



Business School

Institute of Global Finance

**The 30<sup>th</sup> Australasian Finance and Banking Conference**

Never Stand Still

Business School

**30<sup>th</sup> Australasian Finance and Banking Conference**

# **PHD FORUM PROGRAM**

**Tuesday 12 December 2017**

**Shangri-La Hotel, Sydney**

**PhD Forum Schedule**  
Shangri-La, Level 3 Cambridge Room

**Welcoming Remarks** by Fariborz Moshirian, UNSW

**Session 1**

Chair: Le Zhang, UNSW

9:30am	<b>Capital Gains Tax, Investments and CEO Incentives</b> Seok Min Moon, Princeton University  <i>Discussant: Le Zhang, University of New South Wales</i>
10:05am	<b>A Harming Hand: The Predatory Implications of Government Backed Student Loans</b> Andrew Schwartz, University of California, Berkeley  <i>Discussant: Robert Hansen, Tulane University</i>
MORNING TEA Ballroom Lobby 10:40am – 11:10am	

**Session 2**

Chair: Breno Schmidt, UNSW

11:10am	<b>Does Political Corruption Impede Firm Innovation? Evidence from the United States.</b> Tao Yuan, City University of Hong Kong  <i>Discussant: Xuan Tian, Tsinghua University</i>
11:45am	<b>Evaluating CEOs Softly: The Impact of Shareholder Horizon on CEO Compensation Design</b> Fangyuan Ma, Hong Kong University of Science and Technology  <i>Discussant: Breno Schmidt, University of New South Wales</i>

## Keynote Presentation and Panel 12.20- 1pm

### Professional Tips for Ph.D. Students

Xuan Tian, Tshinghua University

AND

### Panel Discussion

Sudheer Chava, Georgia Tech, Ronald Masulis, UNSW and Xuan Tian, Tshinghua University

LUNCH

Ballroom Lobby

1:00pm – 2:00pm

## Session 3

Chair: David Colwell, UNSW

2:00pm

### Leverage and Coverage Ratios

Alexandr Belyakov, University of Pennsylvania

*Discussant: David Colwell, University of New South Wales*

2:35pm

### Noise from Other Industries: Overgeneralization and Analyst Belief

Rex Wang Renjie, Erasmus University of Rotterdam

*Discussant: Oya Altinkilic*

AFTERNOON TEA

Ballroom Lobby

3:10pm – 3:40pm

## Session 4

Chair: Filippo Massari, UNSW

3:40pm

### Mutual Fund Benchmarking and Corporate Governance

Yijun Zhou, INSEAD

*Discussant: Peter Swan, University of New South Wales*

4:15pm

### Periphery Dealers in Over-the-counter Markets.

Chutiorn Tontivanichanon, London School of Economics

*Discussant: Filippo Massari, University of New South Wales*

# Capital Gains Tax, Investments, and CEO Incentives

Seok Min Moon, Princeton University

This paper exploits a unique institutional setting in Korea to estimate the effects of capital gains taxes on corporate investments. In Korea, investors face starkly different average tax rates depending on firm size, determined jointly by revenue, labor, capital, and asset thresholds. In 2014, the government changed the regulations on firm size, and due to this unexpected reform, capital gains tax rates changed for certain groups of firms. Firms that experienced a tax reduction significantly increased investments compared to firms unaffected by the reform. Additionally, I find that these effects are almost entirely driven by firms whose ownership is separate from management. This suggests that agency problems play an important role in shaping firms' reactions to changes in capital gains tax rates, as CEOs with low stock shares tend to spend a part of firms' resources on private consumption, while CEOs with high stock shares tend to optimally invest to maximize firms' profits. A tax cut provides a marginal incentive for CEOs with low shares to shift resources towards profitable investments; by contrast, CEOs with high shares face a marginal incentive to increase payouts and do not invest more.

# **A Harming Hand: The Predatory Implications of Government Backed Student Loans'**

Andrew Schwartz, University of California, Berkeley

Using the Department of Education's College Scorecard, I provide evidence that over 30% of undergraduates should expect to realize a negative financial return on their investment in higher education. To explain these findings, I construct a model of informed lending in which student loan providers know more about students' expected wage distributions than the students themselves. Reversing traditional lending information asymmetries has no adverse impacts in a laissez-faire environment as borrowers are able to perfectly infer their type from lenders' loan offers. When all loans, however, are required to be issued at the same interest rate (as is the case with student loans) borrowers are no longer able to learn their true type. In this environment, borrowers may be induced to accept a predatory loan. In spite of the possibility for predatory lending, the socially optimal lending program, may still mandate that all loans be issued at the same interest rate. In effect, the socially optimal lending program can encourage predatory lending.

# **Does Political Corruption Impede Firm Innovation?**

## **Evidence from the United States**

Qianqian Huang, City University of Hong Kong

Tao Yuan, City University of Hong Kong

We examine how local political corruption affects firm innovation in the United States. We find that firms located in more corrupt districts are less innovative, as measured by their patenting activities. We identify two possible economic channels through which corruption may affect innovation: a disincentive effect and a culture effect. We show that the negative impact of corruption on innovation is stronger for firms that have weaker bargaining power against corrupt officials and for firms that locate in areas with lower local religiosity. Overall, our results indicate that local political corruption impedes corporate innovation.

# **Evaluating CEOs Softly: The Impact of Shareholder Horizon on CEO Compensation Design**

Fangyuan Ma, Hong Kong University of Science and Technology

I study the increasing focus of CEO compensation on subjective performance measures during the recent decade. I document that 63% of large US public firms use subjective measures to evaluate CEO performance, and the reliance on subjective measures is positively correlated with long-term institutional ownership. Using a recent law change in corporate governance, I identify that longer institutional investor horizon induces a higher weight on subjective measures in compensation design. I also find that the more complex business structure a firm has, the more (less) reliant is CEO compensation on subjective (objective) performance measures. Overall, my findings are consistent with a large strand of incomplete contract theory suggesting soft performance information can provide effective incentives if the contract is provided by long-term oriented principal.

## **Leverage and Coverage Ratios**

Alexandr Belyakov, University of Pennsylvania

This paper shows how firm's expectations about costs of external financing in distress will affect its leverage choice at time-zero. A firm is very conservative in its leverage policy ex-ante if it knows that costs of external financing will grow with leverage. Such a model can resolve the underleverage and distress puzzles in cases where bankruptcy costs are only 10% of the firm's assets value. In contrast, a firm's initial leverage is much higher in a model in which external financing costs are constant, even if they are as high as 30 cents per dollar raised. To resolve the puzzles in the latter model, bankruptcy costs should exceed 50%.



# **Noise from Other Industries: Overgeneralization and Analyst Belief**

Rex Wang Renjie, Erasmus University Rotterdam

This paper studies the heterogeneous beliefs of financial analysts by exploiting a specific feature of their information environment, namely the diversity of industries they cover. I document that the performances of other unrelated industries play an important role in shaping analysts' expectations about the state of the world and thereby influence their earnings forecasts. Analysts issue significantly more pessimistic forecasts when they observe salient negative performances of unrelated industries. Those downward biased forecasts are less accurate and undershoot the actual earnings, suggesting that analysts do not acquire superior information from those negative shocks, but rather overgeneralize negative performances of unrelated industries and become overpessimistic about coverage firms' future prospects. Moreover, when there is greater dispersion in the shocks analysts overgeneralize, the difference of opinions about the stock becomes significantly larger and its volatility increases significantly, suggesting that this behavioral bias has real economic effects on firms' information environments.

# Mutual Fund Benchmarking and Corporate Governance

Yijun Zhou, INSEAD

Mutual funds are classified into different investment styles and some companies held by many peer funds of the same style are benchmarked by that style of mutual funds. This paper empirically examines the implication of mutual fund benchmarking on corporate governance in companies. First, companies benchmarked by mutual funds are found to receive more attention from investors and have better corporate governance. Then I show that mutual funds are more reluctant to sell their shares on the proxy record date and value their voting rights more in benchmarked companies. Finally, I provide direct evidence of active monitoring by mutual funds in benchmarked companies by examining their actual voting behavior and exploit exogenous fund flows as instruments to identify the causal effect of mutual fund benchmarking. Overall, my findings suggest that mutual fund benchmarking contributes to governance in benchmarked companies.

## **Periphery Dealers in Over-the-counter Markets**

Chutiorn Tontivanichanon, London School of Economics

This paper constructs a game-theoretic model to study trading relationships among market participants and identify the role of periphery dealers on market efficiency and stability in core-periphery over-the-counter (OTC) secondary markets. We introduce a notion of liquidity insurance relationship -- a non-binding long-term agreement that investors make with dealers to secure liquidity immediacy during illiquid times -- and show that periphery dealers can improve market liquidity and efficiency. Specifically, they emerge as intermediaries who form the relationship with several low-trading need investors, who otherwise fail to form the relationship directly with liquidity-providing core dealers, and exploit the well-connected network position to successfully form the relationship with the core dealers on behalf of their low-trading-need clients. However, their intermediation function becomes ineffective during market runs, resulting in liquidity shortage among the investors. Our finding sheds light on the value of periphery dealers toward buy-and-hold investors, incidence of liquidity dry-up among periphery dealers during the financial crisis, and implications of market fragmentation on efficiency and stability of OTC markets.