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| Date/Category | Speaker | Topic | Abstract |
| 2020.12.09Finance | Prof. Jian ChenProfessor of FinanceXiamen University | Employee Sentiment and Stock Returns | We propose an employee sentiment index, which complements investor sentiment and manager sentiment indices, and find that high employee sentiment predicts a subsequent low market return, significant both in- and out-of-sample. The predictability of the employee sentiment index can also deliver sizable economic gains for mean-variance investors in asset allocation. The employee sentiment’s impact is stronger among employees who work in the headquarters state and among less experienced employees. The economic driving force of the predictability is distinct from those of investor sentiment and manager sentiment: high employee sentiment leads to high contemporaneous wage growth due to immobility, which in turn results in subsequently lower firm cash flow and lower stock return. |
| 2020.12.16Econometrics | Dr. Xiaolu ZhaoAssociate ProfessorDongbei University of Finance and Economics | Duration-based covariance | We propose a price duration based covariance matrix estimator using high frequency transactions data. The effect of the last-tick time-synchronisation methodology, together with effects of important market microstructure com- ponents is analysed through a comprehensive Monte Carlo study. To decrease the number of negative eigenvalues produced by the non positive-semi-definite (psd) covariance matrix, we devise an average covariance estimator by taking an average of a wide range of duration based covariance matrix estimators. Empirically, candidate covariance estimators are implemented on 19 stocks from the DJIA. The duration based covariance estimator is shown to provide comparably accurate estimates with smaller variation compared with compet- ing estimators. An out-of-sample GMV portfolio allocation problem is studied. A simple shrinkage technique is introduced to make the sample matrices psd and well-conditioned. Compared to competing high-frequency covariance ma- trix estimators, the duration based estimator is shown to give more stable portfolio weights and higher Sharpe ratios while maintaining comparably low portfolio variances |
| 2021.03.03Economics | Dr. Guojun ChenAssistant ProfessorNanyang Technological University | Sticky Leverage and Debt Overhang: Evidence from Foreign-Denominated Debt in Latin America | The sticky leverage theory proposes that when debt payments are fixed in nominal value, a monetary expansion reduces the real burden of existing debt, which alleviates the debt overhang and boosts firm performance. We develop a theory in which firms have foreign-denominated debt and thus vulnerable to foreign monetary shocks and test this theory by investigating how Latin American publicly-listed companies with substantial dollar-denominated debt respond to the U.S. monetary shocks. We show that the higher foreign-denominated debt a firm has, the more it benefits from a U.S. monetary expansion by increasing its equity value, capital expenditure, and sales, especially when the maturity of such foreign-denominated debt positions is short. Nonetheless, such effects are not found in the firms' locally denominated debt positions. Finally, we document that a larger net export position amplifies the responses of firms with foreign-denominated debt to the U.S. monetary shocks, which indicates an interaction between the sticky leverage and the sticky price channels. |
| 2021.03.24Finance | Dr. Lin XiongAssistant ProfessorRobert Gordon University | What does not kill us makes us stronger: The story of repetitive consumer loan applications | We investigate borrower and lender behaviours when the borrower has experienced a sequence of failed loan applications. Our analysis is based on half a million observations from an established peer-to-peer (P2P) loan platform in China from 2010-2018. We find that borrowers who have better credit scores and who accept to pay higher interest rates are likely to reapply for funds after experiencing an earlier failed attempt. However, females and applicants with more education are discouraged from re-applying compared to their male or less-educated counterparts, respectively. On the funding supply side, lenders strive to fund safe borrowers who have high credit ratings and high income, though not those who offer a high interest rate. |
| 2021.04.28Econometrics | Dr. Xiaohang RenAssociate ProfessorCentral South University | Nonlinear spatio-temporal modelling theory with application on energy markets | A large number of spatio-temporal data with sophisticated structures exist in energy markets research. Nonlinear modelling of spatio-temporal data is often a challenge with irregularly observed locations and location-wide non-stationarity. In this paper, we propose a spatial panel quantile model and a semiparametric family of Dynamic Functional-coefficient Autoregressive SpatioTemporal (DyFAST) model to address the difficulty in modelling and analysis of the data. Two schemes are proposed for the DyFAST model. Our first scheme is popular in spatial econometrics with the idea of using spatial weight matrix pre-specified either by experts or by the prior information of spatial locations. In practice, such spatial weight matrix can be pre-specified by the features of the data in many different ways. Although the idea of model selection can be applied to select an optimal weight matrix among the candidates, it may lead to loss of the important features of different spatial weight matrices. Our second scheme is therefore to suggest using the idea of model averaging to combine the candidate spatial weight matrices, letting data decide the significance of each candidate. Accordingly, different semiparametric smoothing estimation procedures are suggested. Both theoretical properties and Monte Carlo simulations are investigated. Our empirical applications to estimate the dynamic cross-country dependency of the regional retail fuel prices in the EU markets further illustrate the usefulness of the models. Our results shed new light on both theoretical investigation into the spatio-temporal model with varying coefficient structure and empirical application to the complex dynamic nature of spatio-temporal data in energy markets |
| 2021.05.12Finance | Dr. Xuewei YangAssociate ProfessorNanjing University | Leverage is a double-edged sword: Evidence from futures trading | We use proprietary brokerage data to study the impact of leverage on investors’ trading behavior and performance. Investors using higher leverage bear higher risk and attain lower investment returns. After controlling for turnover, a one unit increase in leverage implies a 11% increase in volatility of portfolio returns and a 13% decrease in annualized net returns. About 50% of the effect on investment return of using leverage can be explained by margin calls (or forced liquidation). There are a few skilled investors who can take advantage of leverage by actively timing the market and conducting arbitrage trades: the most experienced investors are able to earn 45% higher annual returns by using an additional unit of leverage. We thus conclude that leverage is a double-edged sword: only a small number of skilled investors benefit from using leverage, while the majority pay for leverage |
| 2021.05.19Economics | Dr. Baoshun WangAssociate ProfessorZhongnan University of Economics and Law | Fiscal Stress and Tax Collection Effort: The Case of China | Does poverty lead to diligence among local governments in China? The tax sharing reforms reshape fiscal capabilities across tiers of government: more public revenue has been remitted to the central government whilst local governments have been left fiscally poor. In response, do local governments strengthen tax collection to raise tax revenue? This paper uses municipal data to examine the issue and presents some preliminary evidence. |
| 2021.05.26Economics | Dr. Xiaoliang YangAssociate ProfessorZhongnan University of Economics and Law | Centralized fiscal transfers and the growth-inequality nexus | This study investigates the role of fiscal decentralization in regional inequality and growth across the East, Central and West regions of China between 1994 and 2016, within a DSGE framework. In the model, local government non-tax fees on business reduce innovation and so TFP growth. These discretionary fees in turn depend on central-to-local transfers that largely finance local government spending in China’s tax-sharing system of fiscal decentralization. Higher transfers ease fiscal pressure on local governments, while lower transfers lead them to raise fees, resorting to the ‘grabbing hand’ over the helping hand with respect to local private firms. The fiscal decentralization system therefore has some capacity to offset or contribute to regional productivity divergence. We investigate two kinds of fiscal transfer in this context: equalization transfers (which are regionally redistributive) and the tax rebate (proportional to a region’s past economic performance). We estimate and test the theoretical model by indirect inference methods, then use it to explore the impacts of fiscal policy reforms on regional growth and inequality. We find that policy-makers face a trade-off between the regional redistribution and the aggregate growth. |
| 2021.06.03Finance | Prof. Donghui LiProfessor of FinanceShenzhen University | Resolve the Global Risk-Related Agency Conflict: Evidence from U.S. Foreign Institutional Investors | Based on a large non-U.S. sample, we document that the negative relation between firm investment and idiosyncratic risk (i.e., investment-idiosyncratic risk sensitivity) is significantly alleviated by U.S. foreign institutional investors (FIIs) but not by non-U.S. FIIs or domestic institutional investors. It indicates that U.S. FIIs can mitigate the risk-related agency conflict in global capital market. Our results are robust to various endogeneity tests, including DiD estimations based on the addition of a stock to the MSCI ACWI and the passage of JGTRRA in 2003. We further explore two possible economic channels through which U.S. FIIs affect the response of firm investment to idiosyncratic risk: the risk-tolerance channel and the monitoring channel. Last, we show that the investment spurred by U.S. FIIs is positively correlated with firm valuation and performance as well as economic development at the country level, highlighting the important role of U.S. FIIs in facilitating economic growth in non-U.S. economies |
| 2021.06.09Economics | Dr. Jingbo CuiAssociate ProfessorDuke Kunshan University | Induced Innovation Effect through Corporate Ownership Networks: Evidence from China’s Carbon ETS | This paper seeks to identify the spillover effects of China’s ETS pilots on low-carbon innovation of firms that are not covered by the ETS through the firm’s internal networks. This paper employs a difference-in-differences (DID) approach to compare the low-carbon innovation of unregulated subsidiaries between whose parent firms are subject to the ETS and whose parent firms are free from the pressure. Using the publicly listed companies and corporate ownership structure during 2010-2016 in China, this paper finds evidence that, in response to the carbon ETS, the parent firm shares the burden of innovation with its affiliated unregulated subsidiaries and promotes the unregulated subsidiaries’ low-carbon innovation. Moreover, the empirical results show that the induced-innovation effect spillover is more pronounced in the incorporation with closer geographical distance and higher technological proximity between the regulated parent firm and its unregulated subsidiaries. The results are also robust against a series of sector-year and province-year fixed effects at the subsidiary and parent levels and other potential confounding factors affecting the innovation decisions. |
| 2021.06.22Economics | Dr. Maoliang BuProfessor of EconomicsNanjing University | Globalization, Corporate Social Responsibility and sustainable development of China | The seminar will share the presenter’s research progress in the intersectional field of international business (IB), sustainable development, corporate social responsibility(CSR) with focusing on Chinese context. The presenter will also share the research trends and agenda of the field from his own perspective. |
| 2022.04.06Econometrics | Dr. Pipat Wongsa-artAssistant ProfessorCardiff University | Varying Coefficient Model with Correlated Error Components and Application to Disparities Between Mental Health Service by Councils in England | In this paper, we discuss estimation procedure and various inferential methods for varying coefficient panel data models that include spatially correlated error components. Our estimation procedure is an extension of the quasi-maximum likelihood method for spatial panel data regression to the conditional local kernel-weighted likelihood. We allow both relevant and irrelevant regressors in our model and propose a variable selection procedure that we show to perform well for models that involve spatial error dependence. We also extend our procedure so that it allows empirical modelling and testing of the so-called semi-varying coefficient specification. To ensure the statistical validity of our methods, we derive a set of asymptotic properties based on a collection of primitive assumptions that appear regularly in the nonparametric literature. Finally, we use the proposed model and methods to analyse the municipal disparities in mental health service spending by local authorities in England in order to illustrate practicability and empirical relevance. |
| 2022.04.27Economics | Dr. Matthew YeungAssociate ProfessorHong Kong Metropolitan University | Exogenous shocks and firm’s investments in innovation: Quasi-replication of Paunov (2012) | Paunov’s (2012) study is one of the handful of papers that examines how business innovation capacities are (negatively) affected during the 2008-2009 global financial crisis (GFC). We quasi replicate this study using a new dataset covering 13 Caribbean economies (N =1,979), during the COVID-19 pandemic. Using Probit regression, we first, closely, replicate the methods and research design of Paunov and confirm that, like the GFC, COVID-19 led many firms to stop ongoing innovation projects, corroborating the original findings. Contrary to Paunov’s hypothesis though, we find that private (as compared to public) funding is important for firms to keep their innovation projects going. We proceed to extend Paunov’s work in a step-by-step approach, altering one or two things at a time and holding all other elements of the original study constant in order to uncover differences in the results attributed to particular methods, model and measures. We discuss the differences and similarities in the findings stemming from our quasi-replication methodology. Our paper highlights the significance of replication studies as important tools that can help innovation scholars test the range of applicability of prior hypotheses and results and better support the implications that can be drawn for theory, policy and managerial practice. |
| 2022.06.08Econometrics | Dr. Xu HanAssociate ProfessorCity University of Hong Kong | Likelihood ratio test for structural changes in factor models | This paper develops a new likelihood ratio (LR) test for structural changes in high dimensional factor models. For a given split point k, existing Wald-type tests usually compare the pre- and post-k second moments of estimated factors based on the fact that a factor model with a break in its factor loading matrix is observationally equivalent to a model with time-invariant loadings but a variance change in the pseudo-factors. While these tests are consistent under certain alternative hypotheses, they have limited power for moderate breaks in small samples. Instead of comparing the difference in the second moments of subsample pseudo-factors, our test compares the log-likelihood of pseudo-factors with and without a break. Under the null hypothesis of no break, we show that the limiting distribution of the new test is a function of Brownian bridge and a long-run variance, the latter of which can be estimated by a heteroskedasticity and autocorrelation consistent (HAC) estimator. Data dependent critical values can be obtained by simulation. Under the alternative, if the break causes a singular covariance of the pseudo-factors before or after break, the new LR test is shown to diverge at the rate T log T, which is faster than the regular rate of T. Simulation results confirm that new test is more powerful than existing tests even if the factors are nonnormal and serially dependent. In addition, we generalize the new test to allow for factor mean changes and multiple breaks. The null distributions of these generalized statistics are established. Using a U.S. industry level monthly employment dataset, our test detects a structural break in the labor market in early 2020 |
| 2022.06.15Economics | Prof. Ron SmithProfessor of EconomicsUniversity of London | Revisiting the Great Ratios Hypothesis | The idea that certain economic variables are roughly constant in the long-run is an old one. Kaldor described them as stylized facts, whereas Klein and Kosobud labelled them great ratios. While such ratios are widely adopted in theoretical models in economics as conditions for balanced growth, arbitrage or solvency, the empirical literature has tended to find little evidence for them. We argue that this outcome could be due to episodic failure of cointegration, possible two-way causality between the variables in the ratios, and cross-country error dependence due to latent factors. We propose a new system pooled mean group estimator (SPMG) to deal with these features. Using this new panel estimator and a dataset spanning almost one and half centuries and seventeen countries, we find support for five out of the seven great ratios that we consider. Extensive Monte Carlo experiments also show that the SPMG estimator with bootstrapped confidence intervals stands out as the only estimator with satisfactory small sample properties. |
| 2022.07.06Econometrics | Prof. Zhiguo XiaoProfessor of EconomicsFudan University | Causal Inference in Panel Data with A Continuous Treatment | This paper proposes a framework that subsumes the two-way fixed effects as a special case to conduct causal inference with a continuous treatment. Treatments are allowed to change over time and potential outcomes are dependent on historical treatments. Regression models on potential outcomes, along with the sequentially conditional independence assumptions (SCIAs) are introduced to identify the treatment effects, which are measured by aggregate average causal responses. We also propose to test the validity of the SCIAs with directed acyclic graphs (DAGs). |
| 2022.11.09Economics | Dr. Tianshu ZhaoSenior LecturerUniversity of Birmingham | The Co-funding and financialization of Chinese firms: where the shadow lies | The finance-development literature indicates that financial development may not necessarily lead to higher economic growth if financial development is concomitant of debt shift: the increased use of debt and other financing instrument by non-financial firms (NFFs) in the pursuit of capital gains on the real estate and financial asset markets, instead of revenues realized in the productive process. In addition, the literature of corporate finance documents that capital decisions about financing sources can have important implication for the operations of a business, including risk-taking, firm performance, and sustainable development. We bring these two streams of literature together and attempt to understand the driving forces of the joint use of formal and informal finance (co-funding) and its impact on debt shift of NFFs (i.e. financialization), using a unique survey of Chinese firms. Consistent with the prediction that the use of informal finance provides the potentials to fill the financing gap that not being fully satisfied by formal finance, we find that private firms exhibit a higher probability of using co-funding relative to state-owned ownership (SOE). Also, firms having main bank relationship with national-wide banks and foreign banks (versus the local and regional commercial bank predominately serving a specific province or metropolitan area), firms having longer relationship length with the main bank, and firms having a higher financial leverage ratios are more likely to use co-funding.  Two distinctions between the use of informal finance and that of co-funding are on the length of relationship with the main bank and the small size. Duration with the main bank is significant in co-funding but not in informal finance, implying the information value of bank-borrower relationship for firms’ switching from informal finance only to co-funding. Regarding the size, being smaller is significantly positive for the use of informal finance but not for co-funding. Putting together, the finding suggests that formal and informal finance are complements for firms with debt capacity from bank credit, while informal is a substitute for bank credit for smaller firms whose might face the constrains from the formal finance.Regarding the impact of co-funding on financialization, we find that co-funding, compared to the exclusive usage of formal finance, increases the likelihood of the higher level of involvement of financial activities and leads to a higher importance of financial gains from financial assets and real estate assets investment for the profit of the firms. However, the use of co-funding does not seem to enhance the likelihood of achieving a consecutive positive profitability. The intensive reliance of informal finance in the co-funding mix further exacerbates these impacts. Our empirical evidence further reveals the impact of co-funding on financialization, and the likelihood of sustainable profit is more significant for firms with stronger managerial compensation scheme for shareholders’ value maximization and firms in the industry characterized by higher degree of competition. The results appear to be robust in the case when the endogeneity of co-funding is dealt by controlling for propensity score in regressions, running the estimation in a matched sample, and applying instrumental variables to instrument the co-funding in the estimation. Also, the empirical results do not seem to be attributable to the higher interest cost, short maturities, and the inefficiency of the monitoring mechanism of informal finance, per se. We argue our empirical result lies in the connection and the coordination failure of the previously segmented formal and informal financial systems. |
| 2022.11.23Economics | Dr. Cuicui LuAssociate ProfessorShandong University | Economic Policy Uncertainty and Voluntary Disclosures: How do Chinese Firms Respond | Equity market in China present a unique setting to study voluntary disclosures due, inter alia, to the small role equity markets play in firm finance, the low participation rates by individuals, its relative isolation from global investors, the prevalence of state-owned firms, and the environment of high economic policy uncertainty. This study documents a robust positive relationship between voluntary earnings forecast disclosures and uncertainty over economic policy, and we find that Chinese firms’ propensity to voluntarily disclose is increasing in leverage, institutional ownership, and analyst coverage. Moreover, state-owned firms are more willing to disclose than non-state-owned firms. Combined, these findings suggest that firms in markets with more synchronous stock price movements and lower information content use disclosures to reduce information asymmetries. Our identification strategy instruments economic policy uncertainty with Chinese natural disasters during the post-GFC years |
| 2023.04.12Finance | Dr. Yang WangAssistant ProfessorLancaster University | Actions Speak Louder Than Words: The Valuation of Green Commitment in the Corporate Bond Market | We study the effects of corporate green bond issuance on the pricing and ownership of conventional bonds in the secondary bond market. Our evidence indicates that yield spreads of conventional bonds fall by around 8 basis points after green bonds are issued, and by considerably more when issuers have lower ESG ratings. The positive price reaction is not driven by green bond mispricing or by improvements in credit risk or liquidity. Rather it is consistent the conventional bond market valuing green commitment. This is confirmed by our evidence showing that socially responsible investors increase their conventional bond holdings after firms issue green bonds. Our analysis highlights the public debt market benefits available to firms prepared to commit to environmental sustainability through green bond issuance |
| 2023.04.19Finance | Dr. Yangming BaoAssistant ProfessorCapital University of Economics and Finance | Cross-border M&A, Gender Equality, and Board Gender Diversity | This paper investigates whether the gender equality level of a target company’s country can influence an acquirer’s board gender diversity. Based on cross-border M&As conducted by Chinese public firms, we find evidence that firms increase board female ratios when acquiring targets in more gender-equal countries. To alleviate potential selection concerns, we utilize exogenous factors of acquirers’ choice of destination, including direct flight information and industry comparative advantages, and adopt a two-stage treatment effect model. Further analyses suggest that firms facing more communication and legitimacy challenges make the adjustment strategically for better integration. We find evidence of synergy gains in terms of improved firm values and CSR performances |
| 2023.04.26Economics | Dr Chao YangAssociated ProfessorShanghai University of Finance and Economics | The Innovation-Based Comparative Advantages of Firms | Resource-based theories of product diversification argue that firms grow by diversifying into products that share common capabilities. We bridge the product diversification literature and the innovation literature by documenting the positive correlation between a firm’s innovation-based comparative advantages and the direction of product diversification. By constructing a novel firm-patent-product for China Compulsory Certificate (CCC) products, we find that a higher similarity between a firm and a product in the space of patent fields predicts a higher probability of diversifying into that product. We also find that new products introduced with higher innovation similarities last longer and exit the market with lower probabilities. Based on the intuition of comparative advantages of countries in different products, we interpret our innovation similarities as firms’ comparative advantages that direct product diversification |
| 2023.05.04Economics | Dr Wenting ZhouAssistant ProfessorXi’an Jiaotong Liverpool University | Investigating Peer Review Behaviour between Genders: A Field Experiment | The peer-review mechanism is commonly employed in group projects to evaluate individual contributions, as they can be more accurately observed by insiders than outsiders. However, females and males tend to have different behaviour patterns when they evaluate peers’ contributions. Additionally, without a compatible incentive system, peer review may not always accurately reflect contributions. We conducted a field experiment to investigate peer-review behaviour with a tournament. Our results demonstrate significant gender differences in peer evaluation. Females tend to evaluate peers' contributions more seriously rather than giving the same evaluation to all. Moreover, females tend to be stricter in peer review and give lower evaluations than males. Furthermore, the peer-review mechanism is effectively used as a reward-punishment tool, with hard-working peers being rewarded with high evaluations, even if it puts the reviewers’ own interests at risk in the tournament. Meanwhile, shirking peers are punished with lower scores reflecting their contribution levels |
| 2023.05.31Accounting | Dr. Fang HuSenior LecturerGriffith University | Audit Partners’ Facial Structure and Audit Quality | We hypothesize that an auditor partner’s facial structure (facial width-to-height ratios, fWHR) is a visible ex-ante cue to substantive evaluation of their ethical behaviors and consequential outcomes on audit quality. Using a large pictorial sample of U.S. audit partners from 2016 to 2019, we find that high fWHR is positively associated with various audit quality measures and validate this finding through several robustness checks. Further, the positive association between fWHR and audit quality is more pronounced for small accounting firms, when partners face high competition, and for more complex audit jobs. High-fWHR partners are less likely to compromise their independence for economically important clients and are more likely to become industry experts and charge higher audit fees. Moreover, high-fWHR audit partners can curb high-fWHR CEOs’ aggressive reporting behavior, specifically, lengthening the negotiation process, but leading to low probability of misreporting. Overall, the results suggest that facial appearance can provide rapid attribution of auditor’s professional ethics in terms of their competence, due care, independence, and integrity |
| 2023.08.03Finance | Prof. Guochang ZhangChung Hon-Dak Professor in AccountingUniversity of Hong Kong | Customer Base Concentration, Investment efficiency, and Growth Options | We hypothesize that customer base concentration (CC) is a source of operational inflexibility that impedes firms’ capital investment and thus reduces their ability to exploit real options. Supporting this hypothesis, we empirically document a negative relation between CC and the responsiveness of capital investment to profitability signals. This result holds both in cross sectional samples and from using two plausibly exogenous shocks to CC (customer CEO turnover and import tariff reductions in customer industries). The documented effect is stronger when firms have low bargaining power vis-à-vis their customers, while it is muted where firms’ major customers are governments (which are likely to be less opportunistic). Along with reduced investment responsiveness, firm value as a function of profitability becomes less convex, suggesting that CC hinders the ability to utilize growth options. Finally, the effects of CC are stronger in industries of high (versus low) capital asset reusability, suggesting that inflexibilities stemming from sales and production activities have substantive effects |
| 2023.08.09Finance | Dr. Haofeng XuAssistant ProfessorLoughborough Business School | What Do Consumers of FinTech Industry Know? Evidence from Social Media Platforms | We analyze 152,676 consumer reviews on FinTech lending platforms published on a popular FinTech information provider between 2015 and 2019 to assess the information content of consumer social media disclosures in the FinTech industry. We find that negative reviews predict lower trading volume, fewer investors, and fewer loans in a FinTech platform. This result is robust to a series of sensitivity tests. Moreover, we observe that informative negative reviews are related to worse platform performance while informative positive reviews do not seem to matter. Further analysis uncovers that FinTech platforms experiencing increases in negative reviews are significantly less likely to survive. Our study suggests that crowdsourced review is an important component that could be considered in regulating the FinTech marketplace. |
| 2023.08.22Finance | Dr. Yi CaoAssociate ProfessorUniversity of Edinburgh | Conditional Unimodal Property and Cross-Sectional Momentum | This study documents a conditional unimodal property of expected return of stocks: those stocks with higher likelihood of outperforming (or conversely, underperforming) their peer stocks in the cross-section exhibit a lower probability of underperforming (or conversely, outperforming) those same peers. Leveraging this property, the conventional momentum is reinterpreted, incorporating the likelihood of stocks' expected performance in subsequent period as: if stock prices are expected to either overreact or underreact in the cross-section with higher likelihood, then profitable trading strategies that select stocks based on their expected relative performance will exist. Utilizing this reinterpreted version, we design a novel momentum strategy mechanism, allowing for the seamless integration of diverse machine learning models in a “plug-and-play” manner. Our empirical study includes the deployment of four representative machine learning models, ranging from simple to complex structures. The annual out-of-sample Sharpe ratio achieved falls within a range from a commendable 2.64 to an impressive high of 4.41. The aforementioned finding underscores the notion that the establishment of profitable momentum strategies does not inherently necessitate the utilization of intricate, tailor-made models. In exploring the source of the economic significance, we discover that the preservation of the monotonic relationship between ranks derived from the estimated likelihood and ranks based on actual returns, along with the elimination of overlapped stocks, contributes to attaining superior momentum performance |
| 2023.09.15Economics | Dr. Sheng ZhaoAssistant Professor Xi’an – Jiaotong Liverpool University | Does declining air pollution levels always signal higher premium for housing market | In this paper, we investigate the non-monotonic relationship between air quality and housing prices (HP). We utilize monthly housing price data and Particulate Matter 2.5 (PM2.5) index for prefecture-level cities in China from December 2013 to August 2021. Relying on an IV and dynamic common correlated effects-pooled mean group (DCCE-PMG) techniques, our results in general reveal a short-run negative and a long-run inverse U-shape relationship between air pollution and housing prices. The finding suggests that the effect of PM2.5 on housing price is non-monotonic in nature as it turns from negative to positive relationship when PM2.5 score hits certain turning point. To explain the heterogeneities across cities, we conducted a channel analysis which reveal that cities with; i) heavy reliance on industrialization, ii) higher demand for urbanization, iii) modern social governance system and iv) higher reliance on coal resources, indicate greater sensitivity to stringent pollution reduction measures. Specifically, results reveal that while pollution-reduction campaign initially translated into willingness to pay effect, further control measures induced an adverse effect on housing prices. Thus, our findings suggest that environmental regulations stringency could have a double-edge-sword effect, which requires a thorough “balancing act” by policy makers, taking to cognisance the socio-demographic strata of cities. |
| 2023.09.27Economics | Dr. Peter AndersonAssistant ProfessorBryant University | COVID-19, risk taking, and regulatory federalism in the United States | Research has pointed towards United States state officials setting COVID regulations based on their constituents’ political leanings. But a further explanation is needed as prior to 2020, U.S. voters did not choose their political party based on how they thought politicians would act in a pandemic. This paper builds off the findings that people with higher risk preferences took riskier actions during COVID. It hypothesizes that state officials set regulations based on their constituents’ preference for risk taking, as demonstrated by the risky actions people took during the pandemic. The hypothesis is tested with a balanced panel of the fifty U.S. states over seven time periods ranging from late April until shortly before the 2020 election. A hybrid model finds a negative relationship between risky actions and COVID regulations at the within- and between-state level, a regulatory stance this paper calls a democratic approach. The relationship is statistically and regulatorily significant, even after controlling for a number of time-varying and time-invariant health, political, and economic measures. Use of an instrumental variable for revealed risk taking corroborates these results. Less certain are conclusions about the role politics played in determining COVID regulations, specifically the party and 2020 reelection status of governors |
| 2023.10.11Finance | Prof. Joseph Zhang Professor in AccountingUniversity of Memphis | Social media and the cost of debt financing: Evidence from stock forum text analysis | This study is to examine whether small investors’ social media activity is helpful for predicting subsequent bond credit spreads. We use extensive data of posts/comments on the internet stock message board – EastMoney Stock Forum thirty days prior to bond issuance announcement date to identify its predictive power and find that the number of posts/comments is negatively related to issuance spreads. We further find that information quality improvement of posts increases this predictive ability, and that posts directly related to issuers’ fundamentals and/or debt financing drive our main results. Additional tests show that the informational production role of social media activity is more pronounced when there is a greater demand for information quality. More interestingly, we find that social media activity is also related to bond covenants and bond issue size |
| 2023.10.17Accounting | Dr. Xiaoxi WU Assistant ProfessorBocconi University | As-Reported Corporate Issued Guidance | The I/B/E/S Guidance (IG) database is commonly used by scholars studying corporate issued guidance, but recent research suggests it fails to fully capture guidance actually provided by firms. We extract the contents of over 23,000 Refinitiv Guidance Reports (GR), which contain a detailed history of corporate issued guidance as-originally-reported by firms. We document over 1.7 million GR guidance instances, which is over six times larger than the 0.261 million IG instances observed for the same firms. Topically, GR instances cover 192 unique items, compared with only 13 in IG. These differences stem largely from IG’s exclusion of non-numeric guidance and segment guidance, in addition to IG’s requirement that a consensus analyst forecast must exist for a guided item to be collected. Unlike IG, GR provides details surrounding as-originally-reported guidance including the verbatim text from which the guidance was extracted, whether processing was required to transform guidance to a numeric value, and the guidance source (press release or transcript of event). In terms of applications, we use the unique features of GR to study how processing costs impact the market response to earnings guidance surprises. We also show that analysts and investors reward firms for providing non-numeric GR guidance that does not directly pertain to financial statement line items at levels similar to the reward firms receive for numeric financial statement line item guidance. Finally, we find that as macroeconomic uncertainty increases, firms shift from numeric guidance to non-numeric guidance rather than reduce guidance altogether. We conclude that GR data can deepen our understanding of corporate issued guidance. |
| 2023.10.26Economics | Dr. Yining Shi Associate Professor University of International Business and Economics | House Price and Consumption: a reexamination using Bartik-like instrument and novel data from China | This paper investigates the relationship between house prices and consumption using data from the China Household Finance Survey spanning from 2011 to 2019. We construct a Bartik-like instrumental variable based on house prices to address potential endogeneity issues and find that house prices have a significant positive impact on urban residents' consumption. The elasticity of non-durable consumption expenditures with respect to local house prices is between 0.242 to 0.383 for homeowners, which is much larger than the Marginal Propensity to Consume (MPC) in the United States. But there is a negligible response for renters. Among various heterogeneous conditions, we find a larger response among credit-constrained households, young and middle-aged homeowners, and residents with income insurance. Our results suggest that looser borrowing constraints are a primary driver of the MPC out of housing wealth. |
| 2023.11.01Economics | Dr. King Yoong LIM Associate Professor Xi’an Jiaotong-Liverpool University | Banking prudentials, leverage, and innovation partnership choice in China | Based on a novel theoretical framework where innovators either choose to borrow loans or settle for state-owned enterprises (SOE) sponsorship arrangements, we study the effect of banking prudential regulations on the patenting partnership choice in China using a unique matched patent-firm-bank loan dataset for 15,623 Chinese firms in the 2013-17 period. We use a unique instrumental variable strategy to identify idiosyncratic bank prudential reform shocks associated with the post-2012 Basel III regulation and find prudential metrics (corporate) leverage of the financiers (firms) to positively (negatively) influence SOE patenting partnership choice. Prudential reforms therefore come at a cost of further SOE dominance in the China patenting landscape. However, conditional on an innovation project being SOE sponsored, we find positive spillover effect from the SOE’s employment mandate to the productivity of an innovation project. |
| 2023.11.08Finance | Prof. Xiaoyun YuProfessor of FinanceSAIF, Shanghai Jiaotong University | Leveling Up Your Green Mojo: The Benefits of Beneficent Investment | Using a manually collected dataset on project investment and exploiting the staggered designation of the major cities for the environmental protection (MCEP) scheme in China, we show that firms increase their environmental investments after their city experiences heightened pollution prevention and control by the government. The effect is mostly driven by “beneficent investments” – environmental projects that not only benefit the firm but also directly spill over to society at large. Following the MCEP establishment, media coverage of environmental issues in local cities increases. City officials are more likely to be promoted if they meet pre-set environmental targets or reduce pollution. Firms spending more on green investments pay less taxes, garner more subsidies, and secure more bank loans. State-owned enterprises (SOEs) lead non-SOEs in green investment initially, whereas the latter exceeds the former eventually. MCEP cities with larger corporate environmental spending reduce pollution and cut hospital needs to a greater extent. They also improve local employment and attract more high-quality new firms. Heavily polluting firms contribute less to the city’s tax revenues and speed up their expansion to non-polluting industries. Firms investing more in environmental projects – especially the beneficent ones – have larger value gains, produce more green patents, and experience greater labor productivity than other firms in the same MCEP city. Our findings highlight the role of regulatory mechanisms in enabling E&S investment to be both value- and welfare-enhancing |
| 2023.11.15Finance | Dr. Yang YouAssistant ProfessorUniversity of Hong Kong | Digital Money Adoption and Redemption Convenience | We analyze how proximity to token redemption opportunities affected digital money adoption and usage in the Toronto-based Bunz barter economy. Using comprehensive user-level transactions data, we find that in areas with more token-redeeming merchants, platform users (i) were one-third more likely to accept the token; (ii) sold more goods to other users for tokens, but did not buy more goods with tokens; and (iii) held similar quantities of tokens. Cross-sectional differences disappeared after token redemption was halted. Our findings are consistent with a heterogeneous-agent search-theoretic model of money wherein agents have different exposure to redemption opportunities |
| 2023.11.22Econometrics | Dr. Ke Wu Associate ProfessorRenmin University of China | Identifying Factors via Automatic Debiased Machine Learning | Identifying factors that can explain cross-sectional asset returns is fundamental in asset pricing. To robustly identify these factors and conduct statistical inference in a high-dimensional setting, we adopt a new automatic debiased machine learning method, as proposed by Chernozhukov, Newey, and Singh (2022). Our general methodology bypasses the issues of biased estimation, non-robustness, and overfitting common to traditional regularization approaches. We examine an extensive set of factors and find that the most significant ones outperform the Fama-French factors, while maintaining a comparable level of parsimony. By allowing for a general nonlinear structure in the Stochastic Discount Factor (SDF), we show that approximately 30 to 50 factors are able to explain the cross section of stock returns, with explanatory power decreasing after 2003. Linear factor models with a few factors cannot compete well. Our empirical findings are robust in both the US and Chinese stock markets. |
| 2023.11.27Econometrics | Dr. Yifeng ZhuAssociate Professor Central University of Finance and Economics | Ridge Latent Factors | In this paper, we utilize the ridge regression to develop a novel set of characteristics-based factors, referred to as "ridge factors". We demonstrate that the usage of the ridge factors enables the creation of a Bayesian average SDF, which can shrink the relative contribution of low-variance principal portfolios. Then, through the application the RP-PCA method proposed by Lettau and Pelger (2020a, b), we show that the ridge factor principal portfolios can exhibit greater sparsity compared to the IPCA while maintaining the equivalent empirical prediction accuracy. Furthermore, our Bayesian average SDF yields higher Sharpe ratio for the tangency portfolio compared to other models including IPCA. Additionally, the characteristic selection can be carried out judiciously through the Bayesian approach, leading to reliable results. |
| 2023.12.06Economics | Prof. Leng Ling Professor of Finance Georgia College & State University | Mobile Payment Use and Crime Reduction | Using a novel dataset comprising 1,515,409 verdicts from China, along with an index that measures the extent of mobile payment usage, we find that a one standard deviation increase in mobile payment use leads to an 11% decrease in theft rates. Furthermore, this effect is more pronounced in areas with a higher prevalence of cash transactions. These findings suggest that reduced cash circulation in society due to mobile payment use may decrease incentives for stealing. However, we find no evidence to suggest that mobile payment usage influences other crimes like robbery, arson, brawling, homicide, and serious injury by vehicle. |
| 2024.01.17Econometrics | Prof. Ron Smith Prof. of Applied Economics University of London | The Role of Pricing Errors in Linear Asset Pricing Models with Strong, Semi-strong, and Latent Factors | This paper examines the role of pricing errors in linear factor pricing models, allowing for observed strong and semi-strong factors, and latent weak factors. It focusses on the estimation of *Φk*= *λk*̶*μk*which plays a pivotal role, not only in the estimation of risk premia but also in tests of market efficiency, where *λk*and *μk*are respectively the risk premium and the mean of the *kth*risk factor. It proposes a two-step estimator of *Φk* with Shanken type bias-correction, and derives its asymptotic distribution under a general setting that allows for idiosyncratic pricing errors, weak missing factors, as well as weak error cross-sectional dependence. The implications of semi-strong factors for the asymptotic distribution of the proposed estimator are also investigated. Small sample results from extensive Monte Carlo experiments show that the proposed estimator has the correct size with good power properties. The paper also provides an empirical application to a large number of U.S. securities with risk factors selected from a large number of potential risk factors according to their strength |
| 2024.03.06Finance | Prof. John Lee Senior Lecturer University of Auckland | Cross-sectional End-of-day Return Puzzle and Disposition Effect | This paper presents a distinctive end-of-day pattern in the cross-sectional stock returns in China: Long-minus-short mispricing factor exhibits significantly positive returns at the last half-hour trading interval but performs poorly during the other daytime trading period. This cross-sectional intraday seasonality pattern of China is reversed compared to that of the US (Bogousslavsky 2021). We attribute this end-of-day return puzzle to the disposition effect, specifically, investors have a strong tendency to sell out stocks with prior capital gains at the end of the day, when the market is most liquid. The results are robust in a natural experiment setting in which the capital-flow interconnection between the shadow banking market and the stock market is more pronounced in speculative stocks with capital gains. We validate the consistency of this end-of-day pattern over different time-series samples and prominent anomalies |
| 2024.04.10Finance | Dr. Dong LuAssociate Professor at Renmin University of China | Search Frictions in Over-the-Counter Foreign Exchange Markets: Theory and Evidence | Over-the-counter (OTC) markets dominate trading in many asset classes, including foreign exchange (FX), the largest decentralized financial market. We integrate theory and data to examine how search frictions affect prices, asset distributions and welfare in the OTC FX market. Using a unique transaction-level dataset covering the entire market for China's interbank FX spot trading, we find that: (1) transaction costs are smaller for big banks than for small banks and decrease with trade size; (2) banks' asset holding distributions become more dispersed when search frictions are reduced; (3) search frictions distort the intraday counterparty selection. We present a model of decentralized trade, where investors have heterogeneous search abilities, that matches key empirical patterns observed in the data. By calibrating the model, we quantify heterogeneous effects of search frictions on transaction costs, asset holdings and welfare for different types of investors. Counterfactual analysis shows that policies designed to decrease search frictions could significantly reduce transaction costs and increase welfare. |
| 2024.05.15Finance | Dr. Tiancheng Yu Assistant Professor at University of Exeter | Labor Mobility and Corporate Environmental Performance | Using U.S. plant-level data, we find that corporate emissions decline significantly when labor mobility increases due to weaker enforcement of covenants not to compete (CNCs) in the states of residency. The effect is more pronounced for firms relying more on highly skilled labor and intangible capital, having lower degrees of financial constraints, or facing greater product market competition. We further document that, as labor mobility restrictions relax, treated firms increase their green innovation and green investment. Our results suggest that greater labor mobility improves corporate environmental performance through boosting emission abatement activities, highlighting an environmental benefit of labor mobility. |
| 2024.05.22Finance | Dr. Lingling Zheng Associate Professor at Renmin University of China | Do accurate macro forecasts facilitate superior financial market forecasts? | Professional forecasters who make more accurate macro forecasts are also more adept at predicting interest rates and stock market returns, suggesting that they understand the link between macroeconomic and financial variables. Forecasters who are more optimistic about future macroeconomic outcomes forecast higher interest rates, consistent with the Taylor rule, and higher stock market returns, consistent with a belief that the cash flow effect dominates the discount rate effect. The results vary with the state of the economy. Our findings provide fresh insights into the joint behaviors of macroeconomic and financial expectations and add to our understanding of the expectations formation process |
| 2024.05.29Finance | Dr. Colin ZengAssociate Professor at Hong Kong Polytechnic University | The Motherhood Penalty: Fertility Policy and Analysts Forecasts | We examine how a fertility-relaxation policy impacts female financial analysts’ productivity and performance. We find that female analysts experience a 7.45% decrease in forecast accuracy compared to males following the fertility relaxation policy, potentially due to increased distractions related to family planning. To alleviate the effect of contemporaneous economic changes, we take advantage of the cross-sectional variations in the vulnerability to the fertility policy shock using the pre-shock local fertility culture. We find that the effect of the fertility policy is stronger among provinces with a multi-kid culture (i.e. citizens in these provinces are more willing to have kids but were restricted by a very stringent one-child policy before the fertility relaxation). Further, this accuracy reduction is stronger for analysts in regions with extended maternity leave and those covering complex firms. However, it weakens among analysts in supportive brokerage firms with higher salaries, better family support, and improved access to childcaring services. Following the policy reform, treated female analysts are less likely to become “Star Analysts” and more likely to leave as sell-side security analysts. Overall, our paper makes important implications for fertility policy makers and for working females. Our results suggest that child-care resources enhancing family-career compatibility can alleviate the motherhood penalty, while policies solely extending maternity leave may worsen it |
| 2024.06.19Economics | Dr. Mingzhu TAI Assistant Professor at the University of Hong Kong | Intra-Family Relationship and Female Entrepreneurship | We study how the intra-family relationship affects female entrepreneurship. By utilizing a major change in marriage law in the U.S., we find that female entrepreneurship increases significantly when the divorce regime changes from mutual consent to unilateral, especially when property rights are more favorable to women. This effect is mainly from an increase in the survival of existing female entrepreneurs rather than the entry of previous housewives. We consider a variety of potential mechanisms and conclude that the increase in female entrepreneurship after the law change is most likely driven by an increase in women’s intra- family bargaining power against spouses |
| 2024.06.26Finance | Dr. Yuzi Chen Assistant Professor at Central University of Finance and Economics | Non-GAAP Reporting under the Pressure of Hedge Fund Activism | This study examines the impact of hedge fund activism on non-GAAP reporting. Drawing on the pressure effect of hedge fund activism, we posit that the intense pressure exerted by hedge fund activist interventions leads managers to inflate outsiders’ perceptions on earnings through the use of non-GAAP disclosures. Using hedge fund activism campaigns targeting U.S. listed firms in 2006-2017, we find a positive impact of hedge fund activism on the occurrence and frequency of non-GAAP reporting. This impact is stronger for target firms with lower earnings quality and less likelihood to beat earnings benchmarks in the pre-activism periods. The increase in non-GAAP reporting comes from the exclusions of both recurring and nonrecurring items. A weaker relation between non-GAAP reporting frequency and future operating performance suggests a lower information quality of non-GAAP reporting under hedge fund activist interventions. Overall, this study sheds new light on the motivations of non-GAAP reporting from activist engagements. |