NICOSIA, CYPRUS

WORLD FINANCE CONFERENCE

July 30 to August 2, 2024

European University Cyprus

ISBN: 978-989-54931-8-0

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Does Monetary Policy Transparency Matter for Banking Stability?

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Abstract

Using newly constructed datasets from over 70 economies, this study finds that monetary policy transparency enhances banking stability. The effect of transparency is smaller and statistically weaker in emerging markets than in advanced economies. Most subcomponent measures of transparency, namely political, economic, procedural, policy, and operational transparency, are positively associated with banking stability, but some are negatively associated with banking stability in emerging market economies, suggesting that monetary policy authorities in pursuit of transparency in emerging markets need to be clear and cautious in their communication to avoid unintended outcomes.

Capital Flow Dynamics and Strategic Risk Management in Mutual Funds: Deciphering Managerial Decision-Making

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Abstract

This study investigates the relationship between mutual fund capital flows and managers' risk management decisions, presenting an original methodology to distinguish active managerial choices from passive portfolio segments. We introduce a set of metrics?Risk-Attitude-Purchases (RAP), Risk-Attitude-Sales (RAS), and Risk-Attitude-Trades (RAT)?to discern risk preferences under varying capital conditions, focusing on ESG compliance, Illiquidity, and Mispricing. Our findings demonstrate that managers strategically adjust their holdings from asset characteristics in response to capital inflows or withdrawals, optimizing between immediate fund performance and long-term potential. The research further explores how these risk-adjustment strategies vary between funds with different investor bases, revealing a tailored approach to the distinct expectations of retail versus institutional clients. The analysis confirms the validity of our findings, mitigating concerns about portfolio manipulation and window dressing. This contribution aids in understanding the complex strategies underpinning fund management in an ever-changing financial landscape.

Does using energy as a currency resolve the economy-ecology conflict? - Evidence from newly electrified communities in Cambodia

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Abstract

Limited research has been done on the quantitative impact of energy-based community currencies in newly electrified communities. This paper proposes a quantitative framework and simulates the effect of the Energy Currency (EC) concept based on data from three newly electrified villages in Cambodia where energy tokens are used as a community currency. The framework for evaluating the EC concept for newly electrified communities is proposed based on the literature review of energy-based currencies, community currencies, community electrification evaluative frameworks, and the quantity theory of money. The impact is measured along the economy, environment, and energy axes. The simulations confirm an increase in household income with EC concept implementation while reporting a decline in carbon footprint and reduced costs of reliable energy. A sensitivity analysis on how the impact of the EC concept changes with the food prices and the proportion of household expenses towards external dependency (non-food expenses) is carried out to understand the scenarios under which the EC concept works better. The impact of the EC concept on SDGs, industry, policies, and future research is outlined in this paper. Outcomes from the study are expected to abate the economy-ecology conflict and provide a viable climate financing instrument using the EC concept.

Does ambiguity drive the disposition effect?

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Abstract

The disposition effect is a frequently observed puzzle in financial markets. Although several theoretical explanations have been proposed, the disposition effect remains unresolved. We attempt to explain the effect by extending the model of Barberis and Xiong (2009), which is the first to formally link prospect theory and disposition effects using a binomial model of stock prices by incorporating ambiguous attitudes under the Expected Utility with Uncertain Probabilities (EUUP) advocated by Izhakian (2017). Using numerical examples, we confirm that the disposition effect is observed when investors derive utility from the difference between the realized annual terminal wealth and the initial reference wealth point.

Blockholding, ownership horizon, and firms? ESG performance: Nordic evidence

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Abstract

This paper investigates whether the size of blockholding and the horizon of blockholding influence firms? environmental, social, and governance (ESG) performance. Using voting and capital share percentages as measures of blockholding in publicly listed firms in the Nordic countries, we find a significant positive relationship between the percentage of voting shares and the ESG performance of the firm. We also provide evidence that long-term ownership, measured by the owner?s investment horizon, is positively related to the firms? ESG scores. Further, our results suggest that ownership change in the direction from short-term to long-term positively affects ESG performance.

The Double-Edged Sword of the 2020 European Short-Selling Bans

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Abstract

We study the effects of short-selling bans on liquidity and prices through the lens of a model that incorporates a regulator aiming at preventing a signifi cant price decline. Empirically, we evaluate our model's predictions by exploiting the introduction of short-sales restrictions in some but not all European countries during the COVID- 19 pandemic, while measuring the share of informed stockholders with institutional ownership. Consistent with our model, bans were detrimental to market liquidity and failed to support average returns, but were effective in limiting large price drawdowns in countries that implemented short-selling bans, especially for stocks with low institutional ownership.

Assets, Investment Horizon and Inflation Hedging : A Wavelet Quantile Correlation Approach

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Abstract

Using the wavelet quantile correlation (WQC) methodology, we measure the suitability of gold, silver, oil, stocks as well as the French and the G7 countries indirect real estate to hedge against global and energy inflation. The WQC allows us to deal with time-varying characteristics of time series and to capture tail dependence. Besides, it has the advantage of dissolving the correlation structure between asset returns and inflation across different timescales, enabling us to consider different investment horizons. Recorded results over the 2000-2023 period show that the response to inflationary pressures varies according to the asset class, the holding period as well as the type of inflation considered. Whereas precious metals seem to be suitable over short term maturities, French listed real estate displays interesting inflation hedging features as the investment horizon lengthens. Oil emerges as an equivocal hedge against both global and energy inflation.

A Comprehensive Analysis of the Decline in the Market-to-Book Ratio of European Banks

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Abstract

We analyse a sample of 215 European banks and find that their market-to-book ratio has declined substantially since the GFC. To assess what may account for this, bank-specific and country-specific indicators are used, as well as, for the first time for European banks, ESG variables. We find bank fundamentals, such as ROE and volatility of stock returns to be important determinants of the market-to-book ratio. We also find the valuation of large banks to be penalized more, relative to that of smaller ones. On the country-specific front, we find GDP growth to be significant, as well as the relative size of the banking sector. As far as ESG is concerned, we find different ESG sub-pillars to affect bank valuation differently, more specifically, we find a positive relationship between duality and valuation, particularly for large banks, and a negative one for environmental engagement, the latter being suggestive of the ?over-investment? hypothesis.

Analyst network centrality, forecast accuracy, and persistent influence

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Abstract

This paper examines how being centrally located within an analyst coverage network influences forecast accuracy and release behavior. We construct dynamic complex networks to represent analyst information flows based on a sample of 819,539 analyst forecasts in the Chinese A-share market from 2018 to 2022. Our findings indicate a positive correlation between an analyst's centrality in the network and the accuracy of their earnings per share forecast. More specifically, our research reveals that analysts possessing a more central position in the network tend to have a persistent influence on others. Our results corroborate the perspective that the diffusion of information among analysts affects their forecasts and reporting behavior.

Employing DEA Approach for Analysing Banks? Financial Performance

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Abstract

The purpose of this study is to analyze the performance efficiency of Iranian private commercial banks. A sample comprising 15 private banks, which disclosed their financial statements by standardized protocols spanning the period from 2020 to 2023, has been meticulously chosen for examination. The study employs Data Envelopment Analysis (DEA) models, specifically the Constant Returns to Scale (CCR) with input orientation and the Variable Returns to Scale (BCC) with input orientation, to scrutinize performance efficiency relative to the banking sector's average efficiency ratio. The findings indicate that the performance of Decision Making Units (DMU) is superior in BCC models when contrasted with CCR models. Nevertheless, given the regulatory framework governed by the Central Bank of Iran, CCR-I was employed for performance estimation. The CCR-I analysis spanning the years 2020 to 2023 reveals that only two banks consistently demonstrated full efficiency performance, attaining a 100% efficiency score across all years. The observed fluctuations in banks' efficiency performance are attributed to disparities between the growth or reduction in inputs and the corresponding augmentation or diminution in outputs.

Family Ownership and the Accrual Anomaly

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Abstract

Motivated by the unique nature of family firms and the puzzling persistence of the accrual anomaly worldwide, we study the effect of family ownership on the presence and the economic significance of the accrual anomaly. We propose and explore three possible channels linked to family ownership: agency problems, information uncertainty, and barriers to arbitrage. Using a sample of 27,117 observations from 34 capital markets, we find that the negative relation of accruals with future earnings performance and stock returns is more pronounced in family firms than in non-family firms. The economic significance of this finding is highlighted by portfolio-level analysis, which shows that the accrual anomaly is more profitably exploited by family firms with an annual hedge abnormal return of 18.7% versus 3.4% for non-family firms. Our findings are robust to investors sophistication, different measures of family ownership, and the institutional environment.

When Are Inside Directors Good for the Corporation?

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Abstract

Although the compositions of corporate boards have undergone dramatic changes in the last two decades, many firms continue to appoint insiders on corporate boards. We find that the proportion of executive directors is significantly correlated with firm profitability, valuation and risk taking in a sample of Indian firms. We observe this result only in highly competitive industries and when the founding family shareholding is high. Adding inside directors does not have an impact on profitability or risk when firm complexity is more. The performance effects are observable after an improvement in the broader governance environment and before the COVID 19 pandemic.

Perspectives on Optimal Hierarchical Portfolio Selection

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Abstract

Portfolio and index construction efforts are most often focused on holding many instruments and controlling single asset concentration, leaving investors with a false sense of security that these portfolios are well diversified. But having one?s proverbial eggs in different baskets is not the same as holding them in well-differentiated baskets, which is the key to successful diversification. In this paper we explore a novel convex hierarchical optimization framework (CHI) that allows the modeler better to account for the full risk spectrum of a group of assets, ensuring increased diversification across distinct risk clusters. We propose a flexible graph-based allocation algorithm (related to several popular techniques including Hierarchical Risk Parity) that is capable of identifying the most diversified hierarchy for a well-defined investment objective. We show how this can be deployed in traditional risk-only and risk-return frameworks, where the hierarchical covariance structure of the assets optimally informs portfolio diversification.

Liquidity Shock and Bank Risk

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Abstract

This paper studies banks? risk-taking behavior in response to negative liquidity shocks on their balance sheets, i.e., unexpected events that leave banks with a liquidity shortfall. Using data for European publicly traded banks from 2005 to 2020, we find that banks decrease their risk-taking when they face a negative liquidity shock. A negative liquidity shock is associated with both lower credit risk and default risk. Further evidence shows that negative liquidity shocks affect large banks and banks operating under regulatory capital pressure to a greater extent. We also investigate how banks react to positive liquidity shocks and find that they do not take more risk when they experience a liquidity surplus. Our findings contribute to the literature on banks? liquidity management and bear several policy implications.

Ripple Effect of External Shocks on Sustainability in Supply Chains

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Abstract

We study the impact of China's 2016 policy promoting sustainability among State-Owned Enterprises (SOEs) and its broader implications on sustainability practices within their supply chains. Utilizing a difference-in-differences approach, we observed significant improvements in ESG metrics and green innovations among SOEs, which notably rippled through to their suppliers. This enhancement is largely attributed to active engagement with suppliers, surpassing the impact of merely selecting suppliers with higher ESG standards. Key factors contributing to the SOEs? influence include relationship capital, bargaining leverage, and public scrutiny. The study illuminates the effectiveness of policy interventions targeting large businesses in amplifying sustainability improvements through the supply chain, offering a complementary approach to conventional disclosure-based ESG enhancement. However, the heightened demand for improved sustainability in SOEs may unintentionally shift the burden of costs to non-SOE suppliers. Such a shift could exacerbate the valuation disparity between SOE and non-SOE companies within the economy.

Inflation and expected interest rates: Opposing forces in advanced financial markets?

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Abstract

We model volatility comovements of advanced stock markets as cross-sectional and dynamic networks that depend on macrofinancial factors and their market expectations to form interconnections. We find that monetary policy is highly expected to react to inflation, as when inflation increases volatility comovements expected interest rates decrease them with a negative correlation coefficient of the 92%. The effect is greater for outgoing volatility (-94%) than for incoming volatility (-78%). Between the main factors for forming new comovements, inflation stands out, while for its persistence, expected interest rates, and growth projections are essential. Thus, monetary policy control of inflation reduces the formation of new volatility comovements, whilst its effect on growth and interest rates decrease their persistence. The results show that agents in advanced financial markets believe in the commitment of monetary policy to control inflation as they work as opposing forces shaping volatility comovements. Furthermore, there is clear evidence that these effects are complex, nonlinear, and time dependent, suggesting that risk assessments based on linear models of fixed parameters can be highly misleading for modeling these kind of processes.

The 52-Week High and M&A Deals: International Evidence

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Abstract

Motivated by the seminal findings of Baker et al. (2012) and Ma et al. (2019), we examine the effects of stocks? 52-week highs on mergers and acquisitions in a global sample across 34 countries. First, we confirm that the targets? past stock price peaks serve as a reference point in merger negotiations, impacting both offer premia and the likelihood of deal acceptance. Second, we confirm that acquirers trading far below their 52-week high experience more positive market reactions. However, economic magnitude and statistical significance differ substantially across regions. In sum, the 52-week high plays a smaller role for M&A deals internationally compared to in the United States.

Local Corruption and ESG performance: A complex Relationship

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Abstract

This paper deals with the relationship between corruption perception and ESG score (Environmental, Social and Governance). Using a panel of 4,091 firms, we raise the question about the capacity of firms to evolve in an unstable environment. Our result echoes with the ?grease the wheel? literature by showing a positive effect on ESG scores. Moreover, through GDP, our results vary with the country's level of economic development. A fact that seems to be proper to firms localised in less developed countries.

Readiness for cashlessness: The perspective of enterprises in Poland

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Abstract

The aim of this article is to identify the attitudes of enterprises in Poland towards cashless payment transactions in terms of four groups of factors determining its use, i.e. payment security, settlement efficiency, external regulations and innovations in payments, as well as to assess the readiness of enterprises to operate fully cashless in the context of internal and external conditions of their operations. In addition, our goal is to determine to what extent entrepreneurs? attitudes towards cashless payments are differentiated by the changes that have occurred in their enterprises during the COVID-19 pandemic. To achieve these goals, we used the results of a nationwide survey conducted using the CATI method in September 2022 on a sample of 360 companies and a qualitative study conducted using the method of individual in-depth interviews (IDI) on a sample of 12 enterprises. In the interpretation of the results of the CATI survey, we used structural indicators. In the analysis of the impact of the changes on the assessment of non-cash payments, we used the Kruskal-Wallis rank ANOVA test. The conducted research clearly indicates that despite the widespread use of cashless payments and the recognition of their numerous benefits, Polish entrepreneurs do not accept a fully cashless economy. The reasons for this are both internal and external to businesses. Implementation of full cashlessness in business activity in Poland requires regulations and incentives addressed to entrepreneurs and consumers, employees, and public institutions. The novelty of the paper results from the approach based on the analysis of four groups of factors determining cashless transactions in enterprises and the examination of the relationship between the changes that occurred during the COVID-19 pandemic in the performance of enterprises and their attitude towards non-cash transactions. The approach is comprehensive because it includes payments with contractors, public institutions, and employees, not just customers.

An explanation of under-diversification puzzles through ambiguity tastes and beliefs

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Abstract

We develop a portfolio selection model with heterogenous correlated returns ambiguity and find that ambiguity tastes inferred from investor decisions and beliefs estimated from market data explain the equity home bias puzzle globally. Under worst-case ambiguity aversion, we explain the home bias by beliefs consistent with the market estimates. We also explain the bias by ambiguity aversion averaging about 0.6 globally, closely matching current experimental estimates from US, Dutch, and Chinese population samples. A model prediction under homogeneous ambiguity is verified on a large dataset of US household portfolios, and we document ambiguity as a determinant of household under-diversification.

Diverging Realities: Corruption's Unexpected Contributions to Credit Risk Reduction in Banking Crisis Systems of Selected Economies

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Abstract

The recent second-largest crisis of Silicon Valley Bank of the USA, which occurred in the aftermath of the Washington Mutual Bank Financial Crisis 2008, has halted the entire global financial system. This prompted an interest in exploring the global underlying causes of the financial crisis. This study contributes to the literature by examining the impact of corruption on the banking crisis by taking the three attributes of Early Warning Indicators (EWI): Credit to GDP, Credit to Non-Financial Sector, and International Debt Securities. Using a panel of 43 countries from 2001 to 2022, empirical results reveal that corruption and institutional quality will decrease the impact of EWI on banking and financial crises. In addition, our results contribute to previous literature by showing corruption as a blessing in disguise due to its potential to instigate enduring institutional reforms, enhancing the overall macroeconomic environment. Further, empirical results also exhibit that increasing the institutional quality will help curb the potential chances of a Banking Crisis.

The influence of firm characteristics, managerial power, and social capital on financial leverage in emerging market

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Abstract

Purpose: The study aims to examine the role of selected firm-specific characteristics, CEO power, and CEO social capital on firms' leverage. The literature has largely been silent on the relationship of leverage ratio with CEO power and social capital, and prior studies report mixed evidence on the association between firm-specific characteristics and leverage ratios. Therefore, the authors attempt to resolve a crucial piece of the capital structure puzzle. Design/methodology/approach: The data includes S&P BSE 500 publicly traded firms listed in the CMIE prowess database from 2011 to 2021. The analysis was done by classifying firms into high and low-leverage categories using logistics regression, decision tree, and random forest classification techniques. Findings: We find that size of the firm measured through assets is associated with higher leverage, and short-term liquidity and cashflows are associated with lower leverage. More considerable R&D expenses are associated with higher leverage. Further, powerful CEOs raise relatively larger debts. The CEO?s social capital is uninfluential in affecting leverage. The findings suggest that firms with larger assets have better access to debt. The availability of profits and cash are negatively related to leverage. Also, dividends and leverage are negatively related. Research limitations/implications: The study conforms to the role of firm-specific determinants in firms? leverage, extends managerial power theory, and presents interesting results for social network theory to create a comprehensive understanding of leverage decision-making. Originality/value: The study is unique in its combination of several theories and multiple classification techniques. The theoretical relevance of determinants of leverage and the managerial power approach in an emerging market is emphasized.

Information preference in equity crowdfunding investment: the moderation of financial knowledge and digital agency

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Abstract

The reliability, speed, and breadth of digital financial information disseminated through equity crowdfunding (ECF) platforms make it important to understand the behaviors of non-professional and unsophisticated investors when they decide to finance a startup, a typically high-risk activity. This is reinforced by the fact that the "herding" behavior of ECF investors is a well-established way in which they tend to fill their gaps in knowledge, skills, and experience. A discrete choice experiment was administered during December 2022 to January 2023 to a sample of N=1,018 Italian households representative of Italian consumers and retail investors. The study analyzes their preferences toward different types of information that influence their decision making, presumably guiding their "herding" behavior. As expected, the results show that these individuals are most significantly influenced by public sources of information (the percentage of equity already paid by other investors and the number of social networks operated by the startup) and less by private ones (the number of professional investors and the value of the startup before the last funding round). In addition, the study highlights a moderating role of financial knowledge and digital agency. In fact, individuals with higher levels of financial literacy increase the perceived importance of the presence of financial professionals. The upscale is even higher for individuals who exhibit high levels of digital skills. This evidence is further proof of the importance of programs, both institutional and private, aimed at increasing levels of financial education and digital agency in a country.

Relationship Lending and Information Asymmetry: Evidence from the Interbank Money Market

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Abstract

Relationship lending is believed to be a direct answer to the problem of information asymmetry between lender and borrower. A relationship lender collects private information about borrowers that is not available to others. Through a series of empirical examinations, we show a causal evidence of relationship lending and several market outcomes. We also show the precise mechanism of relationship lending to counteract information asymmetry in the interbank money market. More specifically, we found that such practise is particularly pronounced in lending to opaque borrowers. Furthermore, we found evidence that relationship lenders exploited their private knowledge by avoiding borrowers in distress. Consequently, nonrelationship lenders are more prone to adverse selection.

Dividend changes and stock market returns: the impact of Twitter investor sentiment

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Abstract

This study explores the impact of bullish and bearish firm-specific investor sentiment (hereafter BULLISH and BEARISH) on stock market returns around the announcement of dividend changes. Using sentiment measures constructed from firm-specific tweets, we find that BULLISH modulates the relative negative impact of dividend cuts on stock returns. Consistent with behavioural explanations, we further show that the impact of BULLISH is greater for firms whose valuation is uncertain and difficult to arbitrage. Moreover, consistent with under-reaction explanation, we provide evidence of return reversals over post-announcement periods.

Creditor Rights and Firm`s Cost of Debt: Empirical Evidence from Indian Firms

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Abstract

India introduced the Insolvency and Bankruptcy Code (IBC) in December 2016 and it is applicable to all listed firms. This law aims to empower debtholders, including secured, unsecured, operational, and financial, to recover their debts unlike SARFAESI Act of 2002 that allowed secured financial debtholders to recover the loans from distressed firms. We use IBC as an exogenous shock to examine its impact on firm`s cost of debt. By employing difference-in-differences (DiD) combined with matching technique on firm-level data for the period 2010-2023, we find that financially distressed firms (treatment group) tend to have lower cost of debt post-IBC reforms as compared to non-financially distressed firms (control group). We also find firm`s performance and increase in debt as two potential channels through which IBC impacts firm`s cost of debt. Our findings are robust across alternative econometric specifications and alternative definitions of cost of debt.

Into the Unknown ?Monitoring how European Digital Finance platforms adapt to the new European Crowdfunding Service Provider Regime (ECSP-R)

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Abstract

Crowdfunding, ECSP-R, Regulation, Crowdfunding-Data, Equity-based Crowdfunding, Lending-based Crowdfunding, Regulatory Arbitrage, Regulatory Competition

Fire Sales: reality or perception of reality?

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Abstract

We investigate (asset) fire sales by studying acquirers? value creation when acquiring assets from distressed firms, and our initial findings suggest that fire sales exist. However, we show that this result is driven only by the acquisitions that did not disclose the deal value at the announcement date, which made it impossible for investors to verify whether the assets were sold at a discount. They just assumed they were. The type of asset sold and the method of payment are also important determinants of investors' perception of fire sales. Our results suggest that fire sales exist because investors believe they exist.

Building a successful ecosystem: art or a result achievable by following a framework?

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Abstract

Ecosystem-based business models have been discussed and often praised in business and research literature. Many of the highest-valued companies are built around this model driving others to replicate it. Oftentimes it works ? firms transforming themselves to ecosystems enjoy valuation multiples significantly higher than conventional peers. In practice it means that a firm adds lines of business beyond its core: a bank may start e-com business, etc. While the interest towards the ecosystem-based business model is clear up to 85% of ecosystems ultimately fail. The primary reason for this failure being suboptimal ecosystem design. Despite this striking failure rates, the composition of businesses that produce a reliable result has not been widely discussed in research literature. In this paper we propose a framework for the ecosystem business composition. We call it Hook-Engage-Monetize, or HEM for short. We test it on 9 case studies of successful and less successful ecosystems from 9 different countries and show that it is promising as a tool for selecting businesses for ecosystems as well as for future quantitative research.

Deposits market exclusion and the emergence of premium banks

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Abstract

In this paper we develop a model which explains exclusion from deposits market and the emergence of premium banks. Households? demand for deposits is modelled drawing on the analogy between consumers? love of variety and investors? diversification motive. Too unequal distribution of income directed to deposits leads to the exclusion of poor from rich-serving banks? deposit product markets, resulting in higher markups and a lower level of total deposits. In the empirical part, we use a bank-branch level data and county level income inequality as a proxy for deposits inequality for the U.S. economy. We find supporting evidence for the main assumptions of the theoretical model, which are (i) price elasticities differ for rich and poor, (ii) premium banks set higher deposit prices, (iii) the likelihood of the emergence of premium banks increases in income inequality, and (iv) the total volume of deposits decreases in income inequality.

Cryptocurrencies as a Vehicle for Capital Exodus: Evidence from the Russian-Ukrainian Crisis

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Abstract

Decentralized Finance (DeFi), especially cryptocurrencies, can offer a secure refuge amidst geopolitical uncertainties while providing an escape from the conventional financial system and its regulations. In this paper, the impact of the Russia-Ukraine conflict on the trading volume of 16 major cryptocurrencies is analyzed by an event study. First, suitable war events are identified on the basis of geopolitical risk indices. The effects of these conflicting events are then estimated using GJR-GARCH regressions. The results show that the trading volume of most crypto currencies is positively affected by these events. This is especially true for payment tokens and stable coins. Interestingly, Bitcoin does not appear to be affected. Among utility tokens, Ripple in particular is positively influenced by the event days, whereas decentralized tokens show no effect at all.

Are firms favored by analysts more popular to acquirers? Evidence from China

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Abstract

This study investigates the impact of analyst recommendation on the takeover probability while employing a comprehensive dataset of Chinese listed firms over the 2011 to 2020 time period. Our key findings are multifold. First, we find that there is a positive relationship between analyst recommendation and takeover probability. The dependence of the acquirers on the analysts? open ratings is due to the information asymmetry of the market, and the uneven level of disclosure among listed companies. Second, this positive nexus is amplified when the firm?s information disclosure is non-ideal, i.e., with low readability of financial statements and low Kim and Verrecchia (2001) disclosure quality measure. Third, there is a significant impact of analyst coverage (but none of the analysts? efforts) on the takeover probability of the company being rated by the analysts. It depicts that while selecting a target, the acquirers pay much consideration to ?whether the voice is loud? in contrast to ?whether the voice is reliable?. These findings bring new insights in relevance to a better understanding of acquirers? decision-making process, particularly, under the impact of outside information sources, like analysts, and also provide evidence to analysts? important role in shaping the information environment around listed companies.

Passive and proactive motivations of cash holdings

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Abstract

We present a novel fact called the ?V-shaped relationship? between firms? growth opportunities and cash holdings. Specifically, cash holdings are positively correlated with growth opportunities in firms experiencing positive growth but negatively correlated with those facing adverse growth opportunities. This divergent link suggests that the motivation for cash holdings varies between these two types of firms. To account for this V-shaped relationship, we develop a new numerical model in which a manager optimally determines the levels of investment and cash holdings in response to shocks that affect the corporate production process. A unique aspect of this model is that it incorporates the dual motives of cash holdings: cash serves as a cushion against an adverse shock and simultaneously allows the provision of agile money, thereby seizing a growth opportunity. Considering these passive and proactive motives for cash holdings enables the model to replicate the V-shaped link. Furthermore, we investigate the rise in corporate cash holdings in recent decades through the model and find that tighter borrowing constraints and lower interest rates after the global financial crisis account for more than 60% of the rise in corporate cash holdings.

Decoy effects and loss aversion

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Abstract

We present new experimental evidence that contextual factors can affect loss aversion. In an experiment with gambles, participants make choices that are systematically affected by the presence of decoy gambles. The memory effect of decoys on choices seems to kick-in very early on in the experiment, suggesting that participants may continuously adjust their preferences on the basis of recent experience. A model is presented and estimated that explains the possible mechanism through which decoys can affect participants? choices. The model is based and extends the standard models of Cumulative Prospect Theory drawing also from the range-frequency models from cognitive psychology.

Eurozone budgetary rules in post-pandemic times

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Abstract

On February 10, 2024, negotiators on behalf of the Council and the European Parliament reached a political agreement on the reform of the EU economic governance framework based on the European Commission's proposal of April 26, 2023. , which was created as part of the reform directions adopted on November 9, 2022. The reform of the EU economic governance framework is intended to improve the condition and stability of public finances of Member States, and at the same time aims to achieve sustainable and inclusive economic growth in all EU countries through reforms and investments. The new regulations are intended to significantly improve the current economic management system in the European Union. The reformed rules are expected to be applied by Member State governments and be effective in all EU countries. The new economic governance framework is intended to make the public finances of EU Member States sustainable and stable, allowing for greater focus on structural reforms and supporting investment, growth and job creation across the EU. The introduction of the reform of the economic governance model is a consequence of the end of the general escape clause, which suspended the operation of the provisions of the Stability and Growth Pact due to the recession caused by the COVID-19 pandemic and Russia's attack on Ukraine. The aim of this study is to present, analyze and evaluate the European Union budgetary rules reformed in 2024. The first part of the study will present the currently applicable solutions and indicate their advantages and disadvantages. The second part of the study will present the most important new framework for the European Union's budget policy, from the point of view of influencing the budgetary policy of the Member States and creating stable public finances in these countries. The last part of the study will be devoted to the assessment of new solutions in terms of compliance by Member States and the effectiveness of the impact of the new regulations on the actual situation of public finances and budgetary policies of Member States.

European SMEs? growth: the role of market-based finance and public financial support

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Abstract

The study investigates the role of market-based finance and public financial support in aiding scaling up by European SMEs. First, we analyse the impact of public loan guarantee schemes on firms? access to market-based instruments. Second, we study whether firms? access to market-based finance and the use of public grants boost a firm?s (ex post) growth. The analysis is based on a unique and original dataset of about 31,000 Eurozone firms in the 2009?2020 period. The study finds that firms? access to market-based finance is (i) driven positively by the previous use of public financial support schemes and (ii) has a positive effect on subsequent growth. In particular, SMEs display relatively higher growth in fixed assets, while for large firms, growth is mainly driven by current assets. Moreover, SME issuers using public grants achieve significantly stronger growth than comparable firms.

The Time to Completion of SPAC Mergers and DeSPAC Performance

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Abstract

This paper uses duration analysis to empirically document the relationship between SPAC mergers that take place late in the life of the SPAC and ?value destroying? new business combinations. Our investigation is guided by a target acquisition model which provides the optimal minimum value of a potential merger partner. Furthermore, the solution?s comparative static behavior reveals an incentive for sponsors to deviate from their original assurances of target quality to investors. If this misalignment of incentives influences the decision making of managers, it should be reflected in t he data. Our maximum likelihood estimation produces a positively sloped and convex hazard function which documents an enhanced likelihood of an ?uncoupled? SPAC merging as maturation threatens. This result suggests that to the detriment of SPAC investors, sponsors have lowered the optimal threshold value of the target to avoid losing their ?promote.? To support our prima facia evidence, we examine the statistical relationship between the timing of SPAC mergers and the ROAs for the new business combinations as well as the ?buy and hold? common stock returns.

Do Director Skill Sets Affect Firm ESG Responsibilities?

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Abstract

This study investigates the relationship between the environmental, social, and governance (ESG)-related skill sets of firms? board directors and corporate ESG performance. Looking at S&P 1500 firms from 2009 to 2022 which includes the years of heightened ESG awareness, our analysis does not support the notion that directors' ESG skills enhance firms' ESG performance, and we uncover a prevalent trend of "competency washing" among firms. Specifically, when examining ESG dimensions including environmental, human capital, and others, we find no evidence that directors' skill sets contribute to improved corporate ESG performance; in fact, such skill sets may even lead to worse firm ESG outcomes. However, we do reveal evidence indicating that director skill sets in ESG matters increase the likelihood of incorporating ESG objectives into CEO contracts. Additionally, when segmenting our sample into S&P 500 firms and those outside the index, we find that firm size matters ? directors' ESG skill sets are more influential in affecting CEO contracts within S&P 500 firms.

Capital Market Conditions, Coinsurance, and the Value of Corporate Diversification: Evidence from Japanese Firms

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Abstract

This study investigates the value of corporate diversification for Japanese firms with particular attention to its dynamics. Our analysis based on a panel of nonfinancial firms indicates that the value increases substantially when external capital is costlier or more difficult to access. We highlight two mechanisms underlying this phenomenon. First, coinsurance among a firm?s divisions rooted in the heterogeneous dynamics of their industries becomes more valuable under stressed capital market conditions, especially for firms with a tight financial constraint or high bankruptcy risk. Second, diversified firms allocate capital relatively efficiently across divisions under adversarial financing conditions. These results suggest that the value of diversification varies over time because macroeconomic shocks change the relative value of internal and external capital markets.

Quieta non movere et mota quietare. Tracing the heterogeneous effects of bank consolidations on corporate borrowers across Italian macro-regions

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Abstract

Using bank-firm matched data with a difference-in-differences approach, this paper investigates the impact of consolidations involving Italian banks over the period 2009-2019 on credit to corporate borrowers. During a 3-year time window after each deal, we detect a reduction by 1.8 per cent in the outstanding loans to firms financed by target banks. We also explore possible heterogeneities across several dimensions, especially with regards to regional differences. We find that the drop is smaller for infra-group mergers, when the target is healthy or is the firm?s main bank. Moreover, independently of bank location, the fall in lending is driven by firms that are either risky or located in the South, an area characterized by a less business-friendly environment. Our findings also suggest that target borrowers experience a reduction in their size and profitability. However, we find no evidence of a decline in the aggregate lending for the local credit markets more exposed to bank mergers and acquisitions, even in the South of Italy.

Cultural traits and startup funding: an empirical analysis of european startups? signals for investors

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Abstract

In the rapidly evolving landscape of global entrepreneurship and startup ecosystems, it is crucial to understand the factors that influence the ability of innovative startups to secure funding. This study examines, through the lens of the signaling theory, the interaction between cultural attributes, interculturality, and the fundraising outcomes of startups. Utilizing a dataset of 158 European innovative startups sourced from Crunchbase, the authors employ a regression model that identifies a significant relationship between the amount of equity raised, the number of investors, and cultural indicators within startup environments. Initially, the authors analyze whether the number of investors impacts the amount of capital raised, finding behaviors similar to herd mentality. Moreover, they focus on the cultural traits of startup founders, which are found to significantly influence investment decisions. The results reveal a strong correlation between a startup's fundraising success and investor support, particularly pronounced when founders exhibit specific intercultural traits and draw from prior work experiences. These findings have significant implications for researchers, practitioners, and policymakers interested in comprehending the complexities of fundraising within an intercultural context. The paper provides a unique examination of how cultural elements shape the fundraising journey from both short-term and long-term perspectives. By exploring the intercultural profiles of founders, it offers insights into investors' decision-making processes. Ultimately, this research enhances our understanding of international entrepreneurship and the global startup ecosystem.

Matching for risk-taking: Overconfident bankers and government-protected banks

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Abstract

We set up a simple theoretical model in which banks with varying degrees of government support are matched with CEOs that have different degrees of overconfidence. The channel through which the matching occurs is the share of bonus payments offered by the bank in its profit-maximizing contract. This yields a sequence of hypotheses: banks with more government support incentivize their CEOs more and this disproportionately attracts overconfident CEOs. In equilibrium this in turn leads to an assortative matching between overconfident managers and banks with a larger bailout probability. We then test the hypotheses derived from this model empirically. Our regression results confirm the hypotheses from our theoretical model for normal years, but not during crises and periods of enhanced regulation. In these times, overconfident CEOs do not behave differently from non-overconfident CEOs.

The Relationship between Prices of Renewable Energy and Export of Oil in the OAPEC Countries

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Abstract

OAPEC countries rely heavily on oil exports for any economic sustainability or growth. Since renewable energy is becoming a substitute to the traditional energy in some countries, it is crucial to study any possible effect between them. Therefore, this study examines the short-run and long-run impact of renewable energy prices on oil exports in the OAPEC countries. We adopt the Autoregressive Distributed Lag (ARDL) model on 11 OAPEC countries from 2005 till 2018. The results show a negative relationship between prices of renewable energy and oil exports in the short run. However, in the long run the relationship tends to be positive. The results indicated that policy makers should develop sustainable diversification strategies to diminish the reliance on oil revenue. Energy corporations and investors can benefit from these results by building proper hedging strategies to protect themselves against the risk incurred in both renewable and non-renewable energy.

The Digital Transformation in the Italian Banking Sector

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Abstract

Using a unique dataset based on the results of a survey of almost 280 Italian banks (Regional Bank Lending Survey), this paper presents early evidence on the digital transformation of the Italian banking sector over the period 2007-2018. By building a composite indicator that measures the digital supply of financial services, we show a growth in digitalization over the entire period, with a clear acceleration since 2013. The adoption of digital technologies is not homogeneous across banks and, to an even greater extent, business areas: digitalization started in payment services at the end of the 1990s and then spread to asset management, whereas the use of digital channels in lending is still less frequent. More recently, banks have also implemented new FinTech projects, mainly for digital payments and asset management activities. We find a positive correlation between the intensity of technological innovation and bank profitability; in spite of increased costs, cost-efficiency improves following digitalization. These results are robust to an instrumental-variable approach to address the obvious endogeneity issue encompassed in the analysis. Furthermore, results show a negative correlation between the degree of digitalization and the number of branches, signalling a potential substitution for bank supply between physical and digital channels.

What Drives Liquidity in Crypto Markets? - Evidence from Intraday Data

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Abstract

Studying the factors that drive liquidity in crypto markets is of paramount importance in today's financial landscape. Liquidity, the ease with which an asset can be bought or sold at low costs without significantly impacting its price, plays a crucial role in the efficiency and stability of financial markets. In the context of crypto assets, understanding liquidity dynamics is particularly relevant due to the unique characteristics of digital assets and their markets. I will focus on lead-lag relationships, connectedness, and spillover effects of high-frequent intraday liquidity on centralized crypto exchanges. This project aims to provide valuable insights into market dynamics, risk management for trading crypto assets, and crypto market microstructure.

COVID-19 and Investors? Trading Behavior: Evidence from the New Zealand Equity Market

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Abstract

This paper examines the retail and institutional investors? trading behavior during the COVID-19 pandemic in New Zealand. Using transaction-level data, it compares how retail and institutional investors trade over the government announcements, lockdown, and reopening periods. Retail and institutional trading intensifies around government announcements, which facilitates attenuating illiquidity during the lockdown. Nevertheless, while retail trading is substantially more prominent during the lockdown than over the control and reopening periods, institutional investors do not trade significantly more per se or on announcements during the lockdown but trade less during the reopening. Their trading also relates to contemporaneous returns, and their effects differ across certain sub-periods and on government announcements. Our findings suggest that while the announcements and emotions drive the retail investors? trading, institutions may trade more on firms? fundamentals.

Unveiling the Hidden Patterns: Non-Linear Determinants of Natural Hedging

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Abstract

We examine whether the relationship between natural hedging and its determinants is non-linear. We also develop a novel tridimensional index for measuring the natural hedging of a firm through international diversification. Applying a panel quantile approach with non-additive fixed effects, we categorize firms into subgroups (parent-controlled, jointly-controlled, and locally-controlled) based on the level of international diversification. Using a sample of 1950 listed firms in India spanning 1991-2022 (18,113 firm-years), we find that the relationship between natural hedging and its determinants varies with the change in control structure. The non-linearity in the relationship is due to the interconnection between natural hedging and the firm?s operations.

Nudging sustainable investments - The role of financial advisors

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Abstract

The interest of retail investors in sustainable investments has been steadily growing in recent years, and the literature highlighted several factors that can act as drivers of the demand for sustainable investment products. The role of financial advisors in nudging investors' choices, however, has been surprisingly neglected in this literature, even though advisors could significantly influence their clients? investment choices toward more sustainable alternatives. This research used an experimental approach to study how the communication from financial advisors can impact individual investor demand for sustainable investments. More specifically, we developed a survey experiment with 708 participants from four European countries, where respondents had an opportunity to participate to an asset allocation investment game, after watching a video from a realistic (but simulated) chartered advisor. Respondents were randomly selected to see the treatment (nudging) video or the control video. This allowed us to study how the video treatment impacted individuals? choice of sustainable products. We found evidence that the financial advisor communication on sustainable investments can significantly drive investors? choices, and we observed how this intervention can interact with individuals? traits, such as their level of financial literacy and income. Based on this analysis, we suggest new insights for policy interventions in the financial advisory services industry.

Optimal Currency Portfolios: Do Characteristics Matter?

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Abstract

employ a non-parametric estimator when undertaking a broad empirical analysis of the optimal choice for the number of portfolios in the foreign currency market. Using various trading strategies, I propose that the optimal choices may vary across time with the cross-sectional sample size and time series. First, the effect is strong and significant in the carry trade and short-term momentum. Secondly, the Newey-West test tends to overstate t-statistics, especially when there are higher cross-sectional returns. Thirdly, macroeconomic strategies, trends, and long-term momentum strategies outperform others in terms of profitability when considering cross-sectional ranks, unlike others, disregarded issues in previous literature. This matters in trading profits comparability and risk factor-model.

Why Do Hedgers Hedge? The Role of Ambiguity

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Abstract

This study examines how ambiguity affects hedging behaviour in commodity futures markets. While the traditional literature suggests that hedging is primarily used to mitigate risk, experimental research indicates that individuals also exhibit a tendency to avoid ambiguity. I quantify ambiguity based on perturbations in uncertain probabilities and identify the effect of an ambiguity shock on hedging behaviour using impulse response functions from local projections. My research supports classical hedging theories in commodity markets, indicating a rise in hedging activity in uncertain conditions. The impact of ambiguity contrasts to the effect of risk while holding a comparable level of economic significance. Further, I find heterogeneity across different hedger sub-categories: Swap dealers react averse to ambiguity shocks and increase hedging demand whereas the activity of commodity producers is reduced. Swap dealers take risks for a risk premium, while producers hedge to manage risk. My findings contribute to the understanding of hedging behaviour and provide valuable insights for market participants and regulators.

Unveiling the Dynamics of Alternative Investment Funds (AIFs): A Comprehensive Analysis of Their Role in Capital Formation in the Indian Financial Landscape

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Abstract

This study delves into the intricate dynamics of Alternative Investment Funds (AIFs) in the context of the Indian financial landscape. The primary focus is on understanding how these factors influence gross capital formation, making AIFs increasingly integral to capital-raising activities in the Indian economy. By employing pooled data, this research sheds light on the multifaceted investments made by AIFs and their role in shaping the future of capital formation. The study reveals that AIFs, with their encompassing categories I, II and III of investment avenues, can play a pivotal role in transforming traditional investment practices. The findings underscore the significance of AIFs in offering alternative avenues for investment, providing a way forward for traditional investors. The implications of these results extend to policy considerations, particularly for developing countries exploring innovative approaches to capital formation.

Positive versus Negative ESG Portfolio Screening and Investors' Preferences

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Abstract

Environmental, Social, and Governance (ESG) practices have become an essential criterion for firm evaluation. While there is still no consensus on whether higher ESG scores are associated with better firm financial performance, ESG-conscious investors do screen their potential holdings for ESG performance. Investors can use negative or positive screening, or a combination of the two. We examine which screening strategy is preferred by investors by examining flows to ESG mutual funds with positive, combined, and negative ESG screens. We find that positive screening has a positive association with dollar net fund flows relative to negative screening but no statistical difference with net flows as a percentage of total net assets. The result holds with control for the portfolio's ESG performance and disclosure scores. However, after pulling together the restrictive strategies, negative and combined, we find that both net dollar and percentage flows for the funds with the positive screening strategy are significantly higher than for non-positive strategies. The net raw returns and 3-factor alphas of ESG mutual funds are not statistically different across funds with varying screening criteria. However, controlling for ESG performance scores and their E, S, and G pillars indicates that the negative screen strategy outperforms positive and, more so, combined screen portfolios. Controlling for ESG disclosure scores and their E, S, and G pillars shows better net raw returns for negative screen strategy relative to positive and combined screen portfolios, but not for alphas. However, there is no performance difference in positive versus non-positive screen funds. These results on investor fund preferences are inconsistent with the behavioral/ethical explanation of investors' decisions but are more in line with modern portfolio theory.

Profit and Risk of Structured Products: The Issuers' Perspective

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Abstract

We examine the profitability of derivative warrants from the perspective of their issuers in Hong Kong market, one of the largest exchange traded structured products market in the world. We find that issuers make profits from issuing derivative warrants on average. There is a large variation in the profitability across derivative warrants, and issuers make losses on more than one third of derivative warrants. The profitability is positively related to investors' demand and unhedgeable risks of derivative warrants, measured by their gamma and vega. The impacts of unhedgeable risks on the profitability become greater when investors' demand is high or no exchange traded options on the same underlying assets as derivative warrants are available. The results are generally consistent with the demand based option pricing theory.

Firm Risk Mitigation Capability and Systemic Risk

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Abstract

In this paper, we propose risk propagation networks as a framework to evaluate the risk mitigation capability of major listed firms in the Chinese stock market. A firm's risk mitigation capability (FRMC) refers to its effectiveness in alleviating various risks transmitted between any two firms (directly connected or not) in the network through the said firm. Employing the Monte Carlo method, we simulate the risk propagation process within complex networks constructed from the stock returns and trading volumes of listed firms in the China Securities Index 300 from 2018 to 2022. We find a significant correlation between firms' risk mitigation capability and the conditional Value at Risk (CoVaR). Moreover, the breakout of the pandemic not only amplified the market's CoVaR but also strengthened the correlation between firms' risk mitigation capability and CoVaR. This relationship holds true for both financial firms, as emphasized in prior literature, and non-financial firms. Our study provides investors and regulators with insights into risk assessment and systemic risk prevention.

Ownership Concentration and Bank Liquidity Creation in sub-Saharan Africa

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Abstract

This study examined the relationship between ownership concentration and bank liquidity creation for listed banks from ten countries in sub?Saharan Africa. The estimation used a panel data model with liquidity creation as the dependent variable and ownership concentration as the main variable of interest together with ownership?s interactions with board independence and executive pay. Ownership concentration is found to be positively related to liquidity creation and the result is statistically significant even after several robustness checks. Board independence negatively moderates the relationship between ownership concentration and liquidity creation as indicated by the negative and statistically significant coefficient for their interaction. Executive pay positively moderates the relationship between ownership concentration and liquidity creation as indicated by the positive and statistically significant coefficient for their interaction. The interaction between executive pay and board independence is insignificant. Concentrated owners therefore reward executives for creating more liquidity, consistent with the interest alignment hypothesis. More independent boards however reduce concentrated owners? drive to take more risk through liquidity creation for banks in sub-Saharan Africa.

Housing Price Externalities of Photovoltaic Systems: The Relevance of View

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Abstract

We study how photovoltaic (PV) systems externally affect the prices of owner-occupied houses and rents of residential dwellings. By creating a three-dimensional topographical model of our study areas in Switzerland, we model each building?s view at surrounding PV installations and merge this data with housing price observations. In our hedonic difference-in-differences regressions, we provide evidence of how this view (impaired or unimpaired) on a PV system is associated with lower residential rents. This effect is stronger for the view at multiple PV systems rather than at a single one as well as in situations where seeing is more likely. However, price penalties are attenuated if rental dwellings have their own PV system or if neighboring properties have comparably large PV systems which may benefit surrounding tenants in terms of electricity provision. Furthermore, by using municipal voting results on the Swiss Energy Act 2017 and the Swiss CO2 Act in 2021, we show how stated preferences for sustainability are driving the external effects of PV systems on rents. We document a similar effect for lived preferences measured by the share of electric vehicles in Swiss municipalities. In contrast, we do not find a significant impact of view on prices for owner-occupied housing.

G10 Cross-Country Connectedness over U.S. Growth

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Abstract

We address the conditional growth connectedness between U.S. and the remaining G10 economies from 1996 to 2023. We measure time varying external spillover effects under different economic conditions. We highlight the role played by France and Russia in the second half of the 90s, and by the G7 (except for U.S.) and the Eurozone countries after the pandemic. Regarding the instruments, we use a representative set of macroeconomic variables useful to draw insights on transmission channel. We find that high levels of debt to GDP and interest rates in U.S. are relevant after the pandemic.

Family firms, acquisitions and divestments, and long-term stock market performance: The moderating effect of prior experience

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Abstract

This paper examines how family ownership, management, and prior transaction experience affect long-term stock market performance following acquisitions and divestments in Japan. We find that family ownership positively affects both post-acquisition and post-divestment stock market performance for up to 36 months. The relationship between family ownership and post-transaction performance is linear rather than convex. Compared with non-family firms, we find that family firms consistently outperform in stock market returns across 12, 24, and 36 months after completing acquisitions or divestments. This enhanced performance of family firms is largely attributed to internal family management, especially founder CEOs, in contrast to external professional managers. Employing a calendar-time portfolio regression approach, we further corroborate that family firms exhibit higher long-term stock market returns than their non-family counterparts. Additionally, we also provide evidence that while prior acquisition experience does not significantly moderate the impact of family ownership and management on post-acquisition performance, prior divestment experience negatively moderates the impact on post-divestment performance. Notably, this adverse effect is more pronounced in family firms managed by non-founder CEOs, particularly heir CEOs.

When Geopolitical Risk Increases Investments: Evidence from Cross-Border Acquisitions

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Abstract

According to prior evidence, geopolitical risk has a negative impact on investments (CAPEX and R&D). Additionally, it has been established that uncertainty ? regardless of its form ? has also a predominantly negative relationship with M&A activity. However, this conclusion is drawn from domestic acquisitions only. Focusing on cross-border acquisitions and employing a gravity model of international trade to mergers, we show that geopolitical risk (GPR) distance between the countries of acquiring and target firms involved in an M&A deal has a significantly positive effect on acquisition investments. Our evidence is attributed to risk management, as firms with high GPR prefer to conduct acquisitions in countries with lower GPR for hedging reasons. Our results rule out other explanations, such as real options and empire building, and are robust to tests which address endogeneity concerns.

Relative Asset Valuation: A Global Perspective

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Abstract

The philosophy of relative valuation is rooted in the fact that the value of those firms with the same fundamentals should converge eventually. Equipped with a comprehensive data sources, this paper empirically studies the relative valuation with a novel statistical factor model in the global markets. The results show that: i) the model can persistently and steadily capture the firm relative values over time and cross markets; and that ii) the profitability factor is usually compensated with the highest (positive) market pricing, apart from liquidity and momentum factors, whilst the size factor is negatively priced, no matter in emerging markets or developed markets. The deviation between the market relative value and the fair relative value represents the mispricing which can be used to predict future returns and generate investment strategies. The regression results show that the significant and positive risk premiums on the mispricing factor can be gained in 50% markets, including developed and emerging markets. Moreover, the dollar-neutral portfolio analysis shows that the mispricing portfolio produces the highest cumulative net asset value (NAV), leading to the overwhelming performance of a global mispricing portfolio against those risk portfolios formed on other relative factors. Comparing with other mispricing measures, the relative mispricing factors have better performance.

Pairs-trading in the cryptocurrencies market with optimized portfolios by genetic algorithms in a cointegration framework

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Abstract

The digital assets market is known for its volatility and risk. In this context, beta-neutral strategies such as pairs trading can be relevant. In this article, we focus on implementing pair-trading strategies across a wide range of digital assets tradable on the Binance platform. To do this, we employ a cointegration approach to select pairs suitable for pair-trading strategies. We compare two main methods: long-term standard deviation and Bollinger bands. The strategy parameters are optimized using a genetic algorithm. The optimization period spans from 2021-08-01 to 2023-07-31, and the backtesting period from 2023-08-01 to 2024-01-31. Our results indicate that the Bollinger bands strategy is more suitable and outperforms the long-term standard deviation strategy in terms of returns, with an average cumulative return of 47.21% per pair during the backtest period. During this period, 7% of pairs result in losses, with a minimum return of -37.06%. On the other hand, the long-term standard deviation strategy yields a cumulative return of 8.16%, with an average winning trade percentage of 93.93% compared to 76.52% for the Bollinger bands strategy. This significant difference in average returns between the two methods is attributed to a lack of opportunity for the long-term standard deviation strategy, as 63% of pairs have no trades during the backtest period.

Analysing portfolios of financial and nonfinancial stocks using a single factor model

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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.

CSR and Owner Preference: The Role of Religiosity

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Abstract

We examine the relationship between the corporate social responsibility (CSR) performance of U.S. firms and the eco-social preferences of institutional investors, proxied by the local religiosity of the county in which the investor is headquartered. Our dataset comprises 16,076 firm-year observations over the period 2002-2021. We find a positive impact of investor religiosity on CSR performance through the activism channel, where investors take action in improving future CSR performance of investees, but no evidence for screening, where previous CSR performance of firms leads investors to (dis)invest in these firms according to the investors? eco-social preferences. To test for both channels and address the reverse causality inherent in this setting, we estimate two separate difference-in-differences models with propensity score-matched samples. Our findings are robust to alternative definitions of the dependent and independent variables and to an instrumental variable approach. Our results suggest that corporate social responsibility is driven by the demands and preferences of institutional investors, affirming that they play a central role in making companies more sustainable.

Same same but different: Evidence for the Gender Risk Gap from the German reunion

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Abstract

I study differences in risk exposure between men and women in West and East Germany. Due to the former division of Germany, differences in social factors, such as childcare, impact labor market decisions. I show that there is a difference in the gender risk gap between both regions. This result stays robust when controlled for age groups and cohorts. Moreover, I show that women tend to select themselves into industries and occupations with lower risk exposure. Even within the respective industries and occupations, men bear more systematic risk, and the risk gap is higher in the West than in the East. The exposure to systematic risk matches with different findings of the gender pay gap and may also explain differences in the gender pay gap between West and East Germany.

Board characteristics and ESG uncertainty: Evidence from the European Banking Sector

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Abstract

Extensive research has examined the influence of board composition on various banking outcomes. However, little attention has been paid to its effect on the uncertainty surrounding sustainable strategies. This study fills this gap by investigating the relationship between board characteristics and Environmental, Social, and Governance (ESG) uncertainty in the European banking sector. Analysing 77 European banks over the period 2010 to 2022, we find that neither the presence of females nor board independence significantly affects different measures of ESG volatility. Nevertheless, our results reveal a positive relation between the size of the board and ESG score fluctuations. Through these insights, our research enriches understanding of the complex dynamics between governance structure and ESG outcomes, providing valuable insights for academics and practitioners.

Exploring the Dynamics: Dividend Policy Decisions and Stock Market Liquidity in Asian Developing Economies

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Abstract

This paper examines how stock market liquidity influences dividend policy decisions in developing Asian economies from April 1, 2013, to March 31, 2023. We will use regression analysis, Generalized Method of Moments (GMM) regression, and Threshold Regression to get empirical insights into the relationship between these two important aspects. Stock market liquidity is crucial in influencing a company's capacity to distribute dividends effectively. The relationship between liquidity and dividend policy is intricate and varies depending on the situation, particularly in emerging economies with distinct institutional structures and regulatory contexts. Our research uses regression analysis on a broad dataset from various Asian developing economies over a decade to investigate the early connection between stock market liquidity and dividend policy decisions. We will use GMM regression to account for any endogeneity and capture dynamic effects in our analysis. We seek to give strong estimates of the relationship between liquidity and dividend policy by accounting for potentially endogenous variables and utilizing the time-series variance in our dataset. We also use Threshold Regression as a robustness check to explore any nonlinearities and threshold effects in the relationship. This method enables us to investigate if the influence of liquidity on dividend policy choices differs based on various degrees of market liquidity or other contextual factors. Our research adds to the current body of knowledge by presenting empirical proof of the complex connection between stock market liquidity and dividend policy choices in Asian developing nations. Studying the impact of liquidity on firms' dividend policy decisions might help policymakers and professionals develop more effective tactics to improve market efficiency and corporate governance in these evolving marketplaces.

Carbon index and portfolio diversification: Evidence from an emerging asset class

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Abstract

This study attempts to evaluate the effects of including the Carbon index as an investment avenue in the baseline portfolios. Traditionally, Equity is the most common asset class held by most portfolio managers. We examine the unconditional, rolling as well as dynamic correlations among Carbon, Equity, Crude oil, Gold and Bitcoin. The results of the preliminary analysis show that the correlation of Carbon is generally low with most of the other asset classes considered in the study, including equities. The correlations, however, generally show a mild increase during the times of COVID-19. The low correlations among the assets signify that Carbon appears to be a good addition to the baseline portfolios towards enhancing the risk-adjusted returns by reducing portfolio risk. Furthermore, the Carbon index reassures the capability of risk reduction even when combined with an already diversified portfolio. The study also examines the long-run equilibrium relationship of the Carbon index with S\&P 500 index, using the cointegration analysis. The results provide evidence of a long-run equilibrium relationship between the two assets - Carbon and Equity, suggesting less frequent rebalancing of such portfolios and thereby, higher risk-adjusted returns in the long run.

Price Discovery in High-Frequency Equity Markets: Evidence from Retail and Institutional Trades

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Abstract

I quantify the information content of trades in high-frequency equity markets for retail investors and institutionals using high-frequency data for the cross-section of stock returns. I find evidence of a heterogenous price impact across market participants, time, and stocks, consistent with information models that include asymmetric information risk. Information frictions drive the price impact of retailers and institutional investors in equity markets. A size-neutral trading strategy on institutional investors? price impact yields sizeable returns, beats the market, and is not explained by established risk factors. As retailers trade significant directional volumes on the Robinhood brokerage platform, institutions? price impact is reduced. This is consistent with models where retail trading aligns the price impact of all market participants. I argue that information remains an important determinant of equity returns in high-frequency markets.

Substitutes or complements: informal financial groups during the introduction of mobile money

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Abstract

In developing contexts, poor people in remote areas remain excluded from the financial system. Both informal financial institutions and mobile money provide these unbanked individuals with financial services, such as access to credit and a safe place to save. Mobile services promote economic activity in general, but their services are likely to interact with the informal institutions as well. We assess whether mobile money acts as a substitute or complement to these informal financial institutions. To do so, we calculate the distance between 5,659 informal savings associations called savings groups in Burkina Faso, Niger, and Mali, and the nearest mobile phone mast. We find mostly substitutionary effects, with increased distance increasing groups? savings, credit, number of loans, and returns-on-savings. In fact, groups within 25KM of a mobile mast save 16% less, provide 13% less credit, and obtain 26% lower returns.

Integrated reporting quality: does board age matter? An analysis of high-tech sector

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Abstract

The research proposal aims to analyse the relationship between board age and integrated reporting quality with environmental dynamism as moderator.and at the light of cognitive dissonance theory.

Pricing Pollution: Asset-Pricing Implications of the EU Emissions Trading System

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Abstract

We study how the EU Emissions Trading System (EU ETS) affects the stock prices of regulated firms. Using historically representative ownership measures for installations required to comply with the EU ETS, we construct a comprehensive data set of allocated allowances and verified emissions aggregated to the parent company. Our empirical strategy exploits the release of important information in the EU ETS, changes in the European carbon allowance price in combination with cross-sectional variation in the ratio of allocated allowances to verified emissions, and a high-frequency identification approach around regulatory announcements to rule out any potential confounding effects. Our findings point towards a robust influence of carbon prices on stock prices starting from Phase II of the EU ETS in 2007. We find that the transmission of carbon prices to stock prices is not limited to European firms that are relatively heavily regulated by the system but also applies to non-European firms that are regulated to a much lesser extent. This finding challenges the notion that carbon pricing mainly affects company valuations via the profitability channel, and lends support to an alternative explanation that is risk-based.

Dual Investment Horizon in Portfolio Choice with Uncertain Forecast Sets

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Abstract

The mean variance optimization (MVO) approach has been used widely in investment practice, however it contains many shortcomings. First it assumes that investors solve one period investment problem, when in reality many investors are concerned about inter-period volatility. Additionally, MVO assumes that expected return and expected risk inputs are known with certainty. In reality these input parameters are unknown and any use of these inputs will involve estimation error. To address the single period issue, we assume that investors have both long and short term return and risk expectations and have minimum target returns for both the short and long term. To address the estimate error issue, we implement the Tutuncu and Koenig (2004) robust optimization approach in our stylized dual investment horizon setting. This allows for a rich analysis of portfolio choice, solving a more realistic investor problem.

Trade Agreements and the Stock Market: the Case of the USMCA

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Abstract

This study investigates the market impact of trade agreement between the US, Mexico and Canada, USMCA, on the stock market returns and volatility spillovers across the respective parties. Event study results show that most sectors within all countries experienced negative abnormal returns around the critical event dates. Multivariate GARCH results show that the U.S. market has the greatest volatility spillover to counterparty markets. USMCA also had a negative impact on the mean returns of the Canadian and Mexican stock markets. No significant evidence of a change in volatility spillover is observed post-USMCA

Are short-sellers lured by analysts? consensus?

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Abstract

This study explores short-selling patterns under different earnings surprises. We show that short sellers trade more depending on the quality of analysts whose EPS forecasts are missed to make profitable trades. We find that short sellers spot key analysts to trade after rather than before the publication of earnings. This result is in line with the view that short sellers are better at interpreting and processing public information instead of taking advantage of private information. In terms of profits, we find that higher shorting activity following the publication of earnings predicts lower future returns unconditionally, but this association is significantly higher in firms that miss key analysts' forecasts rather than the analysts? consensus. This means that short sellers purposely look for top-quality analysts? forecasts and trade more when firms miss their benchmarks to profit on their trades.

Lender of First Resort: Discouragement and Trust in Relationship Lending

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Abstract

Relationship lending is more important for informationally opaque SMEs than for larger, more transparent firms and has been found to alleviate financing constraints. But the distinction between transactional lending and relationship lending is challenging, even more so the quality of a firm-bank relationship. I conduct a survey among 2,700 Swiss SMEs on their financing situations and specifically account for the different measures for the depth of their main bank relationship. Firms at small regional banks benefit strongly from hightrust bank relationships, whereas the effect for large banks is insignificant. Customers at a non-lending institution are de facto excluded from relationship lending. They partially show self-selection, as those with recent financing needs tend to favor banks without lending restrictions. But as firm change their financing needs much faster than their main bank, most of these firms remains discouraged. Even more so if they report a high-trust firm-bank relationship.

CEO Gender and Firm Performance: Evidence from the COVID-19 Pandemic

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Abstract

The COVID 19 pandemic precipitated an unprecedented deceleration of economic activities and a stock market crash. The unparalleled shock and the altered risk attitudes present a distinctive opportunity to examine whether the well-established con-cept of the "glass ceiling" is indicative of latent gender differentials in company performance. Utilizing US financial data, the study employs a range of methodologies to examine whether firms led by female CEOs exhibited the same performance as firms led by male CEOs during 2020-2021. Our empirical results confirm previous findings from the finance literature, as we neither find a systematic difference in returns to holding stock in female-led firms, nor a difference in accounting returns between fe-male-led and male-headed firms.

Investor sentiment and stock market anomalies: Evidence from Islamic countries

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Abstract

Studies of the Ramadan effect argue that higher stock returns in Muslim countries during Ramadan relate to higher investor sentiment. However, Islamic countries rank lower on the Hofstede Individualism Index, a proxy for investor overconfidence. Therefore, this study examines the impact of investor sentiment on stock market anomalies in two advanced Islamic finance jurisdictions: Malaysia and Indonesia. It hypothesizes that stock market anomalies are stronger following high sentiment if investors in Malaysia and Indonesia are overconfident. The results show that the long and short legs of the stock market anomalies earn relatively low returns following high investor sentiment, indicating overpricing during high sentiment. Furthermore, the short leg earns lower returns following high sentiment because the short leg is more overpriced than the long leg when sentiment is high. Therefore, consistent with the hypothesis, the long-short returns of anomalies are stronger following high investor sentiment because of the relatively lower returns of the short leg than the long leg.

MODERATING EFFECT OF THE CAPITAL STRUCTURE ON THE IDIOSYNCRATIC RISK AND MARKET PERFORMANCE OF LISTED FIRMS

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Abstract

The corporate capital structure is one of the pillars that ensure the sustainability of companies. Despite efforts of researchers for explaining the capital structure choice, there are gaps in relation to why managers do not take enough actions for optimal corporate capital structure, and also what limits managers from taking enough actions for the same matter. In order to provide more empirical evidence to explain those issues, we investigated the moderating effects of the corporate capital structure on the relationship between idiosyncratic risk and return. From the Refinitiv Eikon database, we investigated European Union, Latin American, and North American listed companies, from 2002 to 2021. Since we evaluated the moderating effect of the corporate capital structure on the relationship between expected risk and return, our results contributed to explaining the dimension of debt adjustment. In fact, we found positive effects, of the corporate capital structure, on the relationship between idiosyncratic risk and market performance of those companies, as well as other effects of the corporate capital structure on the market performance of listed companies. Thus, our main contribution was to provide (also) empirical support to explain how the capital structure increases the idiosyncratic risk of companies when the manager increases leverage. In addition, we found that the compensation for the added idiosyncratic risk is a task that managers seem to understand, because variations in the capital structure had a positive effect on variations in the market performance of companies.

National board heterogeneity versus firm risk in times of war: Evidence from Crimean crisis

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Abstract

The aim of this study is to analyse the link between the nationality diversity of the board and firm risk (volatility). Using the sample of companies listed on stock exchanges in Estonia, Latvia, Lithuania, and Poland we explore the effect of the annexation of Crimea by Russia in 2014 on the national board heterogeneity and the company?s risk over the years 2011 through 2017. We assume this geopolitical event had significant geopolitical implications for countries in Eastern Europe, bordering states engaged in military conflict, thereby exploring the impact of an increase in geopolitical risk on this relationship. In our results, we report that the national diversity of the board has an impact on firm risk. Specifically, higher national board heterogeneity, as measured by the Nationality Blau and Shannon indexes, is associated with lower firm risk. Moreover, we provide evidence that an increase in geopolitical risk by a such event as the annexation of Crimea affects the relationship between the nationality diversity of the board and firm risk (volatility).

The level of financial literacy: A case study of Mauritius

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Abstract

This paper investigates the level of financial literacy and awareness among the people in Mauritius. A survey was conducted to determine the population?s knowledge in financial literacy and awareness, financial products, investment options: savings, borrowing, investing skills and financial skills. The study concluded that the population?s knowledge in finance literacy, the population?s level of knowledge in savings is high whereas their knowledge in general finance, investment and insurance are low to average. This study provides an investigation of financial education and awareness of the population and the measures that the relevant authorities should take in order to ensure that they are not only taught about budgeting and saving money, but also learning about investing in assets, financial protection and more importantly learning how to manage money wisely by making use of sound financial habits.

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