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Financing Innovation: A Hurdle-Rate Theory of Inventive Procyclicality

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Abstract

Schumpeterian arguments of ?creative destruction? predict that innovation is countercyclical. However, empirical findings demonstrate the contrary. We apply corporate finance principles to innovation economics and propose a ?hurdle rate theory of inventive procyclicality.? Macroeconomic episodes of high equity risk premia (ERP) stifle innovation in our sample of U.S. firms because many R&D projects do not pass corporate budgeting decisions when the aggregate discount rate is high. Consistent evidence suggests that the discount rate effect is less pronounced in firms with financial slack, weak product market competition, and institutional investor ownership with long-term orientation. In an attempt to reconcile our procyclical empirical evidence with Schumpeter?s countercyclical theory, we show that firms engaging in exploratory research suffer less during high-ERP episodes than those focusing on exploitative research, and patents developed during high-ERP periods have a higher technological impact and receive significantly more forward citations. Finally, we exploit the staggered variation in state-level R&D tax credits in difference-in-differences analyses to establish a causal link between the ERP and patent value.

Macroprudential Policies and Credit Volatility

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Abstract

We present a model for data reduction and provide time-fixed indicators for macroprudential policies. Using a panel of 119 countries from 2000 to 2015, we empirically assess the effectiveness of macroprudential policies in reducing volatility in private credit. Unobserved heterogeneity among countries is an important factor. We employ an econometric model that accounts for this heterogeneity and document that the impact of macroprudential policies on financial stability varies, leading to either deterioration or improvement, depending on the macroeconomic conditions of the country in which they are implemented.

Can borrowing constrained investors improve long-short portfolio performance by mixing with the market index?

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Abstract

Given a set of risky assets, we consider mean-variance (MV) optimal portfolio selection under exogeneous iborrowing restrictions to achieve increased target returns. We show that MV-efficiency can be improved significantly by mixing the risky assets with a market fund (such as a benchmark index asset) rather than infusing with additional capital. We derive theoretical conditions related to asset and market parameters that lead to enhancing portfolio efficiency without external borrowing. This contrasts with the usual practice under unconstrained borrowing, where it is optimal to proportionately-leverage the tangency portfolio on the securities market line to achieve higher targets at lower volatility risk. We conduct an empirical study with select-sector ETF assets underlying the S&P 500 index to evaluate the out-of-sample performance of our optimal mixed-fund approach. The risk-adjusted returns, under the FF five-factor model, is shown to generate positive and significant Jensen?s alpha, relative to the usual MV model, without incurring additional margin risk or trading intensity. The proposed approach has the potential to narrow the gap in performance enjoyed by borrowing-unconstrained investors who employ the concept of low-beta anomaly.

Purchasing Power Parity And Uncovered Interest Parity Revisited: Evidence From G7 Exchange Rates Based On A Dynamic Joint Model

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Abstract

This research investigates the concept of purchasing power parity (PPP) among the G7 nations subsequent to the introduction of the euro currency. It proposes a dynamic joint model to decompose the real exchange rate (RER) into two distinct components, facilitating an examination of PPP prevalence, and unraveling the impacts of speculative flow of money on the RER. The analysis reveals that the parity between the UK and eurozone countries has shown consistent strengthening, while parity with Japan has experienced a delicate process of convergence. During the Global Financial Crisis (GFC), the US dollar emerges as a safe-haven currency, while the Japanese yen remains resilient, affirming its status as a refuge asset. Conversely, Canadian dollar displays depreciation relative to its G7 counterparts during the GFC.

Family firms and financial performance. Evidence from Russia

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Abstract

family firms, financial performance, agency conflicts, concentration, corporate governance

A Dynamic Nelson-Siegel Model for Treasury Bond Yields with Irregular Mixed-Frequency Macroeconomic Information

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Abstract

This study proposes a dynamic Nelson-Siegel (DNS) model that integrates mixed-frequency macroeconomic data, time-varying factor loadings, and GARCH-type volatility for modeling and forecasting the Treasury bond yield curve. The model captures the complex relationships between DNS factors and macroeconomic variables within a nonlinear framework. Parameter estimation is conducted using the unscented Kalman smoother, allowing for the extraction of latent high-frequency macroeconomic factors and modeling of time-varying volatility in residuals. Empirical results show that the model provides a superior in-sample fit and outperforms competing models across various forecasting horizons. Key macroeconomic variables?foreign exchange (FX), consumer price index (CPI), money supply (M2), and industrial added value (IAV)?are essential in improving the model?s ability to represent yield curve dynamics. This framework advances the literature by enhancing both yield-curve fitting and predictive accuracy, offering a robust nonlinear approach to modeling with mixed-frequency data.

An Investigation of Momentum Strategies in Frontier Equity Markets: A Comparative Analysis of Traditional and Alternative Strategies

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Abstract

Market anomalies that challenge the efficient market hypothesis such as the momentum effect, serve as a basis for investment strategies aimed at generating superior asset returns. However, empirical research done on the momentum-based investment strategies has been limited in frontier equity markets with the bulk of prior studies focusing on developed and emerging markets. Firstly, this study investigates the ability of traditional cross-sectional momentum strategies to generate persistent profits within 11 frontier equity markets from 2008 to 2023. As cross-sectional momentum strategies have been criticised due to non-profitability during volatile market states, the study also assesses the performance of the theoretically improved alternative momentum strategies including 52-week high momentum, time-series momentum and residual momentum since frontier markets are characterised by illiquidity, higher transaction costs and higher market volatility. The momentum strategies are all found to be profitable in all tested markets except Cyprus. Tests reveal that the underperformance of momentum strategies in Cyprus is related to higher market efficiency. Overall, the alternative momentum strategies generate more persistent profits compared to the cross-sectional momentum strategy over the entire study period across the different frontier markets. However, the cross-sectional momentum strategy generates higher returns on average than the alternative strategies. A sub-period analysis reveals that the alternate momentum strategies outperform cross-sectional momentum strategies in periods preceding down markets. Alternate momentum strategies also generally deliver higher returns during down markets although none of the momentum returns are statistically significant during these periods.

Asset Revaluations and Credit Conditions

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Abstract

Do balance sheet asset revaluations have an impact on firms? credit conditions? This paper contributes to the long-standing debate by investigating a large and heterogeneous sample of unlisted firms, a category largely unexplored in the existing literature. Leveraging the exceptional revaluation option introduced by the Italian government in 2020, we examine whether companies that deviate from the historical cost principle, exceptionally and one-time adjusting their book values to the current market value, obtain better credit conditions. Our analysis reveals that firms engaging in asset revaluation benefit from lower interest rates on overdrafts, expand credit lines, and increase the likelihood of forming new banking relationships. We identify two primary channels through which these accounting changes influence borrowing conditions: a disclosure channel, which helps reduce informational asymmetries in the credit market, and a tax-saving channel, which capitalizes on fiscal benefits due to increased amortization costs. Through text mining of financial statement notes, our findings highlight that the disclosure channel plays a central role in enhancing firms? access to credit. The richness of our sample enables us to identify significant heterogeneity across borrower and lender categories. Notably, the effect is more pronounced for firms with less transparent balance sheet information and is limited to credit extended by banks likely constrained by technological capabilities.

A study on the connections between ESG ratings and traditional measures of credit risk

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Abstract

This research explores the relationship between ESG ratings and traditional measures of credit risk through a double materiality lens, assessing both financial and environmental impacts. It investigates how ESG factors influence credit ratings, credit spreads, and CDS spreads, considering variations by industries, geographies, and time. Regression analysis will be used, with firm-specific, macroeconomic, and geographic variables as controls. By examining ESG's role in credit risk assessment, this study aims to provide valuable insights for investors, firms, and policymakers navigating an evolving financial landscape.

Digital Immaturity in Donation Crowdfunding. When Fundraising Strategies Require Human Touch

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Abstract

The impetus of rapid advances in digitalization has reshaped traditional financing models and given rise to innovative approaches such as crowdfunding. This democratization of finance opened new avenues for social enterprises seeking support for their missions. This paper analyzes the operations conducted by Meridonare, a social crowdfunding platform created by Fondazione Banco di Napoli, a banking foundation. Investigating the various campaigns, the research focuses on understanding the determinants of successful crowdfunding projects by distinguishing between collaboration and community factors. Two key conclusions result from the analysis: (1) the positive impact of the operational support provided by the platform to crowdfunders as a critical factor influencing campaign outcomes; (2) the digital immaturity of charitable giving, as the donation process still relies heavily on interpersonal connections and human contact. This evidence represents a substantial contribution to both academic discourses, identifying the channels that foster success in donation crowdfunding, and practical management considerations for social enterprises, social crowdfunding platforms, and Foundations.

Sentiment and Bank Performance: An Empirical Analysis through Elon Musk?s Tweets

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Abstract

Consumer?s financial behavior could be influenced by the sentiment of tweets posted by highly influential people, impacting banking activities and, consequently, bank performance. This study aims to examine the relationship between sentiment and bank performance by considering a sample of 225 U.S.-listed banks during the period 2017-2021. The analysis combines both machine learning and econometric approaches. The analysis uses RoBERTa (a pre-trained transformer model) to extract emotions from Elon Musk?s tweets and then apply the GMM model to assess the impact of sentiment on banks? profitability measured as ROA and ROE. The findings suggest that the overall sentiment has a negative impact on ROA, with negative emotions-such as, anger and sadness-having a statistically significant negative impact on ROA, while positive emotions appear to be insignificant. Moreover, sentiment has no effect on ROE, but negative emotions negatively affect ROE. The findings survive geographical and political regimes. These results carry certain implications for banks, enabling more informed decision-making regarding risk management, loan approval processes, and customer engagement strategies. Additionally, policymakers should consider social media sentiment as a potential source of economic volatility and its implications for financial stability.

Do ecosystems mitigate agency conflict?

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Abstract

Ecosystem business models have gathered significant attention in research and business literature. Many of the highest valued companies have embraced this model expanding beyond their initial core businesses, such as a telco venturing into banking. If done right, implementation of an ecosystem model seems promising from the shareholder perspective with ecosystems enjoying higher valuation multiples than their conventional peers. However, enough controversies surround ecosystems. One of them is agency conflict between shareholders and management. Ecosystems by design imply a higher degree of transparency in the organization which should mitigate the conflict. However, one could argue that not all shareholders appreciate it. In this paper using a sample of 1983 US-traded firms we provide one of the first empirical evidences of relationship between implementation of ecosystem business model and agency conflict. We show that while ecosystems have a significantly higher level of shareholder activity, this activity is not accompanied by shareholder hostility. Thus, it can be argued that ceteris paribus, ecosystems have a lower level of agency conflict. We also show that to achieve the result firms have to actually implement the business model and not just talk about it.

Three Interest Rate Theories

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Abstract

In the loanable fund theory, the interest rate is the balancing factor between savings forthcoming for loans and funds borrowed for investments. In Keynes?s theory, it is a monetary phenomenon that brings the quantity of money desired or the money demand into equality with the quantity of money available or the money supply. In this theory, the part of savings held in money to cope with uncertainty about the return from long-term bonds is instrumental in equalizing demand and supply. The interest rate theory in Keynesian economics taught in universities and colleges during the postwar period is the Baumol-Tobin model. As in Keynes?s theory, the interest rate is also a monetary phenomenon in this model. In this theory, however, it is not the part of savings held in money but the cash balance to purchase goods that is instrumental in equalizing the demand and supply of money. At first glance, all three theories may look different. But their difference is not as drastic as it may appear. This paper reappraises each and compares them from a theoretical perspective. The interest rate is the yield people expect from their investment in long-term bonds and the cost of borrowing money for investment. The paper also discusses the practical value of each theory in coordinating saving and investment activities.

Political Bias in the Coverage of Corporate Misconduct: Effects on Employees and Managers

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Abstract

We document a political bias in the media coverage of corporate violations and examine how it affects the company?s labor force. Media outlets with a political leaning that is incongruent with that of the firm tend to write articles with a more negative tone when covering the company?s misconduct. This worsens the employees? perception of their employer, senior managers, and expectations about the company?s future, negatively affecting their productivity. It also amplifies the negative effects of low abnormal stock market performance on the likelihood of top management dismissal.

Bank Liquidity Risk Management and Its Impact on Lending Practices

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Abstract

This study examines how U.S. commercial banks manage liquidity risks by adjusting loan contract terms. Using quarterly data from 2001 to 2020, we analyze unused credit lines and the liquidity mismatch index (LMI) as liquidity risk exposure. The findings show that increased unused credit lines prompt banks to reduce loan amounts and maturities, raise interest rate spreads, and keep commitment fees unchanged, demonstrating proactive liquidity risk management. Similarly, a worsening LMI leads banks to reduce loan amounts and maturities while increasing both interest rate spreads and commitment fees. These results are mainly driven by the positive component of LMI after decomposing it into positive and negative indices. Banks? responses to liquidity risks vary by economic cycle. Although both unused credit lines and the LMI significantly influence loan contract terms, the effects are stronger during regular periods. Notably, banks consistently tighten price and non-price terms for positive mismatches but unexpectedly relax price terms for negative mismatches during recessions. These findings underscore gaps in addressing systemic liquidity risks and contribute to the literature on bank risk management and financial stability.

Do Exogenous Uninformed Order Flows Move Stock Prices?

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Abstract

The literature suggests that stock prices can be influenced by exogenous order flows, even when they do not convey any information about future cash flows. Empirical studies employ various identification strategies to test this hypothesis, though it is difficult to find an exogenous, unexpected large order flow uncorrelated with cash flow news. In this paper, we analyze a large, exogenous, unprecedented asset purchase program around the boundaries of the CSI 500 and CSI 1000 indices. These boundaries are predetermined by market capitalization rankings well in advance of the asset purchase program. Stocks in the CSI 500 index receive a significant exogenous purchase equivalent to 4.49% of their market capitalization, while stocks in the CSI 1000 index receive only 0.51%. We find the CSI 500 stocks result in a 6.4% higher Fama-French 5-factor alpha.

Quantification of Margin of Conservatism Category C: Inter-Year De-fault Rate Correlation and Intra-Year Default Event Correlation

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Abstract

The European banking regulation allows financial institutions to choose between overlapping and non-overlapping one-year time windows to calculate the long run average of one-year de-fault rates (LRADR). Based on the distribution of the chosen LRADR, financial institutions must add a margin of conservatism for the general estimation error (MoC C) to their probability of default estimates. While existing literature addresses MoC C quantification for non-overlapping one-year default rates, there is a research gap for overlapping one-year default rates. The pur-pose of this paper is twofold. Starting from the assumption of independent numbers of default events in distinct periods, we first derive an equation for the MoC C for overlapping one-year default rates. Specifically, we propose an adjustment factor to convert the MoC C for non-overlapping into a MoC C for overlapping one-year default rates. Second, we demonstrate that the common practice of using the maximum likelihood estimator of asset correlation on sam-ples with different probabilities of default results in a downward bias. We compensate for this downward bias using a simulation approach. Our finding is also pertinent to economic capital quantification, as asset correlations feed into credit portfolio models in the second pillar of the Basel Capital Accord.

Will Dual class shares or control explain underperformance in IPOs? A comparative US-UK analysis

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Abstract

This paper aims to cross the long-term underperformance puzzle after an IPO in the US market and the legal structure of the corporate firm, particularly the dual class shares (DCS) framework. We used a sample of 602 IPOs over the 2020-2024 period in the US and the UK markets. A control by a dominant group of shareholders is shown to contribute positively to the long-run performance. Hanging over the firm-specific variables, the institutional and financial contexts heavily condition the post-IPO performance. Underperformance is documented in the US, but overperformance is identified in the UK. The control rate plays a positive role in explaining positively the 2-year performance. In the USA, low-control situations are less efficient in triggering good performance. The higher the control the higher the performance; in that sense DCSs will help to efficiently achieve high control. The US market is characterized by a NASDAQ effect with NASDAQ?s IPOs strictly underperforming. The legal mechanisms or tools to achieve control are not per se relevant. What is important is to achieve a control situation. The optimistic message is that control will contribute to bringing some positive performance in the overall long-run IPO performance, particularly in the US context.

Beyond Disclosure: Exploring the Impact of ESG Transparency on Stock Liquidity

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Abstract

In this paper, we develop a comprehensive measure of environmental, social, and governance transparency (ESGT) using the Refinitiv database and examine its relationship with stock liquidity for US firms from 2010 to 2019. Our findings reveal that higher ESGT is associated with improved stock liquidity, even after controlling for firm fixed effects. To address endogeneity concerns, we further employ change regressions, two-stage least squares (2SLS) estimation, and a difference-in-differences (DiD) approach. We demonstrate that the positive impact of ESGT on liquidity is primarily moderated by financial opacity and investor attention. This relationship persists when each ESG pillar is considered separately, and after controlling for ESG performance (ESGP). Overall, this study provides valuable insights consistent with voluntary disclosure theory and signaling theory, contributing to our understanding of the economic implications of corporate transparency in financial markets.

Public Attention to Gender Equality and Stock Market Returns

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Abstract

We examine the effect of public attention to gender equality on returns on two U.S. pro-gender diversity stock indices (the MSCI USA Women?s Leadership and the Morningstar Women?s Empowerment index) in comparison to their traditional counterparts (the MSCI USA and the Morningstar USA index) over the 2017-2022 period. We consider several measures of public attention to gender equality: (1) the U.S. daily Google Search Volume Index for different keywords related to gender equality, (2) the number of daily visits to specific Wikipedia pages devoted to gender equality, and (3) the daily number of news stories related to this phenomenon. We find a positive effect of public attention to gender equality on returns on U.S. pro-gender diversity stock indices. We attribute this result to an increasing investor?s preferences for owning stocks of companies that promote gender diversity in the workplace during periods of high public attention to gender equality. This finding which is robust to a battery of alternative estimation methods and proxies offers important managerial and public policy implications.

Corporate Disclosure and Trading Activity

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Abstract

This study examines the effect of corporate disclosure on the trading activity of three different types of investors. Using a unique dataset of corporate disclosure ranking and an account-level dataset that identifies investor types, we find that better corporate disclosure leads to increased trading activity of foreign institutional investors and individual investors, but not domestic institutional investors. This positive relation is more profound for foreign institutions than individual investors and stronger during stock market downturns than upturns. We further show that information asymmetry is a key channel through which corporate disclosure affects investors? trading behavior.

Effect of hurricanes on US stock markets

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Abstract

We use a GJR-GARCH regression methodology to analyze the relationship between hurricanes and US stock markets over the period from January 1991 to December 2023. The results do not indicate a clear general relationship between the hurricanes and the indices over the entire event window. However, when the intensity of the storms is taken into account, the picture becomes more apparent. Low-intensity hurricanes are found to have overall positive effects on the indices on the days before landfall, while strong hurricanes cause significant negative effects in the same period, followed by positive price corrections in the days afterward. Surprisingly, the S&P 500 is hardly affected throughout the entire event period.

Macrofinancial stress-testing. A practical approach to risk identification and severity calibration in the European case.

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Abstract

This paper explores the application of the Growth-at-Risk (GaR) framework to assess downside risks to GDP growth and its relevance for stress testing exercises in the euro area. GaR models estimate the distribution of future output growth with an emphasis on extreme negative outcomes, offering a probabilistic approach to economic tail risks. Using quantile regressions, we first analyse the determinants of output growth and evaluate the role of macroeconomic and financial variables in shaping downside risks across the growth distribution. We show that financial stress significantly amplifies short-term risks, particularly in the lower tail of the distribution. However, at longer horizons, other variables?such as long-term interest rates, house prices, and equity markets? emerge as dominant drivers of growth dynamics. We further conduct a ?pseudo? real-time assessment of tail risks for euro area GDP growth, comparing GaR-based results with the severity of European Banking Authority (EBA) stress-test scenarios. While EBA adverse scenarios usually exceed the 10th percentile of model-implied growth distributions, their likelihood remains low yet positive, aligning with regulatory guidelines on severity and plausibility.

Is Impact Priced? Evidence from Sustainability-Linked Bonds

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Abstract

One of the most important developments in the financial sector is to support the trans-formation of the economy towards climate neutrality. This can be achieved in several ways, of which one is the provision of financing to foster this shift. In this respect, differ-ent kinds of sustainable bonds have been developed, dominated by green bonds but also containing sustainability-linked bonds (SLBs). The latter are of particular interest, as their coupon payments depend on the achievement of certain sustainability goals, as ex-pressed via key performance indicators (KPIs). In this sense, SLBs promise concrete and verifiable improvements, in particular the reduction of green house gas (GHG) emissions. However, different SLBs make different promises about impact. It is an important research question if investors care about such promised impact, and SLBs offer an interesting set-ting to address this question. I study SLBs to find out whether the magnitude of their promised impact is priced. To do so, I take a sample of all SLBs. The sample period extends up to 2023 and I apply specific filters. Firstly, I only look at SLBs whose KPI is related to a reduction in green house gas (GHG) emissions as this is the predominant KPI and of most interest for evaluating the promised impact. Secondly, I filter for SLBs which only have one KPI to fulfil to guarantee a clear link of prices to the individual KPI. In our analysis, I follow two main strands: One is the analysis of the net present value of the penalty coupon payments which I set in relation to bond specific and general compa-ny information. By doing so, I want to better understand the properties of existing SLBs: Are the penalty payments really substantial? What kind of companies issue SLBs and does the penalty mechanism have a considerable effect? First results show that penalties do not seem to be substantial, mainly because they are too small, especially when consider-ing that most of them occur in the far future. In addition, these penalties vary a lot, indi-cating that there doesn?t exist a single price for the reduction of GHG emissions. This goes along with observations of prices of GHG certificates in different emission trading schemes. The other strand of analysis is based on the calculated ratio of promised GHG reduction per year per 1000 EUR issued. The objective here is to see what impact the issuer initially promises (also compared to other issuers) and what the market is then willing to pay for this reduction. For the latter, I calculate theoretical bond prices (with and without the NPV of penalty payments) and compare them to observed market prices at issuance. Sub-sequently, I am going to assess whether the magnitude of promised impact helps to ex-plain price differences between theoretical prices and market prices. Furthermore, I construct a model to see why certain bond parameters might be chosen and whether this choice follows economic rational reasons or a heuristic approach. The model results will be confronted with the empirical evidence. The promised reduction, hereby, depends a lot on the point of reference (basis date or issue date). This gap can reduce the promised reduction significantly and thus leads to large greenwashing poten-tial.

Local cost structure and purchasing power parity ?An effect of food prices hike in Japan and UK in terms of ?Price to Income ratios??

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Abstract

The IMF estimates of Japan's PPP indicate that the yen is on a strong trend, including forecast to 2029. However, the price statistics used to measure PPP may not reflect Japan's long-term high-cost structure. In this paper, we make an international comparison of food prices in terms of ?Price to Income ratios? (hereafter PTI), focusing on Japan and the UK. The main results of this paper are as follows: ?? Comparing the Engel coefficients since 2000 for the seven countries of the United States, the United Kingdom, France, Germany, Italy, Canada and Japan, we can find that the Engel coefficient has risen in recent years in all countries. However, Japan's Engel level has remained high, and in recent years the gap with other countries has been particularly large. ?? Looking at consumption rates based on the household surveys in Japan and the UK, the UK's expenditure rate on food (food and non-alcoholic drinks) is 12.3%, while Japan's is quite high at 20.3%. When the food expenditure rate is converted into PTI, it is 14.7%, high in Japan compared to 9.2% in the UK. ?? When comparing retail prices of food in Japan and the UK, Japan is roughly two to three times higher than the UK. ?? In terms of purchasing power parity (based on 1990), the pound is 119.15 yen, and the actual exchange rate is 1.6 times undervalued compared to PPP. However, if we take into account the impact of the high local cost structure of Japanese food products, the purchasing power parity is estimated to be 154.90, or about 1.2 times the current level. Many issues have been pointed out regarding the measurement of PPP. One of the many issues is how to reflect differences in local cost structures. Compared to other developed countries, food prices level in Japan are set significantly higher level relative to income. Simply speaking, this means that Japan is in inflation for food products. High productivity, particularly in the manufacturing industry, has led to a sustained strong yen in Japan. After the collapse of the bubble economy, Japan has maintained a strong yen trend despite being in deflation. However, if Japan has a high-cost structure, the value of its currency would likely depreciate, and even when looking at PPP, Japan would not a strong yen as the measurements suggest.

Individual Investors Under Pressure: the Role of Emotions in Decision-Making

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Abstract

Through laboratory experimentation, this research examines the influence of emotional states on the decision-making of individual investors, adopting a qualitatively oriented methodology. Our analysis follows a longitudinal design that makes it possible to analyze individual patterns. More specifically, we study the evolution of emotions and decision-making processes during the experiment. The results reveal that participants whose score for negative emotions is higher than that for positive ones carry out a higher number of transactions. While a feeling of abandonment seemed to develop during the experiment, a negative emotional state would therefore result in more aggressive behavior in the desire to turn the situation back.

Strategic Complementarities, Banks' Stranded Asset Dynamics, and Financial Stability

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Abstract

Climate transition risk can lead to stranded assets, jeopardizing the stability of financial institutions that hold such assets. Using the global games framework, we explore to introduce strategic complementarities to banks? stranded asset dynamics. In our model, banks en masse may either hoard the stranded assets for too long or liquidate such assets prematurely in a disorderly manner. While both results may not be socially optimal, we analyze the role of policy in implementing the optimal responses which balance the social costs and benefits of banks? decisions. Policymaker can use capital requirement as a tool to fix the potential inefficiency. Our findings suggest that when climate transition risk is low, policymakers should discourage banks? excessive risk-taking for stranded assets to reduce climate damages; otherwise, they should guard against banks? excessive de-risking for such assets to avoid financial instability.

How is Earning Expectation of Green Firm Affected by Climate Change Conferences?

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Abstract

This study examines the impact of ESG-related policy shocks, particularly climate change conferences, on analysts' forecast revisions. The findings show that analysts significantly adjust their forecasts for firms aligned with the goals of these conferences, leading to upward revisions in earnings forecasts for green firms, especially for long-horizon forecasts, suggesting that analysts perceive these events as drivers of long-term economic benefits. Conversely, major U.S. withdrawals from the Kyoto Protocol and Paris Agreement result in downward revisions for green firms, yet climate conferences continue to generate positive forecast revisions, indicating that analysts view these events as reinforcing environmental commitments despite policy setbacks. These results highlight the growing influence of ESG-related information in shaping financial market expectations and analysts? decision-making.

The Role of Corporate Venture Capital for Family Firm Innovation: Evidence from Japan

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Abstract

This paper examines the innovative output of family firms that engage in corporate venture capital (CVC) in Japan. We merge a comprehensive dataset from 1991-2021 of publicly-listed firms with unique data provided by the Japanese Patent Office. In particular we investigate the role of CVC programmes for explorative and exploitative innovation of family firms and investigate boundary conditions of ownership structures on this relationship. We find that family firms are more likely to employ CVC units and when they do evidence higher innovative outputs. Especially, CVC seems to boost explorative patenting in family firms. This relationship is attenuated when family ownership is high or top management transitions back to family control, but accentuated when institutional ownership is high. We offer further evidence on the benefits for CVC for family firm innovation and performance.

Intersectoral Peer Effects in Investment Decisions: An Experimental Analysis

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Abstract

This study examines the role of social influence in investment decisions, with a specific focus on intersectoral peer effects. Building on experimental approaches aimed at examining micro herding and drawing on the underlying assumption of empirical methods testing macro herding, which suggest that decisions targeting other assets also influence investor choices, we employ a novel two-sector experimental framework. Our findings reveal that decision makers deviate from Bayesian rationality, incorporating intersectoral social signals into their decisions in ways that differ from how they process other forms of public information. Furthermore, the results demonstrate that decision makers sometimes irrationally follow decisions directed at other assets.

Reporting under the EU Taxonomy Regulation: The Role of Sustainability Committee and Sustainability-related Executive Compensation

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Abstract

Drawing on the theoretical lenses of stakeholders and agency theories, this study aims to determine sustainable corporate governance's role in adopting the European Union (EU) Taxonomy Regulation. Specifically, we analyze the relationship between the sustainability committee and the level of Taxonomy-related indicators. Acknowledging the need for integrated strategies to align with criteria for economic activities supporting a net zero trajectory, we also investigate the mediating role of sustainability-related executive compensation in this relationship. Our sample comprises 402 firms from 17 EU countries over the 2022-2023, totaling 804 observations. We analyze the data using a Tobit model. According to our findings, the presence of a sustainability committee significantly influences the level of Taxonomy-related indicators. However, sustainability-related executive compensation is not relevant. The paper contributes to the literature on corporate governance and sustainability and highlights the critical role of sustainability committees in facilitating the adoption of EU Taxonomy reporting requirements.

Price Efficiency and Short-Sale Constraints: Evidence from the New Zealand Equity Market

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Abstract

We contribute to the emerging empirical asset pricing literature in the New Zealand equity market by investigating the impact of short-sale constraints on stock price efficiency. Using novel data from a leading FinTech company (S3 Partners), we find that equity lending supply has a significant impact on price efficiency. Relaxing short-selling constraints (i.e., increasing lending supply) speeds up the incorporation of public information into prices, while tightening them (i.e., increasing lending fees) slows it down. We also find that relaxing short-selling constraints is not associated with the occurrence of price crashes.

Green Innovation and Stock Value: Evidence from Tokyo Stock Exchange Firms

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Abstract

Recent societal changes to cope with an abnormal climate require firms to innovate. In light of such socially demanding changes in corporations, this study examines the impact of green patents held by Japanese corporations on their stock value using the Green Transformation Score (GXS) developed in this study. The empirical analyses show that the relationship between the GXS and firms? equity value is unclear. This ambiguity occurs because GXS represents only a small fraction of a company?s patent portfolio, and the stock market does not specifically value GXS but rather values a company?s entire patent portfolio in relation to its market value. However, in several industries, GXS has a statistically significant positive impact on stock value, suggesting that stock market participants know the value of green patents, even if to a limited degree.

Driving Sustainability from Above: Socially Responsible State-Owned Customers

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Abstract

We investigate how Chinese State-Owned Enterprises (SOEs) leveraged their leadership to influence supplier ecosystems and enhance supply chain sustainability following the 2016 sustainability policy. Using a difference-in-differences approach, we find significant improvements in ESG metrics and green innovation among SOEs and their suppliers, driven by active collaboration rather than selective sourcing. Key drivers included SOEs? relationship capital, bargaining power, and public scrutiny. Both SOEs and suppliers increased CSR investments post-policy, with suppliers? financial outcomes varying by their ability to meet new standards. This highlights the pivotal role of SOEs in advancing sustainability across supply chains.

Sustainability in Calm and Rough Waters: An Empirical Investigation of European ESG ETFs

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Abstract

Since the Paris Agreement in 2015 and the decision of the EU to become a pioneer in the transi-tion to a sustainable economy, the European market of passively managed ESG products gained tremendous growth. This study examines the financial performance of 34 European ESG ETFs linked to the MSCI Europe index from 2015 to 2023, considering key events like the Paris Agreement, COVID-19, and the Russia-Ukraine conflict. To address the performance of ESG ETFs, we apply the Sharpe (1963) index model and Fama French (2015) Five Factor model. Additionally, we examine how geopolitical crises, health crises, and the choice of ESG strategy correlate with ETF performance. The results indicate that the ESG strategy exhibits a limited relation with alpha values. However, it does affect the sensitivity to market fluctuations. We observe that ESG ETFs tend to underperform their non-sustainable benchmark during geopoliti-cal crises, together with an increase in risk, as observed during the Russian-Ukraine conflict.

Advancing stock price index forecasting based on hybrid picture fuzzy time series model

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Abstract

Financial markets have a profound impact on societal well-being, influencing household net financial wealth, particularly pension-related assets. Events like as the 2007 financial crisis, Covid-19 outbreak, the Russia-Ukraine war, and oil price shocks, also contribute to extreme price fluctuations. These wealth losses not only affect households' economic behavior (e.g., employment, retirement planning, consumption, and investment), but also have implications for social behavior (e.g., intergenerational transfers) and mental health. Time series analysis is a powerful tool for understanding the dynamics of stock prices over time and predicting future behavior. However, the inherent uncertainty and ambiguity in time series data pose challenges for traditional statistical models. In order to address this specific problem, we propose an Artificial Intelligence (AI)-driven approach utilizing fuzzy time series modelling integrated with fuzzy clustering, information granules, picture fuzzy sets and new defuzzification rules. We describe the linguistic values of market historical data and capture the positive, neutral and negative aspects of each observation through applying picture fuzzy sets. This AI-enhanced approach incorporates a new method for partitioning the reorganized universe of discourse into intervals using the fuzzy c-means clustering and data granulation, and we define a novel membership function that combines three Gaussian functions to assign picture fuzzy memberships to each interval. Additionally, employ a picture fuzzy weighted aggregation operator to aggregate the membership information across a multiple picture fuzzy sets, and employ a rule-based method for defuzzifying the picture fuzzy sets to obtain crisp forecasts. We evaluated our proposed picture fuzzy model on the TAIEX dataset and compare it with several existing fuzzy time series prediction methods in terms of accuracy measures, demonstrating that our approach outperforms existing techniques and provides more accurate and reliable forecasts. Additionally, we highlighted the potential for our approach to offer more information and insights for decision-making and analysis in financial contexts through multivariate picture fuzzy modeling.

Market-Level Tug of War and Asset Pricing

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Abstract

We propose a simple indicator function based on the aggregate tug-of-war between overnight and intraday traders, and use it to identify two types of trading days: quiet and noisy days. We analyze these days and document that the security market line is upward sloping on quiet days and downward sloping on noisy days. This result is robust to a number of additional tests. Moreover, the result holds on both (i) important macroeconomic and earnings news days and (ii) other days, challenging some proposed explanations in the literature. We present and test a mechanism based on the over-correction hypothesis to rationalize the finding.

Navigating Uncertainty: The Cost of Capital and Environmental Sustainability in European Firms Post Russia-Ukraine Crisis

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Abstract

This study investigates the extent to which the cost of capital influences European firms' commitment to environmental sustainability, particularly in the aftermath of the Russia-Ukraine crisis. Using fixed-effects regressions, an instrumental variables method, difference-in-differences, and a multinomial logistic approach, the findings show that lower debt costs boost resource efficiency, more effective emissions control, and stronger innovation. In contrast, a higher weighted average cost of capital relates to weaker environmental performance. Firms in conflict-affected industries show declines in emissions and resource use performance but maintain stronger innovation scores. Additionally, firms with higher Environmental Sustainability Indicators (ESI) prefer equity over debt, except when heavily leveraged, suggesting complex financing decisions shaped by environmental commitments.

Pricing of Compound Exchange Options

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Abstract

This paper investigates the valuation of a novel financial derivative referred to as the Compound Exchange option (ComEx), which allows the holder to exchange two European call options with different underlying assets. By integrating features of rainbow-, and compound options, we establish ComEx as a new class of exotic options. Using the Black-Scholes framework, we derive a pricing formula, that accounts for the dynamics of the underlying assets modelled with correlated geometric Brownian motions. We also calculate the risk-neutral probability of exercise and expected values under various scenarios. In sum, this research contributes to the theoretical development of exotic options.

Overnight Return Momentum and the Timing of Trading Volume

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Abstract

We document that the overnight return anomaly for S&P 500 firms is related to the pattern of intraday trading volume: stocks with heavy trading near the open (U-shaped pattern) tend to have higher overnight returns than stocks with thin trading near the open (L-shaped pattern). This finding is inconsistent with explanations of the overnight anomaly based on distorted opening prices due to thin trading near the open. Our results suggest that over the sample period from October 2008 to December 2023, the overnight break played a crucial role in a gradual adjustment to higher price multiples, as evidenced by the increase in the Campbell-Shiller P/E ratio from 15 to 31. In this view, the overnight momentum in this period reflects the momentum in the Campbell-Shiller P/E ratio, moderated by differential but stable trade timing patterns.

Explosive Financing? Bank Share Price Reactions to Carbon Bomb Exposure

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Abstract

On 31 October 2023, a collaboration of international media houses and French non-profit organizations published a report on bank financing of fossil fuel extraction projects representing more than 1 gigaton of CO_2 emissions (?carbon bombs?). Despite the fact that the impending carbon bomb emissions significantly exceed the remaining carbon budget to limit global warming to 1.5°C, the report shows that major US, European and Asian banks continue to finance these projects. In this paper, we examine the value relevance of this information. We test the competing hypotheses that (1) the market reaction is naively negative; (2) the market reacts to the incremental information about carbon bomb financing that is not yet included in the banks' ESG scores (from LSEG Datastream); and (3) the market focuses on the ESG ratings themselves when incorporating the carbon bomb information. We find that the market reaction was primarily influenced by the banks' ESG scores: the lower the pre-release ESG score, the more negative the market reaction, suggesting that a strong environmental reputation mitigates the negative reaction to the carbon bomb disclosure.

AI-Driven Venture Capitalist Decision-Making and Entrepreneurial Diversity

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Abstract

Venture capital (VC) plays a crucial role in entrepreneurship but is often biased against minority entrepreneurs due to homophily?the preference for similar backgrounds. Artificial intelligence (AI) offers a data-driven approach that could mitigate these biases, but its impact remains uncertain. This paper develops a theoretical model to examine AI?s role in VC decision-making. Our findings show that AI can reduce bias and improve funding equity, but its effectiveness depends on whether VCs disclose or conceal AI use. Transparent AI adoption eliminates bias, while strategic concealment leads to mixed outcomes. AI implementation also requires significant investment, favoring larger VC firms and potentially reinforcing funding disparities. While AI can democratize VC, it may also create new challenges if not carefully managed. These insights are crucial for investors and policymakers seeking to ensure AI fosters fairness and inclusivity in entrepreneurial finance.

Shareholder activism: Blessing or affliction for incumbent CEOs?

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Abstract

We examine CEO career consequences following shareholder activism in their companies. We show that identification of the activist target selection through the control function approach explains away negative career differences between targeted and non-targeted CEOs estimated through OLS. These results suggest that activists target CEOs who would have been replaced even in the absence of activism, but do not indicate the ineffectiveness of activists in improving shareholder value. Considering hostility on both sides of campaigns, we show that CEO resistance to activism improves targeted CEOs? career prospects when activists decide not to go hostile. We also find a disciplinary effect of activism on targeted CEOs? board positions, but only when activists are hostile. Campaigns involving hedge funds exhibit more negative career consequences than campaigns by other activists, this effect is still significantly mitigated for resistant CEOs.

ESG scores and Cost of Capital: Evidence from the UK

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Abstract

This study examines the impact of ESG scores on the cost of capital, utilizing ESG ratings from 115 UK companies listed on the FTSE 350 between 2019 and 2023. The panel data regression results indicate a significant positive relationship between ESG scores and the cost of capital, as measured by the cost of equity, cost of debt, and WACC. These findings suggest that investors perceive firms with strong ESG performance as riskier in the short term, likely due to the upfront costs associated with implementing ESG initiatives. Additionally, the results reveal that ESG scores are positively correlated with beta, suggesting that companies with high ESG performance may increase systematic risk, possibly due to the challenges of integrating ESG into corporate strategies.

Risk Parity and its Discontents

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Abstract

We use realized risk parity manager returns and a recreated risk parity portfolio beginning in 1951 and find that the risk parity asset allocation strategies underperform a 60/40 portfolio in both instances. Risk parity produces lower annualized returns and lower Sharpe and Sortino ratios than does a 60/40 portfolio. We also show that the starting level of bond yields ? and not just the magnitude of bond yield changes ? is important for understanding historical risk parity portfolio drawdowns. We show that a minor adjustment to the risk parity framework ? by incorporating expected returns ? can have material improvements to the resulting asset allocation outcomes.

Rethinking Distance: Venture Capital Amidst COVID-19

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Abstract

This study examines the impact of COVID-19 on venture capital (VC) investment strategies, startup characteristics, and investment outcomes. Using a deal-level dataset from PitchBook (2017?2022), we document a significant increase in the physical distance between VCs and startups post-pandemic, with VCs investing 34.4% and 31.6% farther in 2021 and 2022 compared to 2017. In response to remote financing challenges, VCs increased syndication, reduced deal sizes and durations, and concentrated investments in familiar industries. Startups funded after COVID-19 exhibit reduced innovation, fewer employees, and are more likely to operate in industries where VCs have prior investment experience. Additionally, startups receiving post-pandemic funding show lower exit performance, particularly those located farther from their VCs, highlighting the challenges of monitoring remote investments. Our findings suggest that while COVID-19 enabled VCs to expand their geographic scope, it also introduced trade-offs in investment performance and company-level outcomes. This study contributes to understanding the evolving VC funding dynamics in the post-pandemic era.

Can alternative fuels protect us from extreme oil price fluctuations? Factors affecting the volatility of oil and components of biofuels

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Abstract

The research aims to determine whether the prices of renewable biofuel sources, such as maize, rapeseed, wheat, and sugar, along with their volatility and liquidity, are resistant to shocks typically affecting the crude oil market. We analyse European and American crude oil and biofuels-related commodity futures prices from 2010 to 2023. Monthly volatility is calculated using the Garman-Klass estimator, while illiquidity is proxied by the Amihud measure. Additionally, we examine how often extreme returns occur. We then select the most appropriate set of regressors to identify the variables driving the market for biofuels-related commodities. These variables include the fundamentals influencing oil prices and factors related to speculation in the futures market under consideration. We interpret the results from the perspectives of investors and consumers.

AI-Driven Insights into ESG Decoding the Financial Impacts of Sustainability Using Machine Learning Regression Models

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Abstract

This paper is aimed at assessing the relationship existing between sustainability performance with financial performance. Focus remains on the influence of Environmental, Social, and Governance (ESG) metrics on corporate financial performance enhancement. An analysis of a sample of European mutual funds is conducted using a robust regression analysis looking at Sustainability Rank, Return on Equity (ROE), and Return on Invested Capital (ROIC). Companies with higher sustainability ranks have better financial results, as measured by ROA, which indicates that implementation of sustainability practices leads to enhanced operational efficiency, savings from operating costs, and increased competitiveness. Additionally, we found that both ROE and ROIC have a positive correlation with ROA, emphasizing the importance of profitability and capital efficiency to enhance financial performance. Study findings show that companies who align sustainability practices with financial objectives stand a better chance of long-term growth and resilience if they consider ESG metrics as part of financial performance assessment. Sustainability-related economic benefits are highlighted in this research, adding to the growing body of literature that advocates strategically integrating environmental, social, and governance factors into corporate decision-making.

EXPLORING THE CENTRAL BANK'S PERSPECTIVE ON THE READINESS FOR A DIGITAL EURO

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Abstract

The introduction of a digital euro is a transformative step in the evolution of central bank digital currencies (CBDCs). This paper examines the readiness of the European Central Bank (ECB) and the Eurosystem to issue a digital euro. It explores key technological, regulatory, and economic considerations that shape the feasibility of implementing such a currency. A key focus is placed on the role of central banks in ensuring security, privacy, and financial stability while maintaining monetary policy effectiveness. The study also evaluates cross-border implications, interoperability challenges, and the competitive landscape for a digital euro. By analyzing global case studies and ongoing developments, this research provides insight into the preparedness of the ECB and outlines potential future directions for CBDC adoption in Europe.

Political connections of executives and directors: relevant facts to understand the impact of politicians on firm valuation

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Abstract

This paper examines the effect of political connections on firm valuation across large, listed corporations in emerging markets in the Americas. The study analyzes the impact of a higher number of politically connected individuals, their role as officers or directors, and the impact of tenure on firm market value. Our estimations show the positive impact of being a politically connected firm. Moreover, the positive impact of politically connected directors is different from the nonsignificant effect of politically connected officers. The intensity of politically connected directors positively impacts firm valuation. There is a moderating role of tenure, that implies the positive initial impact of politically connected directors on firm Tobin?s Q decreases over time.

IPO Survival and Managerial Confidence

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Abstract

The study empirically examines the effects of managerial confidence in S-1 filings on IPO survival. Using Loughran and McDonald (2016)'s financial dictionary, we construct measures of optimism and miscalculation based on relative positive tones and relative weak uncertainty tones. Our findings indicate that optimism positively affects IPO survival, whereas miscalculation negatively influences IPO survival. These results suggest that managerial optimism exhibits strong predictive power across various survival models, with findings remaining consistent across multiple robustness tests including entropy-balanced results and Lewbel (2012)'s internal instrumental-variable (IV) results. Specifically, managerial optimism has been shown to decrease the IPO failure rate by 50\% to 60\%. Furthermore, our research highlights that R\&D investment serves as a modulating factor, amplifying the positive impact of managerial optimism on the survival of IPOs. Finally, we demonstrate that the Sarbanes-Oxley Act of 2002 significantly decreases managerial optimism while increasing managerial miscalculation. This suggests that managers reduce the use of optimistic language after the implementation of the Sarbanes-Oxley Act of 2002. However, they simultaneously increase the use of weak uncertainty tones as a compensatory strategy to offset the reduction in optimistic language.

Animal spirits: Superstitious behavior by mutual fund managers

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Abstract

Using a unique dataset from China spanning 2005 to 2023, we investigate how superstitious beliefs influence mutual fund managers' risk-taking behavior and how this influence evolves over their careers. We find a significant 6.82% reduction in risk-taking during managers' zodiac years, traditionally considered unlucky in Chinese culture. This effect is particularly pronounced among less experienced managers, those without financial education backgrounds, and those with lower management skills. The impact also intensifies during periods of high market volatility. Our findings challenge the traditional dichotomy between retail and professional investors, showing that even professional fund managers can be influenced by irrational beliefs early in their careers. However, the diminishing effect of superstition with experience and expertise suggests a gradual transition towards more rational decision-making. Our results provide insights into the process by which financial professionals evolve from exhibiting behavior akin to retail investors to becoming the rational actors often assumed in financial theory.

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.

Who Carries?

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Abstract

In representative agent models, consumption growth risk explains currency carry trade returns only when risk aversion is high. Yet, a highly risk-averse agent would not hold a carry trade portfolio. Heterogeneity helps by allowing a risk-tolerant minority of agents to hold carry trade portfolios while a risk-intolerant majority does not. We show that with heterogeneous risk aversion, standard models of international macroeconomics produce carry traders endogenously in economies with domestic bias in aggregate portfolios and low aggregate portfolio returns, as observed in Germany, Japan, and the United States, together holding half of global debt.

The Optimal Timing of Clean Technology Adoption: A Stochastic Cost-Benefit Analysis

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Abstract

This paper develops a quantitative framework for determining the optimal timing for transitioning to clean technologies, essential for driving sustainable development and addressing climate change. We introduce a stochastic model grounded in optimal stopping theory to capture the dynamic evolution of the cost advantage associated with adopting clean technologies over conventional ones. By deriving an explicit solution for optimal timing, our approach accommodates general market trends and adapts to specific market conditions and user profiles. To illustrate the model?s practical application, we apply it to an empirical case study focused on the adoption of electric vehicles (EVs). Our results indicate that users with higher usage intensity or greater anticipated improvements in cost advantages tend to adopt EVs earlier. In contrast, factors such as increased volatility in cost advantages?often affected by fluctuating energy prices?may delay adoption decisions. This finding highlights the role of stable energy markets, potentially supported by policies like renewable energy investments, grid stabilisation, and price guarantees, in promoting EV adoption. Additionally, our results underscore the importance of technological advancements in accelerating cost reductions. Policies which establish financial incentives to reduce initial EV costs can significantly lower adoption barriers, encouraging broader and earlier EV uptake, starting with high-mileage users.

Green Investment and Kantian Morality

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Abstract

The rise of responsible investment cannot be fully explained by standard utilitarian behaviour. While, moral theories have been applied to responsible consumption and voluntary provision of public goods, but no attempts have been made at modelling moral investments. This paper develops a model of Kantian moral investment, where agents seek to do the right thing by investing according to how they would want everyone to invest. We derive the first-best Pareto efficient asset pricing relation for this framework, which contains a pollution premium on dirty assets. We compare first-best outcome to the equilibria under non-Kantian, fully Kantian, and partially Kantian scenarios, highlighting the implications for equilibrium pollution levels. In a fully Kantian economy, the equilibrium is Pareto efficient, with wealth inequality and preference heterogeneity shaping portfolio holdings. However, when only a fraction of investors is Kantian, the equilibrium outcome depends on both the proportion of Kantians and the scope of their morality. Specifically, inclusive Kantians- who act on what they believe all agents, including non-Kantians, ought to do- generate more pollution than exclusive Kantians, who adjust their behaviour acknowledging that non-Kantians will not act similarly. As the proportion of non-Kantians increases, the equilibrium deviates further from the Pareto-efficient allocation. These findings provide new insights into the relationship between morality, investment behaviour and environmental outcomes.

Spillover Effects of Merger and Acquisition Activity on CEO Compensation: Evidence from Industry Peers and Compensation Peer Groups

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Abstract

We identify a spillover effect from merger and acquisition (M&A) activity to CEO compensation. Previous studies have shown that following a merger, the compensation of the combined entity?s CEO increases, while the sensitivity of pay to negative firm performance decreases. Building on these findings, we demonstrate that CEOs who do not engage in M&A activities, but have industry peers who do, also experience an increase in their compensation and a reduction in the sensitivity of their pay to negative stock performance. Additionally, we observe that M&A activity significantly influences the composition of firm compensation peer groups. Our findings underscore the material impact of M&A on executive pay dynamics and contribute to explaining the substantial rise in CEO compensation observed in recent decades.

Price discovery on centralized and decentralized cryptocurrency exchanges

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Abstract

Cryptocurrencies are traded in two very different types of venues: centralized exchanges such as Coinbase, and blockchain-based decentralized exchanges like Uniswap. Coin- base leverages the well established limit order book to facilitate trade, while Uniswap employs automated market making. Also, price updates on Coinbase happen instantly after orders match, while those on Uniswap are restricted by the time the underlying blockchain creates new blocks. In view of these disparities, we study each trading venue?s contribution to overall cryptocurrency price discovery. The study uses Coin- base?s ETH/USD pair as well as data for Uniswap?s ETH/USDC pools on three distinct blockchains to calculate the different venues? information shares and component shares. We show that Coinbase dominates Uniswap in terms of price discovery in any form. This finding holds across several variations of the empirical approach.

Financial inclusion for people with disabilities: what can we expect from digital finance?

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Abstract

As other marginalized groups, people with disabilities seem to be among those left behind when it comes to access to financial services, especially in developing countries where most people remain financially excluded. This paper examines the role that a digital financial tool, mobile money (MM), could play in the financial inclusion of disabled people in Cameroon. To this end, an inductive analysis of data collected through interviews with 12 disabled people and 4 mobile agents in the city of Yaoundé was carried out. The results indicate that mobile money enables some of the disabled clients to access financial services for the first time (first inclusion). For others, it appears that mobile money enables them to access a wide range of services (better inclusion) or to be reintegrated in the financial sector after getting out (re-inclusion). Nevertheless, the findings also reveal that accessing mobile financial services may be costly for people with disabilities and that there exist some limitations regarding the potential of mobile money for favoring their financial inclusion.

Crowdfunding and the Sustainability Dilemma: Do Sustainable-Oriented Campaigns Perform Better? A Machine Learning Approach.

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Abstract

Sustainability has become an increasingly relevant factor in crowdfunding, yet its impact on fundraising success remains uncertain across different platform models. This study examines how sustainability orientation influences crowdfunding outcomes by comparing equity-based and reward-based settings, considering its effect on the amount of capital raised, the number of investors, and the likelihood of success. While we find that sustainability directly enhances success and increases the amount of capital raised and the number of investors in reward-based crowdfunding, its effect on equity crowdfunding is contingent on how it is disclosed. Specifically, we analyze whether campaign blurb length moderates sustainability?s impact, revealing that while sustainability generally enhances crowdfunding performance, its effect diminishes as the blurb length increases, indicating that longer descriptions may dilute or weaken the effectiveness of sustainability messaging. Using a novel machine learning-based classification method, we improve upon traditional keyword-based approaches to identifying sustainability disclosures. Our findings contribute to the literature on sustainable finance and investor behaviour, offering insights for entrepreneurs, investors, and crowdfunding platforms. Understanding how sustainability interacts with investor decision-making can help optimize campaign strategies, ensuring sustainability is communicated effectively to maximize funding potential.

What is the key consideration in households? financial decision making in Hungary: Bargaining position or efficient time sharing?

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Abstract

Financial decisions in households can take many different forms. According to a 1990s Household Monitor survey, while the most dominant form of household decision making in Hungary, the shared decision making was consistent with the international trends, the second most common form of household financial decision making was assigned to the wife, in about 30 percent of the responses. This study revisits this important socioeconomic question using a nationwide Hungarian representative online survey conducted in December 2022, exploring various financial and social determinants beyond the usual age, education and family status. We formally test the bargaining theory and efficient time/resource theory, the ?unitary theory? and overall find that the bargaining power model is the prevalent. We also find some evidence that women are less likely to assign the decision-making role to themselves on average. Interestingly, we also find some evidence of the child centric family value, suggested by the higher likelihood of man designating the household financial decisions to their spouses when there is/are children in the household.

Empirical analysis of the impatience and magnitude effect in teenagers by gender

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Abstract

Several empirical studies have revealed anomalies in Samuelson?s (1937) discounted utility model, which is used to assess the utility of amounts or rewards available at different points in time when making intertemporal choices. In this paper, we focus on one such anomaly: the magnitude effect, which implies that larger rewards are discounted at a lower rate than smaller ones. An empirical study was conducted with a sample of 280 people, including 234 high-school students aged 14 to 17. We employed the 27-item monetary choice questionnaire of Kirby et al. (1999) to obtain appropriate information about intertemporal choice. This instrument enabled us to calculate each individual?s discount rate and evaluate the presence of the magnitude effect. The results suggest that, on average, teenagers exhibit greater patience than the adult population. Furthermore, they display lower levels of impatience when evaluating larger rewards; in other words, they demonstrate a stronger magnitude effect. A gender-based analysis reveals that females have the lowest discount rate (k), indicating lower impatience. Similarly, they show reduced impatience when evaluating higher-value rewards, further illustrating the magnitude effect. These findings have potential applications in the fields of finance and health.

Birds of a Feather Flock Together: the Coupling of Innovative Banks and Innovative Firms

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Abstract

Financial technology (Fintech) innovation in the banking sector has accelerated in recent years and has the potential to increase bank screening and monitoring abilities, especially towards more opaque customers, improving their portfolio and risk allocation. In this paper, we test the impact of Fintech innovation in borrower monitoring on banks? ability to extend credit to all Italian firms, and in particular to innovative ones. To this end, we use Credit Register Data on outstanding loans for Italy at bank-firm level, combined with information on Fintech innovation at the bank-level, drawn from the Bank of Italy?s Regional Bank Lending Survey, and the classification of innovative young firms, provided by the Italian Start-up Act. Our main results suggest that Fintech investments in monitoring technologies by banks are associated with greater lending volumes and lower interest rates on loans to innovative firms. Moreover, all businesses borrowing from banks that invested in Fintech monitoring technologies seem to benefit from a tighter relationship, as the likelihood of exiting the credit market is decreased. Finally, we do not find evidence that Fintech innovation in monitoring leads to an increase in the likelihood that a loan to an innovative firm becomes non-performing.

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Corporate operating performance following seasoned equity offerings: It pays to pay dividends

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Abstract

This study investigates the connection between dividend payouts and investments of seasoned equity offering (SEO) firms. The main objective is to analyze how dividend payouts relate to post-issue investment and operating performance. When firms overinvest after SEOs, the productivity of operating assets and the operating performance both deteriorate. Paying out dividends could potentially mitigate the overinvestment problem post offerings. Consistent with this, we find that dividend-paying firms exhibit less deterioration in operating asset productivity and have better post-issue operating performance when overinvestment occurs.

Dissecting the Default/Distress Risk Anomaly

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Abstract

This research first confirms the default/distress anomaly using long-short strategies sorted on four widely used risk measures in literature: default likelihood indicator (DLI) from Vassalou and Xing (2004), failure probability (FailureProbability) from Campbell, Hilscher, and Szilagyi (2008), O-score from Ohlson (1980), and credit rating (CreditRating) as discussed in Avramov, Chordia, Jostova, and Philipov (2009). We then adopt the decomposition methodology of Hou and Loh (2016) to evaluate a large number of candidate variables that might potentially explain the negative relation between default/distress risk and the cross-section of stock returns. Our findings suggest that explanations based on the lottery preferences of investors best explain the DLI and the FailureProbability puzzles, whereas explanations based on company characteristics, particularly book-to-market equity ratio, contribute to the O-score puzzle the most. Furthermore, the accounting-based O-score surprisingly yields significant alpha across various asset pricing models and investor sentiments.

Environmental Policies in Cryptocurrency Mining: Sustainability versus Profitability

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Abstract

Cryptocurrencies have gained prominence in financial markets as diversification assets, but their environmental impact, mainly through mining, poses a growing challenge. This study analyzes the effect of restrictive ecological policies, such as the Dubai Agreement, on the performance of cryptocurrencies based on their mining type (PoW vs. PoS). Employing an event study methodology and Bayesian models, we find that PoS cryptocurrencies, like ADA and BNB, showed positive responses to COP28, while PoW cryptocurrencies, like BTC, experienced partial negative impacts. This suggests that sustainability influences investor preferences, although profitability and BTC?s leadership modulate these effects. Investors should consider the environmental impact and diversify their portfolios, as climate policies may favor cryptocurrencies with a lower carbon footprint in the long term.

The effect of investor sentiment on M&A

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Abstract

This research delves into the critical role of investor sentiment in shaping mergers and acquisitions (M&A) activities, focusing on its short-term and long-term effects. By examining both market-wide and firm-specific sentiment, the study distinguishes their respective impacts on M&A outcomes. Firm-specific sentiment emerges as a dominant force influencing short-term announcement returns, reflecting how acquirers' perceived overvaluation or optimism drives immediate market reactions. Market-level sentiment, conversely, plays a pivotal role in explaining long-term performance, highlighting its importance in broader economic contexts. The study further explores the link between investor sentiment and the method of payment in M&A transactions. High sentiment levels encourage stock-based payments due to perceived overvaluation, benefiting firms seeking to minimize cash outflows. This relationship is particularly pronounced in special-purpose acquisition companies (SPACs), where sentiment-driven valuations amplify their sensitivity to market dynamics. The research underscores how SPACs, with their inherent speculative nature and minimal tangible assets, serve as unique case studies for understanding sentiment's influence on corporate finance. By integrating sentiment proxies with robust M&A datasets, this work provides a nuanced understanding of how sentiment biases corporate decision-making and financial markets. It contributes to behavioral finance literature by bridging the gap between theoretical insights and empirical evidence, offering practical implications for investors, managers, and policymakers aiming to navigate sentiment-driven market environments effectively.

Business Cycles and Capital Structure Cyclicality: Evidence from Indian Manufacturing Sector

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Abstract

This paper explores the cyclical dynamics of capital structure among Indian manufacturing firms from 1996 to 2023, investigating whether firms adopt procyclical or countercyclical financing strategies. We employed a panel fixed-effects estimation approach, complemented by a conditional quantile regression framework to capture heterogeneity across firms. By distinguishing between financially constrained and unconstrained firms, we assessed whether differential access to external capital influences leverage adjustments during business cycles. Our findings shed light on the interplay between macroeconomic conditions, firm-specific characteristics, and financing behavior, particularly for emerging economies like India, where underdeveloped financial institutions often intensify cyclical downturns. This study contributes to the ongoing debate on how firms manage debt and equity issuance under varying economic conditions, offering empirical evidence on the capital structure implications of business cycle phases.

Shifting Innovation Landscapes: A Patent-Based Comparison of the US, Europe and China

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Abstract

The study examines changes in the innovation markets of China, the United States and Europe between 2001 and 2022, focusing on the effects of patent activity on the competitive situation. The research uses the Revealed Technology Advantage (RTA) indicator to analyze the extent to which China's Bayh-Dole Act-like policy has encouraged patenting activity since the 2000s and how it has affected its technological position in the global innovation space. The results show that China's patenting activity has increased significantly, particularly in today's strategic innovation sectors, but in terms of patent quality indicators such as the number of forward citations per patent, a gradual decline is observed, similar to its Western competitors. The research highlights that quantitative growth can be an advantage for a country's innovation competitiveness in the short term but that qualitative aspects need to be strengthened for long-term sustainable technological leadership.

The Brexit Effect: Political Uncertainty and Bank Risk

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Abstract

This study investigates the impact of Brexit-related political uncertainty on European banks' risk profiles relative to US banks using a difference-in-differences approach. Analysing 268 listed banks from 2011 to 2021, we find that Brexit significantly increased counterparty, credit, and liquidity risks for European banks, particularly in the UK and Ireland. While default risk (DTD) initially increased, it declined by 4.1% in the long run, supporting a risk-averse scenario. A one-standard deviation rise in policy uncertainty was associated with a 4.5 percentage point increase in default risk pre-Brexit, but post-Brexit, it reduced default risk by 2.2%, likely due to policy interventions and market adjustments. Counterparty risk exposure rose by 54.3%, and liquidity risk increased by 19.4%, reflecting financial instability. Larger, inefficient banks faced greater systemic risk, reinforcing the "Too Big to Fail" effect. These findings partially amend previous studies by showing that while Brexit initially destabilized banks, it also had a stabilizing effect on default risk in the long run. This underscores the role of political uncertainty in shaping bank risk and highlights the role of robust regulatory frameworks in mitigating uncertainty-driven financial instability.

Modelling Asset Correlations through Continuous Risk Factor Models: A Large Language Model Approach

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Abstract

This paper introduces a novel approach to financial risk analysis that does not rely on traditional price and market data, instead using market news to model assets as distributions over a metric space of risk factors. By representing asset returns as integrals over the scalar field of these risk factors, we derive the covariance structure between asset returns. Utilizing encoder-only language models to embed this news data, we explore the relationships between asset return distributions through the concept of Energy Distance, establishing connections between distributional differences and excess returns co-movements. This data-agnostic approach provides new insights into portfolio diversification, risk management, and the construction of hedging strategies. Our findings have significant implications for both finance and practical risk management, offering a more robust framework for modelling complex financial systems without depending on conventional market data.

Crowdfunding in Tunisia - Observations on the impact of regulation on platform behaviour

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Abstract

The paper describes the development of the Crowdfunding Law in Tunisia and assesses its potential impact on market development. The crowdfunding literature has established a positive impact of a bespoke crowdfunding regime on market growth, which is due to reduced regulatory uncertainty and better compliance with investor protection. Tunisia has approved the crowdfunding law in 2021, and since then has created the implementation regulations, which provide further guidelines on licencing requirements. Tunisia is one of the very few countries in which donation-based and reward-based crowdfunding are subject to licence. Prior to the enactment of the legislation, certain crowdfunding platforms were already operational in Tunisia; nevertheless, they halted operations following the law's implementation. The re-establishment of the crowdfunding ecosystem required several years, attributable to the regulatory implementation laws. The paper adopts Entrepreneurial Ecosystem Theory and Actor-Network-Theory to describe the different phases of the development of the ecosystem in Tunisia. The paper contributes to the literature by offering the first comprehensive analysis of crowdfunding regulations in Tunisia, including implementation laws. The paper draws on practical insights gained through working closely with the regulators on crowdfunding regulations and interviewing the regulators on the re-emergence of the ecosystem. In addition, the paper puts the Tunisian crowdfunding regulation in comparison with the Moroccan, US, and European crowdfunding regulations.

The financial situation of central banks and its implications for policy, not only monetary policy

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Abstract

In this paper, we try to show what are (and may be) the consequences of an unfavorable financial situation of a central bank, i.e., incurring losses, which may ultimately cause the appearance of negative capital of the institution. More precisely, the aim of the article is to identify those linkages in the economy through which the unfavorable financial situation of the central bank (losses, negative capital) has an impact on other components of economic policy. We adopt two perspectives. In the first, more aggregated, we analyze the impact of changes in key interest rates on the financial situation of central banks and the implications of these changes for transfers to the state budget. In the second, more disaggregated perspective, we point to three groups of such linkages: (1) monetary, (2) fiscal, (3) for central bank independence and, as a result, potentially also for other aspects of the state's economic policy. The study has the following structure. First, we briefly present the financial situation of twelve central banks in 2021-2023. In the next section, we analyze whether central banks can go bankrupt and under what conditions ? despite incurring losses and showing negative capital ? they can continue to effectively conduct stabilization policies. In the fourth section, we discuss the main causes of central bank losses in recent years. Against this background, in the following section, we present a simple model of central bank's finances, we simulate the impact of changes in the basic interest rates on the financial situation of monetary authorities and their transfers to the state budget, and we also mention the importance of accounting policy (rules) for the financial data presented by central banks. In the sixth section, we analyze the possible effects of an unfavorable financial situation of central banks, grouped into the three blocks already mentioned: monetary consequences, fiscal consequences, and consequences for their independence, which may allow for changes in various other areas of economic policy. We conclude by summarizing our considerations.

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Volatility on the Crypto-currency Market: A Copula-GARCH Approach

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Abstract

This study analyzes the relationship between crypto-currencies, proxied by a Bitcoin (BTC) and Ether (ETH) index, and key macroeconomic variables from April 2013 to May 2024. We focus on US term spread, Volatility Index (VIX), and 5-year breakeven inflation as predictors. Our findings reveal no significant dependence between returns and the term spread, suggesting investors do not consider policy paths or economic cycles when trading crypto-currencies. In contrast, extreme low VIX values are linked to high Crypto-currency Market (CM) volatility, with upper tail dependence estimated at 3.7\% and 7.6\% using Gumbel-Hougaard and Joe copulas, respectively. Our copula modeling exercise also shows a weak correlation of crypto-currency returns with breakeven inflation. Robustness checks, including a sub-sample analysis and variable transformation, confirm these results. We find that while crypto-currencies exhibit weak links to certain financial fundamentals, they respond differently to economic indicators compared to traditional assets, showing increased returns during restrictive monetary policies. The study highlights a need for further research integrating extreme events with dynamic time series analysis to better understand these relationships.

Modeling vietnam?s cashew export flows to asian markets: an empirical investigation using the gravity model

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Abstract

The gravity model, a widely used econometric tool in international trade analysis, provides a robust framework for examining trade flows between exporting and importing countries. Originally developed by Tinbergen (1962) and Pöyhönen (1963), this model has been extensively applied to quantify and predict trade patterns by incorporating key economic and geographical factors. This study applies an advanced gravity model to investigate the determinants influencing Vietnam?s cashew export flows to Asian markets. By utilizing a cross-sectional and time-series approach, the research systematically accounts for both exporter and importer-specific effects, offering a comprehensive perspective on trade dynamics. The study employs secondary data from the World Bank, ITC Trade Map, and Vietnamese Customs covering the period from 2001 to 2023. The analysis reveals that Vietnam's GDP per capita, the GDP per capita of partner countries, and distance significantly influence cashew export revenue. The real exchange rate, while positive, demonstrates a more modest impact. While cashew land area in Vietnam and free trade agreements show positive associations, their effects are not statistically significant. Landlocked status of partner countries presents a substantial barrier to cashew exports. Factors like economic freedom, WTO membership, and the COVID-19 pandemic's impact appear to have limited direct influence on Vietnam's cashew export performance. These findings offer valuable insights for policymakers and businesses, guiding strategies for market entry, expansion, and optimization of trade operations within the dynamic Asian cashew market.

How does becoming "uninsurable" affect perceptions of disaster risk?

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Abstract

Natural disasters are becoming increasingly more common and more destructive in different parts of the world. This presents a pressing challenge for housing markets in areas with high disaster risk, especially as insurance becomes more expensive and unavailable in these areas. This paper examines how changes in the availability of homeowners' insurance affects property prices by studying the effect of an insurance moratorium in California: after a wildfire emergency is declared by the governor, insurers within the zipcodes affected by the wildfire are protected from insurance exits due to wildfire risk for one year after the emergency. The insurance moratorium protects homeowners by decreasing non-renewals of existing policies without significantly affecting overall premiums or coverage. Homeowners without this protection are often able to secure similar insurance plans, but face a much more difficult search process than what they were used to. As a result, protections against insurer exits increases sale prices on average by 2.85\% compared to control areas, an effect that persists for at least one year after the policy. This effect appears to be driven by increasing concern about fire risk, and the effects are not driven by increasing fire risk alone or premiums. Furthermore, declining insurance availability can price in disaster risk even for areas with low climate change belief.

Sustainability Disclosure Quality and Earnings Management: Empirical Evidence from the Indian Chemical Industry

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Abstract

This paper aims to explores the relationship between the sustainability disclosure quality (SDQ) and earnings management for the chemical industry which normally gets scrutinized for environmental violations. We have calculated the SDQ with a machine learning model and earnings management (EM) as discretionary accruals with the Dechow model for Indian chemical firms between 2012-2013 and 2022-2023. Using 3520 firm observations of Indian chemical firms, the results show an overall SDQ is positively associated with EM, indicating that firms that provide higher-quality sustainability disclosures are also engaging in EM and suggesting that these companies engage strategic sustainability reporting. Nonetheless, social and governance disclosure quality do not have a significant correlation with EM, suggesting that these aspects are not likely to drive financial reporting behavior. This suggests opportunistic use of ESG reporting and raises concerns over greenwashing. The research emphasizes the necessity of enhanced regulations and independent assurance to increase the credibility of sustainability reporting. Future studies would need to investigate other machine learning methods, broaden the analysis to more industries beyond chemical industry, and analyze sectoral and regulation-based differences in the SDQ-EM relationship.

Synergies or Competition: Understanding the Interactions Between Municipal and Corporate Green Bonds

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Abstract

As a newly developed financial instrument, green bonds have received substantial attention. This study focuses on two types of green bond issuers: municipalities and corporations, aiming to examine how the issuance of municipal green bonds affects the issuance of corporate green bonds. Based on the state-level green bond markets in the U.S. from 2014 to 2023, the research uses the propensity score matching (PSM) approach and regression analysis. Research findings indicate that municipal issuance has a positive influence on corporate issuance. This effect is significant during the post-pandemic period and following the implementation of green policies. However, a crowding-out effect is observed in states with high green bond issuance. Overall, this study contributes to the literature by applying the crowding-out/-in theories to analyze the internal dynamics within the green bond market and uncovering the interactions between public and private green funding activities.

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Quantifying Sustainability Impact on Crowdfunding Outcomes: Evidence from SDG-Aligned Campaigns

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Abstract

This study advances the understanding of how sustainability alignment influences funding success in reward-based crowdfunding. Using a comprehensive dataset of Kickstarter campaigns, we employ advanced Natural Language Processing (NLP) and Machine Learning (ML) techniques, including a Sentence Transformer Model, to quantify the relationship between the United Nations Sustainable Development Goals (SDGs) and the campaign?s funding outcomes. Our research contributes to the emerging literature of sustainable finance by developing a quantitative framework that combines SDG scoring mechanisms with predictive analytics to develop a robust model for assessing the likelihood of campaign success. Our findings provide new empirical evidence for integrating sustainability values in crowdfunding evaluation, with significant implications for crowdfunding platforms and entrepreneurs in developing more effective crowdfunding strategies.

Determinants of Share Buyback Decisions: Role of Ownership Structures

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Abstract

This study explores the role of ownership structures on share buyback decisions among Indian firms, where ownership is highly concentrated, and minority shareholder expropriation is severe. Using data from listed non-financial firms from 2013-14 to 2022-23, we examine two key ownership proxies: business group affiliation and promoter holdings. The findings reveal contrasting effects, with business group affiliation positively influencing buyback decisions, while higher promoter holdings exhibit a negative association. Further analysis reveals a non-linear relationship between ownership structure and buyback decisions suggesting that firms with dispersed ownership are more likely to engage in buybacks, particularly through fixed-price tender offers. In contrast, firms with highly concentrated ownership exhibit a preference for open-market repurchases, leveraging market-based pricing and exploiting investor sentiments for higher abnormal returns. Additional analysis demonstrates distinct market reactions to each mode of buyback, emphasizing varied motivations and market perceptions tied to ownership structures. Overall, the study provides new insights into how various levels of ownership structures influence share buyback decisions and the choice between buyback modes in an emerging market.

An Assessment of the Global VCM Landscape: A Data-driven Analysis with Subsequent Cross-Verification of Evidence Using Climate Finance Reports

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Abstract

Transmission of Bias: Social interaction and the Disposition Effect

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Abstract

Can social interaction explain the disposition effect? This study explores this question through the lens of the Self-enhancing Transmission Bias (SET) framework, developing a theoretical model to examine how social interactions influence investor behavior. Our findings reveal that bias transmission through social interactions drives investors to adopt strategies that exhibit a stronger disposition effect, particularly during bear markets and when investor sentiment is not extreme. Using a large dataset of transaction records from Chinese individual investors, our empirical analysis provides strong support for these theoretical predictions. Moreover, we find that social interactions create peer effects in the disposition effect, highlighting the pivotal role of social dynamics in shaping investment decisions.

Asset Allocation Mandates and Price Reactions to New Information

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Abstract

This study investigates how asset allocation mandates influence stock price reactions to new information. By examining mutual funds with such mandates (rebalancing funds) and using earnings surprises as the new information, I find that stocks with higher rebalancing funds ownership ex hibit smaller price reactions to earnings surprises. Specifically, a one-standard-deviation increase in rebalancing fund ownership corresponds to a 12% reduction in price reaction. This effect only exists when the level of earnings surprises and rebalancing fund ownership is sufficiently high and is stronger when the magnitude of aggregate earnings surprises is larger. The results align with the rebalancing mechanism where funds need to rebalance their portfolios when price reactions cause deviations from the target allocation.

The Influence of Personalized Nudging on Retirement Savings

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Abstract

This paper studies the effectiveness of personalized nudges tailored to individual decision-making styles in promoting retirement savings. Drawing on data from 400 participants, this study employs a randomized experiment with control and treatment groups. Participants were classified into General Decision-Making Styles (GDMS) ? Rational, Intuitive, Dependent, Avoidant, and Spontaneous. Based on the theoretical framework developed in this study, we proposed a tailored nudge for each General Decision-Making Style: disclosure for rational, warning for intuitive, feedback for dependent, default for avoidant, and convenience for spontaneous decision-makers. We find that personalized nudges significantly increase retirement savings propensity, particularly among rational and dependent/avoidant individuals. Income level is statistically significant in influencing savings behavior and the willingness to adjust savings contributions. This research contributes to improving saving patterns by demonstrating that personalization improves the efficacy of nudging, which has implications for digital financial services and policy design.

A Dividend-Based Model to Explain Equity Returns for both Financial and Non-Financial Stocks

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Abstract

A frequently overlooked limitation of traditional factor models is their inapplicability to portfolios diversified across the financial and nonfinancial sectors. We offer a resolution to this problem by proposing an alternative model that can be applied to portfolios formed from both sets of firms. Our empirical analysis of UK-listed stocks shows that when the new model is estimated using only nonfinancial firms it can explain returns on portfolios of both nonfinancial and financial firms. As financials constitute a substantial proportion of an investor?s opportunity set, we offer a more practical model for factor-based investing.

Crowdfunding Fraud Detection: A Systematic Review highlights AI and Blockchain using Topic Modeling

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Abstract

Crowdfunding platforms have gained popularity as a means of financing entrepreneurial initiatives but face a high risk of fraud. Fraud is a significant problem due to its impact on trust, ultimately leading to financial instability. Detecting and preventing fraud is therefore paramount for the sustainability of crowdfunding platforms. This study provides a systematic review of the literature and state-of-the-art discussions about crowdfunding fraud. Unsupervised topic modeling highlights that both AI and blockchain are recurrently presented in the literature as effective methodologies for identifying and preventing fraudulent practices. Furthermore, this work describes current market practices of crowdfunding platforms in preventing fraud- ulent behavior and argues that, while fraud is rare, its high impact necessitates new and innovative forms of fraud detection. A key limiting factor for the application of AI solutions is the lack of available labeled crowdfunding data for training efficient algorithms for fraud detection, which is crucial as it constitutes an anomaly detection machine learning task. In this context, unsupervised machine learning methods are discussed as valuable techniques for detecting anomalies in the absence of labeled fraud cases due to their ability to adapt to evolving fraud patterns. Altogether, this research provides valuable insights into the complexity of detecting and preventing fraud- ulent activities in crowdfunding and highlights effective detection techniques that, if implemented, offer promising solutions to enhance platform reputation and ensure regulatory compliance.

Reevaluation on the Long-Run Price-Dividend and Price-Earnings Relation in Predicting Expected Return

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Abstract

We examine the relationship between 1) stock price and dividend and 2) stock price and earnings, and its role in forecasting expected return for the S&P 500 stocks. Johansen?s test shows evidence of the cointegration relation for both price and dividend and price and earnings. The estimation results based on an autoregressive error-correction model show a significant evidence for the cointegration relation for price and dividend and its effective role in forecasting expected returns for the entire period, 1871-2023, and two subperiods, 1945-1990, and 1991-2023. However, a significant evidence for the cointegration relation between price and earnings and its effective role in forecasting expected return is found only for the period 1945 ? 1990, when more than 80% of S&P 500 stocks and NYSE stocks consistently paid dividends. Contrary to the proposition put forth by Miller and Modigliani (1961), Black and Scholes (1974), and others, this finding suggests that dividends do have an impact on stock price changes (and the firm value). The stable long-run relationship between price and dividend plays a crucial role in forecasting expected returns across all three periods. Furthermore, the strength and significance of the long-run relation between price and dividend in predicting expected returns appear to be much stronger than that of the long-run relation between price and earnings not only for the entire period, 1871-2023, but also for two subperiods, 1945-1990, and 1991-2023.

The Pitfalls of Continuous Heavy-Tailed Distributions in High-Frequency Data Analysis

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Abstract

We address the challenges of modeling high-frequency integer price changes in financial markets using continuous distributions, particularly the Student's t-distribution. We demonstrate that traditional GARCH models, which rely on continuous distributions, are ill-suited for high-frequency data due to the discreteness of price changes. We propose a modification to the maximum likelihood estimation procedure that accounts for the discrete nature of observations while still using continuous distributions. Our approach involves modeling the log-likelihood in terms of intervals corresponding to the rounding of continuous price changes to the nearest integer. We apply this methodology to intraday IBM stock price data and compare the results with models based on the Skellam distribution. The findings highlight the importance of adjusting for discreteness in volatility analysis and provide a framework for incorporating any continuous distribution for modeling high-frequency prices.

Exploring the relationship between Financial Literacy and Discount Rates among University students

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Abstract

The European Commission recently conducted the first survey on financial literacy in the EU (European Union, 2023), assessing both financial knowledge and financial behavior of EU citizens. The results showed that the majority of EU citizens possess a medium level of financial literacy (64% of the respondents), while only 18% demonstrate a high level, and the remaining 18% have a low level of financial literacy. Nevertheless, there are wide differences across Member States and some groups ? such as women, younger people, people with lower incomes and those with lower levels of education ? tend to be on average less financially literate than other groups. It is important to identify the more vulnerable groups, where improvements in financial literacy are needed, since higher levels of financial literacy are related to overall improved well-being. Previous studies have shown that interventions aimed at improving financial literacy should consider gender differences, as women tend to face greater challenges due to knowledge gaps (Ventre et al., 2024), and it has also been found that, on average, women show lower levels of financial literacy compared to men (see, for example, Bucher-Koenen et al., 2017; Hasler and Lusardi, 2017; Lusardi, 2019; Lusardi and Mitchell, 2014). The main objective of this paper is to assess the financial literacy level of a group of university students, and to study the relationship between financial literacy and the exhibited impatience in intertemporal choices, given by the discount rate. Impatience in intertemporal choice has been defined as a strong preference for small immediate rewards over large delayed ones.

Mediating Effects of Cultural Variables, trust and perceived risk on Fintech usage: A Comparative Analysis of Bank Users in Qatar and Belgium

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Abstract

This study aims to investigate the effect of customer experiences and cultural differences on Fintech usage in the divergent economic environments of Qatar and Belgium. By combining the psychological profiles and cultural aspects within the Unified Theory of Acceptance and Use of Technology (UTAUT) paradigm This research fills an important empirical gap that has not been addressed in the literature by examining FinTech usage in culturally diverse economies with cultural and psychological mediators. A total of 178 FinTech users from both countries recorded their responses through a self-administered questionnaire shared online. The data was analyzed using SPSS and Smart PLS. Structural Equation Modelling (SEM) technique was used to test hypotheses. Along with the guiding principles of the UTAUT model, this study discovered that performance expectancy and social influence significantly influence FinTech usage through the mediating mechanism of collectivism and uncertainty avoidance respectively in both countries. However, trust and perceived risk did not act as a bridging mechanism between effort expectancy and facilitating conditions respectively on FinTech usage. The results shed light on the varying impact of cultural and psychological factors on Fintech acceptance, offering critical insights for policymakers and financial institutions aiming to enhance FinTech adoption in many cultural settings.

What moves food prices? The impact of climate change, war and financial crises on food commodity prices

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Abstract

This paper examines the impact of climate change, war activities and financial crises on food commodity prices. Empirical research identifies the causal relationship between global warming, wartime and financial crises on food commodity prices in a worldwide sample. Over a 26-year period from 1994 to 2019, climate change, war activities and financial crises data was regressed on commodity prices. Climate change was captured in the National Aeronautics and Space Administration (NASA) Land-Ocean Temperature Index. War destruction was estimated in the sum of deaths in armed conflicts around the world. Financial crises were measured by the Metrick-Schmelzing Banking-Crisis Intervention database. Commodity prices were operationalized by the Index Mundi Commodity Food and Beverage Price Index. The overall causal relation of climate change and rising commodity prices was discovered. Overall, worldwide war activities and financial crises are not systemically related to worldwide commodity price changes. This finding underlines the long-term and substantial but somewhat chronic food price inflation caused by global warming. In a more targeted investigation covering the time period from the beginning of 1990 to the end of 2024, the impact of financial crises on food prices operationalized by the real, adjusted for inflation, United Nations Food and Agriculture Organization (FAO) Food Price Index showed a significant long-term price elevation of global food prices after the systemic internal 2008/09 World Financial Crisis and the 2020 COVID-19 external shock. In an additional targeted investigation of data ranging from the beginning of 1990 to the end of 2024, the impact of the annexation of the Crimea and the outbreak of Russia?s hostile takeover attempt of the Ukraine on cereal prices operationalized by the real, adjusted for inflation, United Nations Food and Agriculture Organization (FAO) Cereal Price Index showed a significant long-term price elevation after both political events. While the investigation covered a global outlook, a more regional and temporal focus as well as case studies and disparate impact analyses of food price changes are recommended to follow.

Art as a collateral

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Abstract

Research Objectives: In the last decades, a trend of art being used as a security in finance has emerged in the United States. After an introduction of the rising use of art as a collateral, the proposed research will investigate the systemic consequences as well as market and governmental opportunities to benefit from art as a collateral. Proposed Methodology: Empirically, data will be explored for defining and measuring the trend of art as a collateral to then be sophisticated into overall economic market size and financial risk estimators. Country-differences in arts valuation in the short- and long-run will be compared in order to derive recommendations for market actors and governments to profit from art while maintaining market stability. Proposed/Suggested Results: The prospective results will help sophisticate the emerging trend of arts as a collateral with particular attention to diversification potential, financial sustainability and risk management. The United States case will be tested for a wider applicability in the European context. Europe, rich in cultural heritage and arts production, could benefit from taking out loans on its art ? but caution is warranted for the long-term sustainability of this financing strategy and the overall regulatory lacuna in this domain. Interpretation of Findings: Understanding the use of art as a collateral offers many unprecedentedly-captured benefits for market capitalization and foresighted stabilization, countercyclical interventions, diversification and debt refinancing but also cultural value creation, GDP contributions and intergenerational transfers.

Annual general meeting formats of member companies in the German, Austrian and Swiss benchmark indices (2020-2024)

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Abstract

In 2020, the Covid-19 pandemic forced a departure from the traditional format for annual general meetings (AGMs) in which participating shareholders are physically present at the meeting venue. The newly introduced legal frameworks for virtual AGMs were intended to reconcile the need to protect against infection with the need to ensure shareholder rights, but without giving rise to new principal-agent problems. This article examines the development over the years from 2020 to 2024 of AGM formats for the member companies in the benchmark equity indices of Germany (the DAX index family), Austria (the ATX) and Switzerland (the SMI). The findings reveal a number of striking differences, not only among the three countries but also within the DAX index family.

Belief Distortions and Unemployment Fluctuations

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Abstract

This paper studies unemployment fluctuations when expectations deviate from a rational benchmark. I estimate a variance decomposition of the job filling rate using survey forecasts and compare the results to a rational expectations benchmark derived from machine learning forecasts. Subjective beliefs about cash flows, rather than discount rates, drive fluctuations in job filling rates and hiring decisions. At a five-year horizon, subjective cash flow expectations explain over 90% of job filling rate variation, while subjective discount rates explain less than 5%. Fluctuations in subjective cash flow expectations are driven by beliefs about future output instead of labor costs, since subjective wage expectations are highly rigid and less cyclical than actual wages. In contrast, under rational expectations, over 50% of job filling rate variation is attributed to discount rates and less than 20% to cash flows.

Why Are International Financial Markets Stable? A Network Analysis with the Master Stability Function

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Abstract

This study aims to quantitatively evaluate the role of the two-layer structure of trade networks and international portfolio investment networks (stocks and bonds) in the stability of international financial markets. We use the framework of multilayer network analysis with the Master Stability Function (MSF). Previous research has pointed out that financial systems have a property called ?Robust yet Fragile.? In this study, we clarify how interactions within and between network layers affect the stability of synchronized states. Specifically, we assume that each node experiences a small perturbation from a common synchronized state. We then linearize the nonlinear dynamics and construct the MSF framework. For a twolayer network of financial (stock) and trade markets, we analyze how variations in intra-layer coupling strength (?) and inter-layer coupling strength (?) influence the eigenvalues of the synchronized state. Our results reveal the emergence of local instability and the impact of inter-layer connectivity on overall stability. Furthermore, a stability contribution analysis for each country suggests that major financial hubs (e.g., Luxembourg and Ireland) significantly contribute to the robustness of the entire market. These findings indicate that early detection of local instability and balancing inter-market connectivity are crucial for financial crisis risk management and policy decisions. JEL: C45, F36, G15, D8 Keywords: MSF), International Financial Stability, Multilayer Networks, Trade and Investment Networks, Eigenvalue Analysis, Systemic Risk I. Introduction

Machine Learning vs. Regulatory Credit Scoring: Improving Borrower Solvency Assessment in Latvian Nonbank Lending

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Abstract

Issuing loans requires balancing economic growth with financial risk, making robust credit scoring models essential. This study evaluates the effectiveness of advanced statistical methods compared to Latvia?s existing legal framework for credit assessment. Using data from a Latvian non-bank lender, it compares a model based on machine learning techniques with one strictly adhering to Consumer Rights Protection Centre guidelines, which rely on debt service-to-income ratios to determine loan eligibility. The statistical model significantly outperformed the legislative model in assessing borrower solvency, demonstrating the limitations of rigid regulatory approaches. However, challenges remain in adopting alternative credit scoring models, such as those used by Kred?tinform?cijas Birojs (KIB), which employs advanced algorithms for credit risk evaluation. Regulatory restrictions continue to impede the full integration of data-driven credit assessment methods, limiting their national adoption. While constrained by data from a single lender, this study offers valuable insights into improving credit risk management. Integrating successful elements of statistical models, such as those employed by KIB, into legislation could enhance risk assessment, reduce default rates, and improve credit accessibility. Legislative reforms promoting broader data sharing and regulatory endorsement of advanced credit scoring methodologies are crucial. Collaboration between regulators, financial institutions, and data providers is necessary to build a stronger credit ecosystem, fostering economic stability and financial inclusion.

Replicating Bitcoin Performance: A Connectedness Analysis of Equity Portfolios

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Abstract

Since its emergence in 2008, Bitcoin has polarized public opinion regarding its utility and fundamentals. While it has now reached the symbolic threshold of $100,000, an increasing number of investors are considering it as an investment tool. In this paper, we analyze the connectedness between international stock markets and Bitcoin in order to propose a simplified investment solution for this asset through a basket of stocks that replicates its performance. To achieve this, we utilize the connectedness measures highlighted by Diebold et Yilmaz (2009) as well as the portfolio construction modeling introduced by Markowitz (1952). We base our analysis on a vast panel of stock market data across three different geographical regions (United States, Europe, Asia) for the period from December 31, 2011, to December 31, 2024. Our initial results indicate that Bitcoin is a net receiver of shocks relative to all stock markets. However, it appears to be an isolated asset from the rest of the markets and can serve as a diversification tool within a portfolio. Portfolio optimization models show that it is challenging to replicate Bitcoin's performance when too many constraints are imposed on the portfolio. Conversely, replication (and even outperformance) is feasible when no other constraints are imposed, aside from the requirement for equal returns between the portfolio and the benchmark (i.e., in this case, Bitcoin).

Trust in AI in Financial Planning: A Psychological Perspective on Tasks and Collaboration

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Abstract

The integration of artificial intelligence (AI) into professional contexts presents significant challenges, particularly in building trust among users. This study explores how trust in AI varies across task types, levels of professional experience, and modes of collaboration (autonomous vs. collaborative). Using terror management theory (TMT) as a conceptual framework, the study highlights existential concerns linked to professional identity as central to understanding trust dynamics. Data from 201 respondents were analyzed using multilevel modeling to examine trust in AI across task complexity, human judgment requirements, and demographic differences. Findings indicate that trust in AI as a collaborator is consistently higher than in autonomous AI. Variations in trust are significantly influenced by task type, experience level, and age. These findings advance theoretical understanding and provide actionable insights for integrating AI into professional workflows.

The Asymmetric Influence of Event-News on Cryptocurrency Volatility: An Intraday Analysis

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Abstract

This paper examines how cryptocurrency-specific news sentiment influences the timing and occurrence of volatility jumps in cryptocurrency returns, offering a behavioural framework that distinguishes between polarity-driven and state-contingent effects. Using ten years of hourly Event Sentiment Scores (ESS) from RavenPack, we analyse a panel of 87 cryptocurrencies and detect idiosyncratic and systemic jumps in volatility returns using the Bipower Variation method. These discontinuities are modelled using Cox Proportional Hazards estimation to assess how sentiment affects the hazard rate of both jump types. Our results uncover a clear polarity-based asymmetry under calm conditions: mildly positive and negative sentiment both accelerate jump risk, but optimism exerts a stronger effect?consistent with behavioural theories of speculative momentum. However, this asymmetry disappears under systemic stress. During co-jump periods, sentiment effects are symmetrically amplified, suggesting that market synchronisation lowers behavioural thresholds and increases the volatility hazard irrespective of sentiment direction. At the systemic level, both positive and negative sentiment significantly raise the hazard of co-jumps, but without statistically significant asymmetry in polarity. These findings introduce the concept of contagion asymmetry, where the amplification of sentiment-induced risk is not driven by emotional valence but by the system?s vulnerability to synchronised behaviour. Robustness checks across thresholds, coin tiers, time periods, and systemic conditions confirm that the strength and shape of sentiment effects are highly conditional. Methodologically, our use of survival analysis allows for more precise behavioural interpretation by capturing not only whether sentiment matters, but when. This study extends the sentiment-volatility literature by reframing co-jumps as state-contingent contagion events and highlights the importance of timing in modelling crypto-market instability.

The Value of Analyst Forecasts in Improving Implied Equity Duration

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Abstract

Implied equity duration, originally proposed by Dechow, Sloan, and Soliman (2004), assesses the sensitivity of equity prices to discount rate fluctuations. Although insightful, the original approach, relying on market-wide parameters, potentially overlooks crucial industry-specific risk characteristics. Addressing this, Fullana, Nave, and Toscano (2018) introduced industry-specific parameters to enhance the accuracy of the implied equity duration (IED) measure. In this study, we further refine the implied equity duration methodology by incorporating analyst earnings forecasts, hypothesizing that this forward-looking information could provide superior predictions of equity risk exposure. Using a comprehensive sample of U.S. firms from 1980 to 2015, we systematically evaluate the effectiveness of this analyst-enhanced IED (IED+A) compared to both the original model (Dechow et al., 2004) and the industry-adjusted model (Fullana et al., 2018). Our empirical analysis reveals that incorporating analyst forecasts significantly improves predictive accuracy relative to the original IED, particularly among firms with intermediate risk profiles. However, this improvement is less consistent within the industry-specific framework, suggesting that analyst information introduces additional variability, particularly among firms classified with higher inherent risk. Overall, our results underscore the value of analyst forecasts in refining implied equity duration, emphasizing their capability to capture firm-specific risk nuances beyond traditional methodologies. These findings hold practical implications for investors, analysts, and policymakers aiming for precise equity risk assessments and robust portfolio management.

Symphonic Instability: Evolutionary Dynamics in the Convergence of Global Finance and Trade Networks

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Abstract

This study investigates the paradoxical dynamics of global financial systems through a multilayer network lens, focusing on the interplay between stability and synchronization. Using a novel application of the Master Stability Function (MSF) to cross-border equity and bond investments along with international trade flows, we trace how systemic risks evolve through phases of homogenization, fragility, and structural reorganization. Our findings show that synchronization can indeed signal resilience under normal conditions; however, it can also predispose networks to cascading vulnerabilities during crises, as evidenced by shifts observed before and after COVID?19. Contrary to conventional wisdom, trade networks do not consistently stabilize financial systems; rather, their configuration can act as either a catalyst amplifying shocks or a buffer mitigating them. Moreover, our analysis reveals persistent regional asymmetries?especially in Asia?where financial and trade structures exhibit fragmentation rather than convergence. By integrating real and financial layers within a unified analytical framework, this research contributes a dynamic, network-based perspective on crisis detection and highlights the essential role of controlled instability in driving systemic adaptability and efficiency.

The effect of sustainable practices on banks? financial performance

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Abstract

Markets are encountering increasing issues regarding sustainability, necessitating a response that incorporates the financial viability of businesses. This movement is becoming increasingly significant in the banking industry because of the pivotal role financial institutions play in capital allocation and economic development promotion. This study examines the impact of sustainable practices on the financial performance of banks, taking into account the moderating effect of the country´s financial systems structure. A global sample of 441 commercial banks is examined from 2014 to 2023 via a regression model grounded in generalized methods of moments. The findings demonstrate that sustainable practices positively influence banks' profitability and market valuation. Bank-based financial systems also enhance the short-term performance of institutions. The bank-based structure favorably moderates the association between sustainable practices and banking performance, particularly regarding the governance dimension. This study distinguishes itself by examining the moderating influence of a country's financial system ? whether bank-based or market-based ? on the implementation of sustainable practices and their impact on banks' financial performance. Moreover, it enhances academia by validating the notions of stakeholders and financial intermediation. Banks, markets, nations, and regulators derive advantages from these findings by pinpointing the most essential sustainable factors for banks when formulating their investment policies and decisions.

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