frequency domains, we investigate the dynamic relationship between time-varying macroeconomic uncertainty and the major green asset indices in this study. We compare the impact of macroeconomic uncertainty on the performance of three well-known green asset indices and their benchmark indices using the macro uncertainty index created by Jurado et al. (2015). The association between macroeconomic uncertainty and green asset values is mostly negative and highly substantial, according to the findings. We find that macroeconomic uncertainty substantially affects green stocks throughout a wide variety of time horizons, but most significantly over the longer term, using wavelet-based Granger causality analysis. Our Linear and Markov Chain Regime Switching regression models demonstrate that the majority of the coefficients are adversely significant, however, this differs according to the volatility regime and the addition of controls. The conclusions of our basic models are primarily supported by further testing and robustness analyses. Though we notice some positive coefficients indicating the superior performance of green assets as a hedge in high-volatility regimes, in general, our findings suggest that green assets are not a good hedge or safe haven against macroeconomic risk; rather, green assets face the same consequences as their benchmark counterparts.

## **Financial sector stability and macroeconomic performance. Identification of turning points using the Hidden Markov Models**

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### **Abstract**

This paper aims to assess the stability of the financial sector in the 7 European countries that adopted the inflation targeting (IT) approach to monetary policy: Albania, Czechia, Hungary, Poland, Romania, Serbia, and Turkey. The focus of the paper is to identify turning points (peaks and troughs) in the process of the financial sector development. The distribution of turning points will allow to infer about the stability of the financial sector. The paper employs a new method to identify the turning points, namely Hidden Markov Models (HMM). This method, which is based on advanced mathematical algorithms, has a number of advantages over the classical methods of identifying turning points. It can be employed to any time series, regardless of its length and requires very low number of assumptions. The development of the financial sector is measured on the basis of banking sector performance indicators. The possible time series which will be included in the analysis as those representing the financial sector are the following: non-performing loans, banks' capital adequacy ratio, banks' return on equity, credit provided by the financial sector, and the monetization ratio (the broad money to GDP ratio). The last indicator reflects the stance of monetary policy. The HMM algorithm will be employed to identify turning points (structural breaks) in these time series. Once peaks and troughs in the time series are found, we will be able to identify the periods of improving and worsening the stability of the sector. Interesting conclusions will be raised after comparing the turning points between various time series within a given country. On the basis of this, a broad stability or a broad instability of the financial sector may be evidenced. The comparison with the other countries will allow us to assess the cross-country synchronization of the financial sector development. The next part of the analysis is the comparison with the real economy. We try to identify peaks and troughs of the GDP fluctuations using the same HMM algorithm and compare them with financial sector turning points. Such an analysis makes it possible to infer whether there is a coincidence between the behavior of the real economy and the financial sector, or rather the financial sector leads or lags the real sector. The last part of the analysis is the comparison of the results with a few non-European countries (e.g. Brazil, Canada) to check whether the cycles in the financial sector in the European countries that adopted the IT regime are similar or not to those in the other countries from different regions of the world. The analysis is based on quarterly data to identify turning points very precisely during the analyzed period.

## LOCAL LABOR MARKET COMPETITION AND CAPITAL STRUCTURE DECISIONS

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### Abstract

Using the near universe of online job postings from 2007 to 2019, we construct a firm-level metric of local labor market competition. We find that firms hiring in more competitive labor markets tend to have lower financial leverage. To establish causality, we exploit the establishment of Amazon HQ2 in Crystal City, Virginia as an exogenous shock to the local labor market competition, and find results that are consistent with our baseline result. Furthermore, the negative relation between labor market competition and leverage is more pronounced when the firm competes for high-skilled labor, high-paid jobs, and in the geographical regions with low GDP growth.

## Automatic Identification of Turning Points with HMM-Based Indicator

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### Abstract

In this paper, the issues of constructing early warning indicators, as well as the business cycle turning point detection, are raised. Following the original procedure presented by Bernardelli (2020), modification and simplification of one of the procedure stages were proposed. The stage with turning point identification was replaced by a combination of well-known and recognized asymmetric Christiano-Fitzgerald filter and the Bry-Boschan routine of cyclical turning point selection. Presenting improvement in the procedure was the key objective of this article. The basic idea of the remaining part of the HMM Signature Indicator procedure lies in the definition of the signature, which captures the pattern in the considered time series, just before the peak or trough. In the presented approach, the following concepts were exploited: the hidden Markov model (HMM), Viterbi path (VP) and Monte Carlo simulations (MC). However, the value-added characteristic of this article is not only the proposition of a new, highly parametrizable method for quantitative representation of the business cycle. An integral part of the research was the validation of the presented approach. The data from the business tendency survey in the Polish manufacturing industry conducted by RIED SGH was used to design 2 different HMM Signature Indicators. Each of them was constructed on the basis of different input time series. Despite this, both demonstrated leading properties, and therefore, effectiveness of the proposed solution was proved. In the majority of cases, the turning points were properly caught in reasonable advance. This means that the presented method can be successfully used for the construction of early warning indicators.

## Impacts of Zero-Commission Trading on Stock Market Liquidity

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### Abstract

With the elimination of commission fees of retail brokers, zero-commission trading became the new normal after October 2019. We employ the New York Stock Exchange DTAQ (Daily Trade and Quote) data from the first trading day of September (09/03/2019) to the last trading day of November (11/28/2019) to calculate ten different market liquidity measures. We find that the implementation of zero-commission trading significantly improves market liquidity. This effect is also significant after related factors including trading volume, price volatility, market performance, opening effect, and closing effect are controlled. By explicitly modeling the simultaneity nature among market liquidity measures, trading volume, and price volatility, we find that there is a positive relationship between bid-ask spread and price volatility. The implementation of zero-commission trading decreases price volatility which causes an indirect negative effect on spread. We also find that the proportion of retail orders in the stock market increased significantly after the implementation of zero-commission trading. The asymmetric model on market microstructure predicts that noise traders tend to decrease the adverse selection cost of market makers and contribute to the decrease of spread. Our findings of increased retail trading and improved market liquidity are consistent with the prediction of an asymmetric information model, implying that retail investors tend to be noise traders. We conclude that the implementation of zero-commission trading benefits retail investors from both commission costs and liquidity costs perspectives. Payment for Order Flow (PFOF), the foundation for zero-commission trading, has been a subject of immense controversy associated with Robinhood's brokerage practices. The policy implication is that simply banning PFOF is not necessarily beneficial to retail investors.



## Scrambling for Collateral

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### Abstract

We provide a theory of collateral management whereby a borrower signals her types through costly collateral acquisition. Regulatory constraints stipulate that only high-quality assets qualify as collateral. To acquire high-quality liquid assets (HQLAs), a borrower can either purchase them in a competitive centralized secondary market or enter into "collateral transformation" to swap low-quality collaterals into high-quality ones. In equilibrium, a good borrower is able to signal her type in the lending market by pledging collateral and can always access the over-the-counter (OTC) collateral swap market, conditional on having enough bargaining power. We find that a borrower's ability to utilize collateral transformation covaries positively with her bargaining power and the degree of asymmetric information, and negatively with her amount of cash on hand.

## Dividends Divided: Australian Dividends and Shareholder Reinvestment

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### Abstract

Dividend reinvestment plan (DRP) firms delegate part of the dividend decision to shareholders. By allowing them to choose between cash dividends and shares, shareholders determine the amount of cash distributed. This paper examines Australian firms' DRP adoption, discontinuation, reinvestment levels, and dividend size. While firms are catering to shareholder demand for reinvestment when introducing the DRP, management retains the ability to influence reinvestment levels and the right to discontinue the DRP should it become a problem. The board declares the maximum possible cash dividend and the amount of Australian tax credits distributed. However, the effective dividend and cash distribution depend on shareholder reinvestment levels. Australian firms are more likely to adopt a DRP when other firms receive high reinvestment levels and high shareholder numbers. Once introduced, results indicate that management considers expected reinvestment levels when determining dividend size, and influences reinvestment levels by modifying plan design. As reinvestment levels are largely independent of a firm's financial and ownership characteristics, we find reinvestment does not undermine the use of dividend policy to manage cash holdings. It is too much to suggest compatibility between corporate dividend policy and shareholder dividend preferences, but we can say there is no fundamental incompatibility between them.

## **Crowdfunding vs. Venture Capital: Complements or Substitutes? A Theoretical Analysis**

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### **Abstract**

Abstract Equity crowdfunding (CF) emerged as a new financing source for entrepreneurs and competes with early-stage financing professionals, i.e., venture capital (VC) investors. Entrepreneurs need to decide from who to raise capital and we develop a theory on this financing choice, and highlight its parameters. We model two financing stages where both types of investors are in competition with each of them having competitive advantages. These advantages include transaction cost, return requirements, support quality, and the efficiency of transaction monitoring and abandonment decisions. Our model predicts the preferred choice for the entrepreneur contingent on these parameters, the resulting entrepreneurial effort and expected venture value. The model also suggests increased competition in the early-stage financial market and that VCs need to reinforce their expertise, specialize, and might move to later financing stages.

## **Financial instability in Lebanon, do banks' liquidity creation and performance matter?\***

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### **Abstract**

This paper examines the interrelations between banks' liquidity creation, banks' profitability, and systemic financial instability in politically unstable developing countries by focusing on the Lebanese banking sector. Using original annual observation of Lebanese banks data for the period 1997 ? 2019 and employing fixed effect OLS regressions and system GMM to account for the dynamic aspect of our data, we show that liquidity creation is significantly associated with lower financial stability and thus higher instability. Banks' profitability is positively linked to systemic banks' stability. The results vary slightly from one estimate to another, but they stand up to robustness tests. Our empirical results could have a substantial impact on the functioning of the Lebanese banking sector and on the determinants of banking and economic instability.

## Impact of COVID-19 on European Banks? Credit Ratings

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### Abstract

The aim of this paper is to analysis the impact of the COVID-19 pandemic on European banks? default risks, as measured by foreign long-term issuer credit ratings published by the main credit rating agencies. Two hypotheses are put forward: (1) The macroeconomic situation has a stronger negative impact on banks? financial conditions during COVID-19; (2) changes in the capital adequacy, assets, management, earnings, and liquidity indicators have a significant impact on changes in banks? credit ratings. The analysis has been prepared for the 2000?2021 period for listed and unlisted banks on the European stock exchanges, that received long-term issuer credit ratings from the main credit rating agencies. To the analysis have been used the ordered logit panel data models and the research has been made on the first differences to analyse the impact of the changes of the financial and macroeconomic conditions on the credit ratings changes. The obtained results suggest a direct and significant impact of the COVID-19 pandemic on the credit rating changes, but a delayed reaction. Credit ratings are especially significant during a crisis in relation to the basic interest rates published by central banks, bond interest rates, price purchasing parity, and the government debt ratio. Another significant impact occurs with regard to capital adequacy and the quality of assets. A raising effect has also been noted in relation to earnings and liquidity indicators. This relationship occurs based on a few reasons. The first is the decreased value of the central banks? interest rates, which has a direct impact on the banks? interest revenues, especially in developing countries and those outside the Eurozone. The decreasing value of the interest accrued on deposits has a direct impact on the withdrawal of money by depositors and their investment of these deposits, such as on the real estate or capital markets. As a result, the stability of the deposit base is important during the first stage of a crisis. Furthermore, another, less significant impact on the quality of assets and capital adequacy indicators in relation to banks? credit rating changes relates to the relaxing of the Basel III requirements by the national regulators. The direct financial support provided by governments reduces companies? default risks in the first stage of a crisis. The impact of the quality of assets and, in particular, increased loan loss provisions and non-performing loans has a delayed impact.

## The usage of credit lines in corporate takeovers

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### Abstract

Using a hand-collected sample of the sources of funds in takeover bids between 1994 and 2020, I document that bank lines of credit are the most frequently used source in cash bids, with more than 55% of transactions financed at least partially with credit lines and nearly one quarter financed with 100% bank credit. Since credit lines offer firms with flexibility and sufficient financial slack to seize investment opportunities, acquirers use existing credit commitments in deals that are more likely to close faster. In addition, my evidence indicates that deals financed by new or amended credit lines are associated with more favorable market reactions upon merger announcements, and tend to offer lower premiums for their targets relative to non-credit-line and existing credit-line-funded deals. Consistent with extant studies, I find supporting evidence that lender certification and monitoring positively influence firm policies through (re)negotiation to make more value-enhancing acquisitions in new and amended credit-line-funded deals.

## Market Risk and Exchange Rate Elasticity of Equity Returns

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### Abstract

## Do Deep Value Investors Earn Excess Returns?

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### Abstract

Ben Graham's net current asset value (NCAV) criterion calls for buying stocks whose prices are below the value of the current assets of the firm, net of liabilities. We present evidence that securities that fit the NCAV criterion experienced superior raw returns over the 1969-2019 period. After controlling for the Fama-French five risk factors and the January effect, we find that the NCAV stock portfolio still generates a significant alpha, equal to 0.78% per month. Excess returns vary by exchange and decade. We compare the NCAV stock portfolio with a portfolio of size-matched firms to confirm the excess returns on the NCAV portfolio.



## Bank's strategic interaction, adverse price dynamics and systemic liquidity risk

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### Abstract

In this paper we introduce two measures, the Systemic Liquidity Buffer (SLB) and the Systemic Liquidity Shortfall (SLS) to assess liquidity in the banking system. The SLB takes an aggregated perspective on liquidity risks in the banking system. In contrast, the SLS focusses on the problematic banks which suffer a liquidity shortfall. These measures provide an add-on to regulatory liquidity measures such as the LCR because they better incorporate a systemic perspective: (1) They model the impact of a funding shock by valuing assets at depressed market prices, (2) Doing so, they explicitly incorporate banks' strategic responses to a market undergoing sharp price declines. We test our approach using several applications capturing both a short (5 days) and a medium-term (30 days) stress scenario, a sudden rise in interest rates, the impact of banks' US dollar business and the recent COVID-19 crisis.

## Education and Credit: The Matthew Effect

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### Abstract

We examine how the credit channel affects the relation between educational attainment of firms' owners and real outcomes. Using a sharp discontinuity created by the bank's credit score and the associated loan origination decision, we find that entrepreneurs who obtain university education have higher future income and wealth, while their firms enjoy higher profitability. The triggering factors of these outcomes are that these entrepreneurs have higher probability to apply for and granted a loan, and invest in more innovative projects that require better-paid employees. Overall, the initial advantage of university education is self-amplifying via the credit channel (a 'Matthew Effect').

## The effect of impact investing financial grants on the performance of private firms

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### Abstract

This study empirically examines the effectiveness of government-financed impact investing grants available to private firms in Slovenia. We use a sample of 7,671 private firms during the 2005-2020 period applying for and eventually receiving impact investing financial grants from the government. We employ the staggered difference-in-difference approach as recently proposed by Baker et al. (2022) and Athey & Imbens (2022) to assess the effects of impact investing financial grants over time and across firms. This method allows for firms switching back and forth between receiving and not receiving impact investing financial grants and thus being a treated observation or a potential control observation respectively. Our results show that firms receiving a grant, on average, increase the number of employees in the subsequent period, generate higher cash flows, increase value added per employee, make higher capital investments, higher levels of exports, but surprisingly decrease productivity on average. Standard DID, PSM, Heckman's two-stage, and the time-varying average treatment effects robustness analyses further support the conclusions that grants successfully foster firm performance.

## What drives profitability of European Union banking sectors?

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### Abstract

The aim of the study is to identify the determinants of the profitability of the banking sectors in the 27 countries of the European Union between 2007 and 2021. In addition to a holistic approach (all countries and the full 15-year period), the sample was defragmented (division of countries into groups based on regional and credit risk criteria) and the period was split into 4 sub-periods (pre-subprime crisis, subprime crisis, prosperity until the outbreak of the COVID-19 pandemic and pandemic period). The novelty of the study lies in the reliance on a broad spectrum of explanatory variables assigned to 4 groups of factors (bank-specific, macroeconomic, ESG and cultural), reference to all EU countries, the decomposition of the research period and the sample in order to identify odds in the spectrum of factors relevant to different phases of the business cycle and dissimilarities among the determinants of profitability in developed economies and emerging or developing markets. The originality is also marked by the research method used. Dynamic time warping (DTW) was used to study the behaviour of banking sectors - an algorithm for measuring similarity between two temporal sequences independent of non-linear variations in the time dimension. The DTW results combined with other banking sector characteristics were used to clusterization of banking sectors to the most similar in terms of multidimensional description. An added advantage was good accuracy of the model, even though the maximization of the predictive power was not the key aspect of the research. The study's conclusions have broad theoretical (identification of important explanatory variables not yet signalled in the literature, especially in the ESG area) and practical implications, especially for: stock market investors (positive impact of profitability on bank value), supervisory institutions (profitability as a factor strengthening capital adequacy ratios) and from the point of view of fiscal policy (in the context of choosing the optimal form of bank taxation) and economic policy (impact of banking sector profits on future lending).

## **Portfolio Allocation and Optimization with Voluntary Carbon Offsets: Is it Worth the While?**

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### **Abstract**

We explore whether the integration of carbon offsets into investment portfolios improve performance. Our results show that strategies that include such offsets achieve higher Sharpe Ratios than the benchmark portfolios. The efficient frontier of optimal portfolio choices is shifted upwards as a result of including compliance and voluntary carbon offsets in the portfolio. Our results also show that while diversified portfolios may benefit from carbon credits integration, voluntary carbon credits are significantly more sensitive to exogenous shocks than compliance carbon credits. All these results are novel and may encourage investors to invest in sustainable asset classes.

## Information content when real estate funds deviate from benchmarks

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### Abstract

This paper assume that over-and underweighting decisions from real estate fund man agers contains valuable information. The underlying idea is that portfolio Strategies based on deviation from benchmark have a forecasting power on future returns. Using a sample of 132 real estate funds and 1,170 real estate stocks from 2001 to 2019, we show signif icant predictive power of DF B portfolio returns. We also observe that the differences between strategies match with economic and real estate cycle and tend to disappear over time indicating the maturity of real estate industry and so its trend toward efficiency.

## Performance evaluation disagreement: determinants and impact on fund flows

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### Abstract

This paper studies investor disagreement in the performance evaluation of equity mutual funds by comparing two existing approaches and estimating its relations with fund characteristics, active management level and fund flows. We find that investors disagree more about the performance of funds that have higher expense ratio and turnover, lower manager tenure and dividend yield, and that are older, smaller and part of a larger family. Disagreement is also higher for funds that follow riskier investment style strategies and deviate more from their benchmarks. Finally, larger disagreement leads to more net fund flows. These findings suggest that heterogeneous investors do not value funds with aggressive active trading strategies similarly, and that favorable valuations by some clienteles result in positive demands for this type of management.

## **The 2020s, the Decade of ESG Crises: The role of ESG performance during times of crises**

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### **Abstract**

We examine the relationship of companies' Environmental, Social, and Governance (ESG) performance with the crisis resilience of stock prices during the crises of the 2020s, focusing on the Covid-19 pandemic induced crisis and extending to the recent Russian-Ukrainian war. We presume that companies with better ESG performance were more crisis resilient. Our empirical analysis covers a database of 1031 global companies, and apply linear and quantile regressions. We define ESG performance as the combination of best-in-class ESG metrics and ESG issue management. Our pilot results show significant negative relationship between a firm's ESG metrics and stock performance during the Covid Crisis. We found evidence that companies with better ESG management were less crisis resilient, these findings are consistent with agency-theory-based literature. This paper draws attention to the importance of ESG performance during recent crises.



## The Effect of Brand Equity on Shareholder Value From An Emerging Market Perspective

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### Abstract

Revealing the role of brand in increasing shareholder value is important to justify the efforts directed to the brand equity by marketers. However, marketing managers have a hard time proving the value of branding in clear financial terms. On the basis of emerging assumptions of marketing-finance interface, marketing theorists assert that brands contribute to increasing shareholder value by enabling firms to increase their returns and also to reduce the risks associated with those returns. Yet, further empirical evidence is needed about the argument especially for emerging markets. Accordingly, this paper seeks to evaluate the effect of brand equity on shareholder value in Istanbul Stock Exchange. Based on Carhart's Four Factor Model, the results of the comparative analysis of returns and risks of two portfolios according to their brand rankings have shown that strong brands contribute to shareholder value with higher returns but in return for a higher risk.

## Why Is The Rent so High? The Philips Curve has the Answer

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### Abstract

Previous studies have not been able to robustly identify a factor that influences rent inflation. Using a VAR and structural VAR framework, I find that after momentum effects, the greatest influence on rent prices in the US is the unemployment rate. The change in the unemployment rate in each of the previous three quarters has a significant inverse relationship with rent inflation. I find robustness using the stickiest measure of rent inflation, the rent component of CPI. Even though this relationship has been theoretically well established, empirical support for it has been lackluster. The strength of my findings could be because of the period under study (1990-2021), which excludes the 1970s/1980s stagflation era and includes the COVID period. Moreover, I also find that other commonly cited reasons like burgeoning house prices and slowing house construction cannot empirically explain rent inflation. The results support one of the bedrocks of modern economic theories, the Philips curve. Given the consequences of COVID, lawmakers need to recognize that even today, they face a trade-off between a strong labor market and rent inflation.

## **The Effect of Expatriate Participation in Governance and Management on Innovation Input and Output: The Moderating Role of Firm Ownership Structure**

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### **Abstract**

Drawing upon the resource-based view (RBV) of the firm and the upper echelons perspective, this study examines the effects of expatriate participation in governance and expatriate participation in management on firm's innovation input (R&D investment) and innovation output (patents). Using a data sample of 584 Korean firms, we found that expatriate participation in governance has a negative impact on innovation input and a positive influence on innovation output. The negative effect of expatriate participation in governance is weaker in foreign owned firms. This shows that expatriate directors are more willing to invest in innovation activities in foreign owned firms. Furthermore, their knowledge and international experience increases firms' innovation output. We also found that expatriate participation in management does not have an effect on innovation input, yet it has a positive impact on innovation output. The positive effect of expatriate participation in management on innovation output is weaker in family owned firms. Theoretical and empirical implications of the results are discussed.

## **Small Bank Managers are Prudent: A Benford's Law Approach to Analyzing Loan Loss Allowances**

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### **Abstract**

Using an analysis of the two leading digits based on Benford's Law, we analyze rounding patterns in loan loss allowances (LLAs) for a bank sample based on good and bad times, net income, profitability, bank size, regulatory level, and whether the banks are private or public. We find clear evidence of upward rounding during good times. Banks which are smaller, private, and subject to more lenient regulatory and supervisory levels also tend to round LLAs upward more than their larger, public, and more heavily regulated counterparts. The results are consistent with previous studies supporting non-opportunistic incentives (including signaling, reducing pro-cyclicality, and pursuing prudence and efficiency) under which bank managers increase the LLA. In addition to shedding additional light on the ongoing debate about management of provisioning for loan losses, this study presents an argument for why the rounding mechanism in LLAs is a rational consequence of U.S. commercial banks being subjected to opposing regulatory forces coming from bank regulators and securities regulators.

## A Tale of Two (Banking) Regulations

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### Abstract

I examine how changes to banks' regulatory burden, driven by changes surrounding size-based regulatory thresholds, impact liquidity creation. Using amendments in 2005 to the FDIC Improvement Act (FDICIA) and the Community Reinvestment Act (CRA), I document that treating each regulatory change as a separate event leads to confounding results. When I ignore the overlap of the two regulations, I find that liquidity creation increases following decreased regulatory burden. After disentangling the effects of the two regulatory changes, I show that banks increase their liquidity creation in response to the amendment to the CRA, but banks do not modify their liquidity creation in response to the change in the FDICIA. I show that prior findings that the FDICIA regulatory change is associated with an increase in bank risk instead appears to be driven by changes to the CRA. Finally, following the CRA regulatory change, the overall size of small business lending increases.

## COVID-19 AND CASH FLOW DYNAMICS OF U.S. FIRMS

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### **Abstract**

COVID-19 has affected the economy of the United States (U.S.) to a huge extent. In this paper, we investigate how COVID-19 has impacted the cash holdings of U.S. firms as the cash holding of a firm receives formidable attention from management, investors, and other stakeholders. Using the cash holding data of U.S. firms covering the period between 2019 and the first two quarters of 2021, we find that the cash holdings of U.S. firms increased significantly during the last three quarters of 2020. The location of the firms highly influences the magnitude of this increase in cash holdings. Firms located in higher COVID intensity states hold more cash than firms located in relatively lower COVID intensity states. We also find that the increase in cash holdings is influenced by firms' industry classification and the life cycle stages. In addition, we find that the cash holdings of U.S. firms start to decline during the first quarter of 2021. The findings are robust to various firm characteristics, industry, and year-fixed effects. The evidence suggests that firms increase cash holdings during the first three waves of COVID-19 as they become concerned about the possible increase of financial constraints. However, as the COVID progresses and economic activity shows signs of recovery, firms' concerns diminish, and they start making new investments.

## Overnight Returns and Investor Sentiment: Further Evidence from Various Trader Types on the Taiwan Stock Market

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### Abstract

Unlike the US market, the emerging stock market has a high proportion of retail traders, making stock trading in a market like Taiwan is more closely related to investor sentiment. This paper, therefore, reexamines the relationship between overnight returns and investor sentiment—a finding documented by Aboody et al. (2018, JFQA)—on the Taiwan stock market (TWSE), and further clarify how the trading behaviors of different investor types interact with the overnight returns. We find that investors' sentiment indeed causes a deviation in prices from their underlying economic fundamentals on the TWSE, and one can observe the subsequent influence in overnight returns. On average, among various trader types, individual trading is the most significantly driven by sentiment. In contrast, the trading volume ratio of institutional investors, especially foreign institutional investors, is negatively related to overnight returns, indicating that foreign investment institutions are relatively more rational traders on the market. Our findings provide further support to the validness of the overnight return in measuring investor sentiment.

## Personality traits of female CEOs: Surpassing their male peers

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### Abstract

We investigate the status and development in the Big Five personality traits of female CEOs of S&P 1500 non-financial firms in the period 2007-2020. We show that female CEOs are significantly more open to experience, more conscientious, more agreeable, and less neurotic than their male peers. Thus, female CEOs score higher (lower) than their male peers on personality traits that correlate positively (negatively) with leadership. This is in line with the notion that female CEOs must surpass their male peers in personality traits that are linked to leadership to be able to emerge as leaders and to be effective leaders on a non-level playing field. Furthermore, we show that female CEOs have become less open to experience and less conscientious (and less agreeable) through the investigated period while still surpassing their male peers in these personality traits ? potentially indicating the development of a more level playing field. In terms of corporate implications, we find that female CEOs may be superior at creating corporate value through their evolutionary higher level of agreeableness. Our findings have important practical implications in terms of CEO selection and CEO management and contribute to the promotion of diversity in the upper echelons.



## Managing Bank Liquidity Hoarding during Uncertain Times: The Role of Board Gender Diversity

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### Abstract

This paper examines the effect of executive board gender diversity on the relationship between economic policy uncertainty (EPU) and bank liquidity hoarding (LH). Using the news-based EPU index developed by Baker, Bloom, and Davis (2016) and LH measures proposed by Berger, Guedhami, Kim, and Li (2022), we exploit a unique dataset from the Russian banking sector, which is characterized by a relatively high share of women on bank executive boards. We find that, while higher economic policy uncertainty raises liquidity hoarding, this effect is lower when board gender diversity is higher. We explain this finding by the influence of board gender diversity on stability and overreaction in decision-making. Additionally, we find that the channel through which board gender diversity affects the impact of economic policy uncertainty on liquidity hoarding takes place via the hoarding of liquid assets. Our findings are robust to the use of alternative measures for economic policy uncertainty and for gender diversity. Our results support policies favoring gender diversity in bank boards to attenuate the detrimental effects of economic policy uncertainty.

## ESG Disclosure and Cost of Equity: Does BIG4 audit firms Matter?

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### Abstract

Environmental, Social, and Governance (ESG) disclosure has emerged as a dominant paradigm in the sustainable corporate finance discipline. Stakeholders realize that an enterprise cannot be evaluated only through financial disclosures, the non-financial disclosures also play a vital role. Against this backdrop, this study examines how ESG disclosure affects the cost of equity (CoE) in the Indian context. For this purpose, we used the ESG disclosure score from the Bloomberg database and the capital asset pricing model (CAPM) to determine ex-post CoE. Further, this study examines how the BIG4 audit firms affect the link between ESG disclosure and CoE. This paper extends the analysis by investigating the effect of individual dimensions of ESG disclosure on the CoE. Using a sample of 586 firms listed on the National Stock Exchange (NSE) for the period 2015-2021, the paper finds that ESG scores significantly negatively impact CoE and the BIG4 auditors have no differential impact on the ESG disclosure-CoE relationship. Finally, the study witnessed that environmental disclosure and social disclosure have a positive and governance disclosure has a negative impact on the firm's CoE.

## Do Macroeconomic Variables Affect Stock Returns in Australia and New Zealand?

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### Abstract

Macroeconomic factors play an important part in the value of stock prices. This paper investigates the relationships between macroeconomic factors and stock prices in both the Australian and New Zealand stock markets. The data set contains monthly observations from 2000 to 2021 as such that the macroeconomic of the Global Financial Crisis are taken into account in the analysis. Vector Auto Regressions (VAR) are used to examine the sensitivities of the macroeconomic variables to the stock price indices. From the analysis, it was found that both New Zealand and Australia have fundamental economic variables that explain stock returns. However, none of the lags of the variables are found to be statistically significant in any of the models. This conforms to financial theory. Efficient markets adjust to information quickly and the intrinsic value of shares on the two exchanges are affected by current and future expected macroeconomic factors. While the length of the study provides many different stock market conditions, extreme market conditions such as the Global Financial Crisis (GFC) limit the power of the regressions.

## ANALYSIS OF ABNORMAL RATES OF RETURN DURING THE COVID-19 PANDEMIC

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### Abstract

Every investor has a different approach to asset distribution. In case of the capital market two extreme approaches can be observed. For some investors the security of the investments is the key whereas for others it is maximization of profits. There are also some who follow their own beliefs when making decisions. Roots of behavior can be found in the field of behavioral finance. Its inseparable elements are the exchange rate fluctuations. The amplitude of occurring fluctuations increases in case of unexpected random events. One such event was the Covid-19 and the announcements of lockdowns. This report investigated the impact of Covid-19 on the capital market, and more specifically, it has been evaluated in terms of generation of abnormal rates of return. The research hypothesis of the study was that an announcement of a lockdown resulting in an economic closure, generates statistically significant abnormal rates of return in relation to national benchmarks. The study was conducted on a basis of daily closing rates for joint stock companies from six European countries: Bulgaria, Czech Republic, Poland, Slovakia, Ukraine, and Hungary. The data range covered the period from 1st January 2020 to 30th April 2020. The results of the event study proved that a few companies in the analysis showed sensitivity of their rates of return in relation to Covid-19. The conducted literature review however showed that a small sample might not reflect the real events. Therefore, the above research hypothesis has been extended to a macroeconomic investigation.

## Overnight Returns: Investor Sentiment or Investor Attention?

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### Abstract

What are the behavioural characteristics of overnight returns? This paper explores whether overnight trading activity exhibits behavioural elements of investor sentiment or investor attention. Overnight returns are employed as a proxy of investor sentiment, and absolute overnight returns are used a proxy of investor attention. Using M&As as a testing framework, we find that pre-acquisition announcement absolute overnight returns are positively associated with bidder short-run performance. In line with the predictions of the investor attention hypothesis, this relationship is reversed and becomes negative for negative signalling deals such as stock-financed acquisitions of public targets. The market overreaction is stronger for harder-to-value deals and those with lower institutional ownership, while it is reversed in the long run. There is no relationship between pre-acquisition announcement overnight returns and bidder short-run performance. We unveil that overnight trading activity exhibits behavioural elements of an investor attention rather than an investor sentiment measure.

## Which Factors Matter Most? Can Startup Valuation be Micro-Targeted?

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### Abstract

While startup valuations are influenced by revenues, risks, age, and macroeconomic conditions, specific causality is traditionally a black box. Because valuations are not disclosed, roles played by other factors (industry, geography, and intellectual property) can often only be guessed at. VC valuation research indicates the importance of establishing a factor-hierarchy to better understand startup valuations and their dynamics, suggesting the wisdom of hiring data-scientists for this purpose. Bespoke understanding can be established via construction of hierarchical prediction models based on decision trees and random forests. These have the advantage of understanding which factors matter most. In combination with OLS, they also tell us the circumstances of when specific causalities apply. This study explores the deterministic role of categorical variables on the valuation of start-ups (i.e. the joint-combination geographic, urban, and sectoral denomination-variables), in order to be able to build a generalized valuation scorecard approach. Using a dataset of 1,091 venture-capital investments, containing 1,044 unique EU and EEA, this study examines microeconomic, sectoral, and local-level impacts on startup valuation. In principle, the study relies on Fixed-effects and Joint-fixed-effects regressions as well as the analysis and exploration of divergent micro-populations and fault-lines by means of non-parametric approaches combining econometric and machine-learning techniques.

## How Informative Are Acquirer Announcement Returns? Evidence from Merger Waves

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### Abstract

We show that the acquirer short-run announcement return is an extremely poor measure of value creation from the merger, using a sample of deals classified by industry-merger waves. We contrast the short-run and long-run acquirer stock returns surrounding merger waves. While the peak in-wave acquirer stock valuation and dismal long-run stock performance strongly suggest that stock overvaluation drives acquisition activity during merger waves, exemplified by the stock-financed merger waves in the 1990s, the acquirer short-run returns are both nearly uncorrelated with and outright dwarfed by long-run returns, indicating that the short-run announcement returns hardly reflect value consequences of acquisitions.

## The Effect of Negative Nominal Interest Rates on Firm Value

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### Abstract

Miller's (1977) seminal work presents an interrelationship between taxes and bankruptcy costs in determining optimal firm value under the assumption of a positive nominal rate. How does a negative nominal interest rate affect this equilibrium? We study the impact of a negative target policy rate upon firm value through simulation of the Miller's model. We predict that exposure to systematic risk moderates the relationship between firm value and a negative policy rate; the expectation of operational cash flows is affected by the policy rate; and valuations are enhanced by the reduction in the discounting factor applied to the debt shield. An examination of German firms validates our first prediction in that firms with higher market betas exhibit a lower Tobin's Q after the implementation of a negative policy rate. Additionally, valuations of German firms improve relative to those in the United States after the policy is implemented, thus supporting the second prediction. However, we find contradictory evidence with respect to the third prediction in that German firms decreased their leverage compared to those in the United States in aftermath of a negative policy rate.

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2 The Effect of Negative Nominal Interest Rates on Firm Value Abstract Miller's (1977) seminal work presents an interrelationship between taxes and bankruptcy costs in determining optimal firm value under the assumption of a positive nominal rate. How does a negative nominal interest rate affect this equilibrium? We study the impact of a negative target policy rate upon firm value through simulation of the Miller's model. We predict that exposure to systematic risk moderates the relationship between firm value and a negative policy rate; the expectation of operational cash flows is affected by the policy rate; and valuations are enhanced by the reduction in the discounting factor applied to the debt shield. An examination of German firms validates our first prediction in that firms with higher market betas exhibit a lower Tobin's Q after the implementation of a negative policy rate. Additionally, valuations of German firms improve relative to those in the United States after the policy is implemented, thus supporting the second prediction. However, we find contradictory evidence with respect to the third prediction in that German firms decreased their leverage compared to those in the United States in aftermath of a



negative policy rate.

## Is there an Optimal Risk-Taking in Banks?

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### Abstract

This study examines how banks manage their risk-taking behavior in the face of high earnings volatility. Specifically, I address the question of whether, given high earnings volatility, is there an optimal risk-taking in banks? I propose two partial risk adjustment mechanisms, one with a cross-section and the other with a time series in a banking setting. I find strong evidence that banks have an optimal risk level. Next, I investigate if there is an optimal risk then how quickly banks adjust toward the optimal level. I find banks converge toward the optimal risk level with the speed of 23.78% per year. After that, I show how the risk adjustment differ in terms of short- and long-term. In the short run  $\beta_2$  equal to  $\beta_1$  and in the long run  $\beta_2$  and  $\beta_1$  equal to 1 because bank adjust to the target risk level fully. Finally, I test the presence of an asymmetric effect in banks? risk adjustment mechanisms. I test whether over risk-taking or under risk-taking is costly for banks and how bank manage their risk-taking during high earnings volatility.

## **Portfolio Allocation and Business Connection: Evidence from Mutual Fund Misconduct**

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### **Abstract**

I investigate whether mutual fund advisory misconduct influence the investment portfolio allocation of fund families regarding their portfolio firms with 401(k) business ties using a comprehensive data set. I find that mutual fund families significantly increase investment portfolio weights on their pension clients after mutual fund advisory misconduct is revealed to public. Increasing portfolio weights on pension client stocks is likely to be motivated by a strategic effort to minimize the probability of pension business termination induced by fraud-driven trust collapse. I find that client stocks are performing worse than non-client stocks in the same portfolio and indifferent with net selling non-client stocks. Overall, my results suggest that fund families sacrifice fund returns to keep pension clients for their private benefits and it implies the identification of systematic inferior investment decisions after fraud revelation.

## **Real estate finance and climate transition: Market practices, challenges and policy considerations**

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### **Abstract**

This report provides an overview of the various existing green real estate financing products and the state of the market for these products. After a decade of growth, green real estate finance markets remain small compared to conventional real estate finance markets. There are a number of challenges in aligning green real estate finance market practices with sustainability goals, including the lack of common definitions, standards and quality data that hinder the ability of market participants and regulators to identify, monitor and manage risks and opportunities. More efforts are needed to promote investments in real estate projects so as to transition to a low-carbon real estate and meet the climate objectives of the Paris Agreement. Drawing on a detailed assessment of these markets and products, this report puts forward policy considerations to elaborate principles and good practices that may contribute to supporting the decarbonisation of real estate assets.

## Evaluation Of CSR Investment Decisions: An Analysis Based On Real Options Approach

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### Abstract

The theme of Corporate Social Responsibility expresses the consideration by organizations of their contribution to the objective of sustainable development of our society. Our starting point for this article is that the adoption of CSR practices can be seen as an investment decision. Traditional methods of investment analysis such as net present value (NPV), assume static and passive management of decisions. However, due to the growing regulations around sustainable development in general, especially CSR, the business environment has become, and more than ever, marked by uncertainty and change. Consequently, the decision to invest in CSR ?will not materialize under the same conditions as those that the manager had initially planned? (Cassimon et al., 2004) and must therefore be considered ?dynamically?. This gave rise to a new category of models generally called ?real option models? (Trigeorgis 2000), which forms the basis of the analytical framework that we propose to apply to CSR investment decisions. We develop an integrative decision framework in the extension of the model of Bush and Hoffmann (2009), adapted to our object of study. This integrative decision framework aims to assess the relative contribution of each uncertainty factor, arising from changes in the external environment, to the valuation of the CSR investment option. We take a close look at the controversial new project of the French multi-energy company TotalEnergies in Uganda, more specifically, at the decisions made by the CEO in three key periods between 2012 and 2021. For each of the three periods, we examine the magnitude of real options value factors and their joint impact on the firm's decision. Thus, our analysis will make it possible to refine the CSR investment decision criteria of an economic actor, define its methods and its evolution over time.

## **The relevance of sentiment and media attention for bitcoin holdings across entities**

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### **Abstract**

This paper provides a novel perspective on the Bitcoin market, investigating determinants of investor positions. The dataset we adopt enables us to distinguish between investors by size and observe their respective behaviour concerning incoming information. We find that price and sentiment changes in the market lead to different investment decisions, depending on the size of the respective Bitcoin portfolio. Small-size investors react much stronger to incoming information, with their decision-making strongly affected by sentiments and media attention. On the opposite, the response of large-scale investors to such information is much weaker. We also find that the directional response differs between both groups.

## **The impact of corporate governance and state ownership on the default probabilities of Chinese firms**

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### **Abstract**

Since 2014, the Chinese government has sanctioned corporate bond defaults of both state-owned and non-state-owned firms, which renders the country's firms no longer immune to bankruptcy. Actual defaults soared in 2015, and have again spiked since the onset of the global pandemic. This study investigates the impact of state ownership on corporate governance mechanisms on default risk of Chinese firms. There are some similarities observed: a) a non-linear relationship between inside ownership and default risk is observed for both state-owned and non-state-owned firms; b) Institutional ownership serves as a monitoring mechanism that reduces default risk, irrespective of state ownership. There are also some striking differences: non-state-owned firms that are family owned have higher default risk. Non state owned firms with more independent boards are also associated with higher default risk, while state-owned firms with larger boards and less independent boards have lower default risk. Pandemic effects are less severe for state-owned firms.

## Retail Investors' Activity and Climate Disasters

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### Abstract

We analyze the effects of climate disasters on retail investors' trading activity. Results show that retail investors trade significantly less during and around climate disasters, and retail buyers exhibit higher returns than sellers. Climate disasters weaken the positive return predictability of the past month's order imbalances while strengthening it for the past six month's order imbalances. In the short run, firms within climate disaster counties with retail net buying underperform those with negative imbalances. Instead, in the long run, firms within and outside climate disaster counties with positive order flows outperform those with negative order flows. Finally, the estimates on the return and order imbalance comovement around climate disasters are consistent with the main findings.



## Institutional Investors and Asset Pricing

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### Abstract

In this paper we investigate the impact of institutional investors on asset prices and document the 'institutional index effect' using individual stocks as the test assets and estimating time-variant betas. We show that, consistent with Brennan (1993, 2008, and 2012), the premium on this effect has a negative sign, and the exposure to it is linked to the simultaneous institutional ownership. The strength of this connection varies across institutional investor types. Moreover, institutional investors' future adjustment in their holdings is associated with the exposure to this effect - an individual stock's higher exposure to such an effect is associated with a decrease in its institutional ownership next period after other relevant variables are controlled for. We also find that institutional investors' adjustment actions are heterogeneous across their investment types.

## **Risk governance and financial performance of public commercial banks of OECD**

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### **Abstract**

Risk governance in place is an effective system to supervise bank's risk-taking within the banks policies and regulatory requirements. However, it is not necessarily and by default understood that bank's financial performance would increase by risk governance in place. For bank financial performance to increase the internal risk governance system has to be coordinated with financial goals along with its objectives to supervise risk-taking. This research investigates the impact of risk governance on the financial performance of public commercial banks of Organization for Economic Cooperation and Development (OECD). Results suggest a negative association of risk governance with financial performance of the banks. This research adds value to the implementation of risk governance and financial performance objectives of the banks and is helpful in decisions making by managers and supervisory authorities.

## The Mexican Revolution and the Bond Markets

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### Abstract

Asset prices reflect historical events. This paper examines the reaction of Mexican sovereign and corporate bonds to the Mexican Revolution of 1910-20. Using data on bonds traded on London and New York stock exchanges, it tests for structural breaks in the time series behavior of bond prices and finds multiple breaks. The tests reveal no evidence of an adverse market reaction to the beginning of the revolution in 1910, nor to the election of Francisco Madero as president. The tests do identify negative market reactions, however, to the disruptions to federal finances and the civil strife that followed the counter-revolution of General Victoriano Huerta. It finds that breaks in Mexican bond prices after 1917 mostly reflect shifts in expectations about the resumption of debt service. The paper provides a complement to, and check upon, historical accounts of the reaction of international capital to the revolution. It also sheds light on the extent to which corporate bonds and obligations of state-sponsored enterprises were vulnerable to the fallout from a default on a sovereign debt ? a still-open question in international bond markets.

## **EQUITY MARKETS PRICING AND CENTRAL BANK INTERVENTIONS: A PANEL DATA APPROACH**

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### **Abstract**

This paper analyses the effects of central bank interventions on the pricing of stock market indices. The study confirms that the large-scale purchases of government debt securities in response to the Great Recession and Covid-19 crises by the Fed, influence the pricing of equity markets via its effect on the pricing of treasury bonds. The instrumental variables three-stage model approach is used to determine the impact of the Fed's balance sheet size on the equity market indices as a measure of its price levels. Under this approach, this study examines the effects of changes in the size of the Fed's balance sheet in three intervention scenarios: during the 2008-2013, the 2020-2021 periods, and throughout. Moreover, the study compares the results from two statistical strategies: time series and panel data. The results of this study lead to conclude that the 3SLS for time series is recommended over the panel data strategy when analyzing indices that share stocks in common. Use of the 3SLS panel data strategy is left for analyzing the effects of instruments on international indices that do not share stocks in common.

## **Disconnecting Financial Misconduct: Social Connectedness and Misconduct in Financial Advising**

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### **Abstract**

This paper investigates how regulatory changes affect agent-regulator relationships and the detection of financial misconduct in U.S. registered investment advisories (RIAs). Using difference-in-differences to exploit the quasi-experimental properties of the Dodd-Frank Act, which mandated a transition of mid-size advisory firms from federal to state regulators in 2012, I find that the change in regulatory purview increases the detection of fraudulent malpractice in mid-sized advisory firms compared to large advisories. Financial misconduct detection increases at advisories more socially and culturally connected to federal regulators, after controlling for geographical distance. The results show a disrupting agent-regulator relationship effect on advisers belonging to the largest homogeneous group, white male financial advisers. In comparison, the effect is not significant among female and under-represented minority groups. Consequently, the change in regulators and the detection of misconduct affect advisory firm performance and services. The findings are consistent with increased malpractice detection when the relationship between agent and regulator changes.

## **Managing Financial Flexibility: Firm-Level Political Risk, Covenants, and the Speed of Adjustment**

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### **Abstract**

Research has shown that firms have a desired target leverage and they partially adjust their capital structure accordingly with over-leveraged firms moving towards their target more quickly than under-leveraged firms. One possible interpretation of this asymmetry is managers' desire to maintain financial flexibility. Using data on firm-level political risk and their private debt covenants, we find evidence supporting this interpretation. When firms face higher political risk, over-leveraged (under-leveraged) firms increased (decreased) their speed of adjustment to improve (maintain) their financial flexibility and keep their debt costs lower. Similarly, when firms have restrictive covenants, the speed of adjustment increases. This effect is particularly pronounced for firms with tight covenants and above-average political risk, suggesting that these outside pressures reinforce each other. Using the redrawing of US congressional districts, we confirm the plausibly causal effect of political risk on the speed of adjustment. In addition, we show that when lenders face higher political risk, borrowers adjust faster to their target leverage thereby, demonstrating the transmission of political risk. Finally, we explore how corporate political lobbying propels borrowing firms to adjust less rapidly towards the target because the adjustment costs are more pronounced than the opportunity cost of future financial flexibility.

## The Effect of Earnings Management and Audit Opinion on Financial Performance: Evidence From Chinese Companies

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### Abstract

Researchers continue to examine how capital markets process accounting information and use it to evaluate corporate performance. Managers use accruals to communicate inside information about the company's underlying value ? however, aggressive reporting of accruals can undermine the informativeness of earnings (Krishnan, 2003). The monitoring of management's use of accruals has been linked to audit quality, as the auditor's reporting behavior may play a role in mitigating management's opportunistic use of accruals. The interaction of management's use of accruals and the monitoring by the auditor can be studied to determine the effect on current and future financial performance. We investigate the association between discretionary accruals and audit opinion, and the resulting effect on stock returns for Chinese companies, and find that financial performance, as measured by stock returns, is greater for those clients that used discretionary accruals and received a standard, unqualified audit report. As the constrained use of discretionary accruals provides greater informativeness of reported earnings, this finding indicates that the auditors' reporting behavior influenced financial reporting for these clients. Our study adds to the literature on audit quality in an international setting and shows the association between the auditor's monitoring, earnings management and corporate performance.

## Money demand stability in India: allowing for an unknown number of breaks

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### Abstract

One of the most widely researched macroeconomic relationships is money demand stability; which helps monetary authorities understand what motivates economic agents hold real money balances and whether it can predict inflation. However, endogenous structural shocks to macroeconomic fundamentals have often been criticized for distorting the equilibrium relationship among economic variables. These shocks usually stem from socioeconomic and political changes, behavior of economic agents, and random shocks. We examine the presence of cointegrating relationships between money demand and scale and opportunity cost variables while allowing for a multiple endogenous structural breaks in the cointegrating vectors in the Indian context for the period 1996:Q2 to 2021:Q2. We utilize the Narayan and Pop (2010) test to identify the break dates in each series, and then employ the Maki (2012) cointegration approach to establish the presence of long-run relationships between money demand and its covariates. Our study finds the presence of stable long-run relationships in the money demand function, implying that monetary authorities may target narrow and broad monetary aggregates as an indicator, or treat it as an information variable to anchor the inflation expectations of economic agents under the current flexible inflation-targeting framework.



## Forecasting Realized Volatility with Wavelet Decomposition

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### Abstract

Forecasting Realized Volatility (RV) is of paramount importance for both academics and practitioners. During recent decades, academic literature has made substantial progress both in terms of methods and predictors under consideration. Despite the popularity of technical indicators, there has been only scarce reference to the effectiveness of this group of predictors in forecasting RV. This paper examines the out-of-sample forecasting performance of technical indicators for S&P500 RV relative to macroeconomic predictors. Our main contribution is to demonstrate that these sets of predictors impact volatility at different frequencies and thus are complementary. Specifically, technical indicators perform especially strongly for forecasting the short frequency component which complements macroeconomic variables which perform strongly at longer frequencies. We demonstrate that by generating economically motivated amalgamation forecasts from these predictors that takes into account the frequency dimension leads to substantial improvements in forecast accuracy. Moreover, we examine timing effects and assess the economic significance of our forecasts.

## Roll Reversal in Commodity Futures

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### Abstract

The relationship between commodity futures differing only in terms of time to maturity has long been of interest to academics, practitioners and policymakers. 'Roll yield' signals based on the futures term structure can generate substantial profits in the cross-section of commodity returns (see for example Fuertes et al., 2010). However, to the best of our knowledge, neither the time-series aspects of these 'roll yield' signals nor the time-series returns of the first maturity contract relative to the second contract have received detailed prior investigation. In this paper we propose that there is time-series reversal in the relative price of the first and second maturity contracts, which can be predicted by the roll yield. These reversals towards normal values is consistent with the correction of shocks and / or a pull towards fundamental values. We demonstrate that spread trading strategies based on these time-series reversals are profitable and generate substantial Sharpe ratios.

## Sanction Transmission Mechanism: Macroeconomic Effects of EU and US Sanctions on Russia's Economy

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### Abstract

We analyse the effects of sanctions implemented by the European Union and the United States of America against the Russian Federation following the latter's annexation of the Crimea Peninsula and invasion of Eastern Ukraine. Effects of EU and US sanctions on several macroeconomic variables of the Russian economy are examined using a structural vector autoregressive model. Sanctions are simulated with 30 different time-varying indices that substitute for binary dummy variables traditionally used to witness sanctions' implementation. We find that sanctions have an indirect impact on Russia's GDP through their effects on inflation, interest rate, and trade competitiveness. We thus introduce a new notion called 'sanction transmission mechanism'.

## Firm-Level Political Risk and Corporate R&D Investment

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### Abstract

This paper investigates the effect of firm-level political risk on corporate R&D investment. Using a sampled firm-quarter observations of 74,643 for 3203 unique firms from the first quarter of 2005 to the fourth quarter of 2021, we find that firms invest more in R&D in periods of high political risk. We again find that the effect is more pronounced for firms with higher growth opportunities and firms with more liquid assets. Also, firms in industries that are more competitive tend to see more of this positive impact of political risk on R&D investment intensity. Our overall findings contribute to the ongoing conversation on investment and uncertainty and specifically contribute to the strategic growth option theory.

