МИЭФ

FOURTH INTERNATIONAL MOSCOW FINANCE CONFERENCE

Hosted by the International College of Economics and Finance (ICEF)

International Laboratory of Financial Economics (LFE)

Higher School of Economics

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HIGHER SCHOOL OF ECONOMICS
NATIONAL RESEARCH UNIVERSITY

LFE INTERNATIONAL LABORATORY OF FINANCIAL ECONOMICS

INTERNATIONAL LABORATORY
OF FINANCIAL ECONOMICS

The International Laboratory of Financial Economics (LFE) has been established in 2010 at the International College of Economics and Finance (ICEF) of the Higher School of Economics (HSE) in collaboration with the London School of Economics (LSE). Its main goal is to support research in the area of Financial Economics at the Higher School of Economics at best international standards.

The core research team consists of Moscow based researchers who hold a PhD degree from recognized European and US universities with an affiliation to ICEF or HSE, as well as international fellows. The Laboratory is headed by Christian Julliard (LSE) and Carsten Sprenger (ICEF). A particular feature of the Laboratory is its close cooperation with the LSE. The LSE Academic Director of the Laboratory Christian Julliard and invited experts are crucial in the design of the research program of the Laboratory, the choice of research projects to be supported, in giving advice on the projects conducted in the framework of the LFE.

The laboratory helps to create an intellectual environment for fruitful research in financial economics and provides research support to the resident researchers and international fellows. LFE serves to broaden the interaction and contacts of its resident researchers with the international scientific community. To this end, LFE organizes an annual academic conference on research in finance and invites researchers to the joint LFE-ICEF research seminar.

Laboratory researchers regularly present their work at international conferences and publish in recognized peer-reviewed international journals in finance and economics. Research assistants form an integral part of the team of the laboratory. As a rule, these are students enrolled at the two-year Master's Programme in Financial Economics of ICEF or advanced students in ICEF's Bachelor Programme. This helps students who are interested in research to get experience in economic research and to raise their academic profile. The laboratory benefits from the library and data resources available at the Higher School of Economics and facilitates the purchase of new datasets. Currently, the work of the laboratory is funded by the Center of Fundamental Research of HSE and ICEF.

PROGRAM

FRIDAY, NOVEMBER 6

10.00 SESSION 1
"INVESTOR BEHAVIOR AND ASSET PRICING"
Chair: Carsten Sprenger, ICEF, Higher School of Economics

The Effects of Experience on Investor Behavior: Evidence from India's IPO Lotteries
Presenter: Tarun Ramadorai, Saïd Business School and Oxford-Man Institute of Quantitative Finance, University of Oxford (co-authors: Santosh Anagol, Wharton School of Business, Business Economics and Public Policy Department, University of Pennsylvania, and Oxford-Man Institute of Quantitative Finance and Vimal Balasubramaniam, Saïd Business School, Oxford-Man Institute of Quantitative Finance, University of Oxford)
Discussant: Sergey Gelman, ICEF, Higher School of Economics

We exploit the randomized allocation of stocks in 54 Indian IPO lotteries to 1.5 million investors between 2007 and 2012 to provide new estimates of the causal effect of investment experiences on future investment behavior. We find that investors experiencing exogenous gains in IPO stocks (the treatment) are more likely to apply for future IPOs, increase trading in their portfolios, exhibit a stronger disposition effect, and tilt their portfolios towards the sector of the treatment IPO. Treatment effects vary with the characteristics of the treatment (size, variability, and salience of the gain), and are stronger for smaller and younger accounts. Treatment effects persist for larger and older accounts, suggesting that experiencing gains exerts a powerful force even on sophisticated players.

Human Capital and International Portfolio Diversification: A Reappraisal
Presenter: Christian Julliard, London School of Economics (co-authors: Lorenzo Bretscher, London School of Economics and Carlo Rosa, Federal Reserve Bank of New York)
Discussant: Udara Peiris, ICEF, Higher School of Economics

We study the implications of human capital hedging for international portfolio choice. First, we document that, at the household level, the degree of home country bias in equity holdings is increasing in the labor income to financial wealth ratio. We show that a heterogeneous agent model in which households face short selling constraints and labor income risk, calibrated to match both micro and macro labor income and asset returns data, can both rationalize this finding and generate a large aggregate home country bias in portfolio holdings. Second, we find that the empirical evidence supporting the belief that the human capital hedging motive should skew domestic portfolios toward foreign assets, is driven by an econometric misspecification rejected by the data. Third, we show that, given the high degree of international GDP correlations in the data, very small domestic redistributive shocks are sufficient to skew portfolios toward domestic assets.

11.30 COFFEE BREAK

12.00 SESSION 2
"CORPORATE FINANCE 1"
Chair: Luca Gelsomini, ICEF, Higher School of Economics

Accounting Rules, Equity Valuation, and Growth Options
Presenter: Dmitry Livdan, Haas School of Business, University of California Berkeley (co-author: Alexander Nezlobin, Haas School of Business, University of California, Berkeley)
Discussant: Dmitry Makarov, ICEF, Higher School of Economics

In a model with irreversible capacity investments, we show that financial statements prepared under replacement cost accounting provide investors with sufficient information for equity valuation purposes. Under alternative accounting rules, including historical cost and value in use accounting, investors will generally not be able to value precisely a firm's growth options and, therefore, its equity. For these accounting rules, we describe the range of valuations that is consistent with the firm's financial statements. We further show that replacement cost accounting preserves all value-relevant information if the firm's investments are reversible. However, the directional relation between the firm's equity value and the replacement cost of its assets is different from that in the setting with irreversible investments.

Firm Performance, Political Influence and External Shocks
Presenter: Vladimir Sokolov, ICEF, Higher School of Economics (co-author: Laura Solanko, BOFIT, Bank of Finland)
Discussant: Thomas Noe, Saïd Business School, University of Oxford

Using representative survey data on manufacturing firms and the official registry data, we study how firms' political influence at the regional level affects firms' financial performance. We find that firms with political influence exhibit higher profitability but also retain larger cash holdings. We also find that politically influential firms are not more likely to take bank credit than non-influential ones, but if they do so, they enjoy longer maturities. Furthermore, after conditioning on the level of the regional institutional development we find that the significant impact of the firms' regional political influence is present only in regions with poor institutions and is almost absent in the regions with high level of democracy/market freedom. Most importantly, we are able to show that firms that were influential in 2004 during the survey had a higher probability to be liquidated after the 2008 economic crisis. These findings suggest that having regional political influence may turn out to be detrimental when faced with a sudden, exogenous shock.

13.30 LUNCH BREAK

14.45 SESSION 3
"CORPORATE FINANCE 2"
Chair: Maxim Nikitin, ICEF, Higher School of Economics

Agency, Firm Growth and Managerial Turnover
Presenter: Mihail Zervos, London School of Economics (co-authors: Ronald W. Anderson, London School of Economics, M. Cecilia Bustamante, University of Maryland, and Stephane Guibaud, SciencesPo)
Discussant: Sergey Stepanov, ICEF and Faculty of Economics, Higher School of Economics

We consider managerial incentive provision under moral hazard in a firm that is subject to stochastic growth opportunities. In the model that we study, managers are dismissed after poor performance as well as when an opportunity to improve the firm's profitability that requires a change of management arises. The optimal contract may induce managerial entrenchment, whereby, ex post-attractive growth opportunities are foregone after good performance because of contractual commitments. Realized growth depends on the frequency and size of growth opportunities as well as on the severity of moral hazard. The prospect of growth-induced turnover limits the firm's ability to rely on deferred compensation as a disciplinary device.

Corporate Governance and Investment: Evidence from Russian Non-Listed Firms
Presenter: Carsten Sprenger, ICEF, Higher School of Economics, Moscow (co-author: Olga Lazareva, Faculty of Economics, Higher School of Economics)
Discussant: Andrew Ellul, Kelley School of Business, Indiana University, CSEF, ECGI and CEPR

This paper investigates the effect of corporate governance on cash flow sensitivity of investment in non-listed Russian firms. In emerging market economies with less developed financial markets non-listed firms typically represent a large part of the economy. As there are no readily available corporate governance indicators for such firms, we develop an original index based on survey questions on shareholder protection (including activity and composition of the board of directors), as well as on transparency and disclosure. The main result is that better shareholder protection diminishes the cash flow sensitivity of investment in firms with low ownership concentration. We also find that ownership concentration lowers cash flow sensitivity and that shareholder protection and ownership concentration act as substitute mechanisms in this process. State ownership is associated with lower investment and reduced cash flow sensitivity. We address the problem of endogeneity of corporate governance by using an instrumental variable approach that relies on legal provisions on corporate governance based on the number of shareholder of a firm. The results confirm the main result.

16.15 COFFEE BREAK

16.45 SESSION 4
"SECURITY AND MECHANISM DESIGN"

Chair: Dimitrios Tsomocos, Saïd Business School and St. Edmund Hall, University of Oxford

Security Design with Status Concerns
Presenter: Dmitry Makarov, ICEF, Higher School of Economics (co-authors: Suleyman Basak, London Business School, Alex Shapiro, New York University and Marti Subrahmanyam, New York University)
Discussant: Dmitry Livdan, Haas School of Business, University of California Berkeley

This paper studies security design in a dynamic economy in the presence of status concerns. Our setting involves an entrepreneur with status concerns who has an idea for a project requiring an initial investment, which she raises by issuing a security to a financier. We characterize analytically the optimal security and find that its payoff profile is considerably similar to that of a convertible security. In contrast to existing explanations for convertible securities, ours does not rely on agency problems or asymmetric information. The more volatile the project is, the more similar the optimal security is to a convertible security. This is consistent with the observation that convertible securities are primarily used to finance relatively volatile projects. Our analysis uncovers the entrepreneur's and financier's risk attitudes as factors that can explain why convertible securities have different conversion ratios. While the paper focuses on convertible securities for expositional purposes, our analysis is potentially relevant for understanding a broader class of hybrid securities as well as executive compensation contracts.

Rousseauian contracts: Credit-like characteristics of private-information contracts in continuous time
Presenter: Bart Taub, Adam Smith Business School, University of Glasgow
Discussant: Sergei Izmalkov, New Economic School

In a dynamic setting with many agents who have stochastically fluctuating endowments, mutual consumption insurance should be possible. If productivity shocks are unobservable, any mutual insurance contract must depend on the reports of the agents. I establish that the resulting incentive-compatible contract is essentially the same as a credit equilibrium by reconciling the inverse Euler condition that is a central feature of dynamic contract models with the conventional Euler condition that appears in dynamic portfolio models. This equivalence enables me to motivate credit constraints using contract theory considerations.

18.15 COFFEE BREAK

18.30 SESSION 5
"HIGH-FREQUENCY TRADING"
Chair: Alex Boulatov, ICEF, Higher School of Economics

High-Frequency Trading around Large Institutional Orders
Presenter: Albert J. Menkveld, VU University Amsterdam and Tinbergen Institute (co-author: Vincent Van Kervel, Pontifical Catholic University of Chile and Tilburg Law and Economics Center (TILEC), Tilburg University)
Discussant: Anna Obizhaeva, New Economic School

Liquidity suppliers lean against the wind. We analyze whether high-frequency traders (HFTs) lean against large institutional orders that execute through a series of child orders. The alternative is that HFTs go "with the wind" and trade in the same direction. We find that HFTs lean against the order in the first hour, but turn around and trade with the order in the case of multi-hour executions. This pattern could explain why institutional trading cost is 39% lower when HFTs lean against the order (by one standard deviation), but are 64% higher when they go with it.

19.15 RECEPTION

SATURDAY, NOVEMBER 7

10.30 SESSION 6
"ASSET PRICING"
Chair: Patrick Kelly, New Economic School

Belief Dispersion in the Stock Market
Presenter: Suleyman Basak, London Business School (co-author: Adem Atmaz, Krannert School of Management, Purdue University)
Discussant: Bart Taub, Adam Smith Business School, University of Glasgow

We develop a dynamic model of belief dispersion which simultaneously explains the empirical regularities in a stock price, its mean return, volatility, and trading volume. Our model with a continuum of (possibly Bayesian) investors differing in beliefs is tractable and delivers exact closed-form solutions. Our model has the following implications. We find that the stock price is convex in cash-flow news, and it increases in belief dispersion while its mean return decreases when the view on the stock is optimistic, and vice versa when pessimistic. We also show that the presence of belief dispersion generates excess stock volatility, non-trivial trading volume, and a positive relation between these two quantities. Moreover, we find that the investors' Bayesian learning induces less excess volatility when belief dispersion is higher. Furthermore, we demonstrate that the more familiar, otherwise identical, finitely-many-investor models of heterogeneous beliefs do not necessarily generate our main results.

The Consumption Risk of Bonds and Stocks
Presenter: Svetlana Bryzgalova, Stanford Graduate School of Business, Stanford University (co-author: Christian Julliard, London School of Economics)
Discussant: Tarun Ramadorai, Saïd Business School and Oxford-Man Institute of Quantitative Finance, University of Oxford

Aggregate consumption growth reacts slowly, but significantly, to bond and stock return innovations. As a consequence, slow consumption adjustment (SCA) risk, measured by the reaction of consumption growth cumulated over many quarters following a return, can explain most of the cross-sectional variation of expected bond and stock returns. Moreover, SCA shocks explain about a quarter of the time series variation of consumption growth, a large part of the time series variation of stock returns, and a significant (but small) fraction of the time series variation of bond returns, and have substantial predictive power for future consumption growth.

11.30 COFFEE BREAK

12.00 SESSION 7
"CORPORATE FINANCE 3"

Chair: Christian Julliard, London School of Economics

Skewing the odds: Taking risks for rank-based rewards
Presenter: Thomas Noe, Saïd Business School and Balliol College, University of Oxford (co-author: Dawei Fang, Department of Economics, University of Gothenburg)
Discussant: Emiliano Catonini, ICEF, Higher School of Economics

How do prize structures affect contestant risk-taking strategies in contests? We address this question using a model where, subject only to a capacity constraint on mean performance, an arbitrary number of contestants compete for rank-based prizes through choosing random performance levels. Based on the closed-form solution of the unique equilibrium, we examine the relation between the prize structure and the shape of the equilibrium performance distribution, including (a)symmetry, modality, and tail behavior, and study the factors that affect performance dispersion and skewness. Increasing real gain inequality, adding contestants, and merging contests all make performance more dispersed but not necessarily more right-skewed. In contrast, convexifying prize schedule increases both performance dispersion and right-skewness, implying that the common heuristics for rank-based prize allocations used in economics, such as the power law and Gibrat's law, always imply highly dispersed and right-skewed contestant performance.

Strategic Leverage and Employees' Rights in Bankruptcy
Presenter: Andrew Ellul, Kelley School of Business, Indiana University, CSEF, ECGI and CEPR (co-author: Marco Pagano, University of Naples Federico II, CSEF, EIEF, ECGI and CEPR)
Discussant: Olga Kuzmina, New Economic School

The seniority of employees' claims in the liquidation of insolvent firms, and their rights in the renegotiation of their debt varies greatly across countries. Using a simple model of strategic leverage, we show that the balance between these rights of employees and those of other creditors affects the strategic value of debt: in equilibrium, stronger employees' seniority rights in bankruptcy liquidation increases firm leverage, unless bankruptcy costs are very high or the workers' claim are senior to all other debt. Moreover, employees' seniority invariably increases the positive response of leverage to increases in the value of its assets and in its cash flow. Conversely, stronger employees' rights in the renegotiation of corporate debt are predicted to decrease firm leverage. These predictions differ starkly from those obtaining if firms' leverage is determined by a collateral constraint. To test them, we construct novel measures of employees' protection in bankruptcy via questionnaires to law firms and other sources, and investigate whether these measures affect the response of firm leverage in a sample of 12,445 companies in 28 countries between 1988 and 2013. We find that increases in the value of these firms' real estate is associated with a greater increase in leverage for companies located in countries where employees have stronger seniority in company liquidation and weaker rights in debt renegotiation, as predicted by the strategic leverage model. For a subsample of 928 mining and oil companies, we find a similar differential response of leverage to profitability shocks resulting from changes in the prices of the commodities produced by these companies.

13.30 LUNCH

Suleyman Basak

London Business School

Suleyman Basak is Professor of Finance at London Business School. He received a PhD from Carnegie Mellon University. His research interests are Asset Pricing, Asset Allocation, Risk Management, Market Imperfections, International Finance and Financial Innovation. Suleyman has published in Review of Financial Studies, Journal of Financial Economics, American Economic Review and Journal of Finance.

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Alexey Boulatov is a Full Professor at the International College of Economics and Finance at the Higher School of Economics and a Research Fellow at the International Laboratory of Financial Economics. He holds a PhD in Physics from City College in New York and a PhD in Finance from the University of California, Berkeley. His main areas of interest are Micro-based analysis in Asset Pricing, Market Microstructure, Computational Finance, and Informational Economics. Alexey Boulatov has published in the Journal of Banking and Finance, Review of Economic Studies, Review of Financial Studies, Economic Theory, and Journal of Risk and Insurance.

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Svetlana Bryzgalova is an Assistant Professor of Finance at the Stanford Graduate School of Business. She holds a PhD in Economics from London School of Economics. Her research interests span Asset Pricing, Financial Markets, Financial Econometrics, Macroeconomics.

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Andrew Ellul is Professor of Finance and Fred T. Greene Distinguished Scholar at Kelley School of Business, Indiana University. He completed his PhD at London School of Economics. Andrew Ellul's main areas of interest are Institutional Investors, Market Microstructure, Ownership Structures and Governance, Family Firms, and Labor and Finance. His research has been published in the Journal of Finance, Journal of Financial Economics, Review of Financial Studies, Journal of Financial and Quantitative Analysis, and the American Economic Review among others.

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Sergey Gelman is an Assistant Professor at the International College of Economics and Finance of the Higher School of Economics and Research Fellow at the International Laboratory in Financial Economics. He holds a PhD in Economics from the University of Münster. His main research interests are stock price dynamics around takeovers, identification of structural breaks and regime switching in financial time series, pricing of derivatives in forefront of anticipated significant events, asset pricing and consumption preferences. Sergey has published in the Journal of Empirical Finance and the European Review of Economic History.

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Christian Julliard is an Associate Professor of Finance and a Senior Research Associate of the Financial Market Group (FMG) at the London School of Economics. He is also a Research Affiliate of the International Macroeconomics and Financial Economics programmes of the Centre for Economic Policy Research (CEPR) and the Academic Director of the International Laboratory of Financial Economics at ICEF, Higher School of Economics. He was awarded a PhD by the Department of Economics at Princeton University. His research interests span Macroeconomics, Finance, and the frontier of Applied Econometrics. His research has been published in the Journal of Political Economy and the Review of Financial Studies.

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Patrick Kelly is an Associate Professor of Finance and Chair of the Finance Department at the New Economic School and an Associated Research Fellow at the International Laboratory of Financial Economics. He has a PhD in Finance from the W. P. Carey School of Business, Arizona State University. His research interests span Market Efficiency, Investments, International Investments and Empirical Asset Pricing. Patrick has published in the Review of Financial Studies, Journal of Banking and Finance and Quarterly Journal of Finance.

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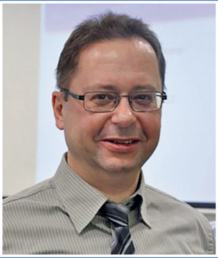

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Maxim Nikitin is Professor and MSc Programme Academic Supervisor at the International College of Economics and Finance of the Higher School of Economics. He obtained his PhD from University of Pittsburgh. Professor Nikitin's research focuses on Macroeconomics and Law and Economics. Maxim has published in Research Handbook on Economic Models of Law, Canadian Journal of Economics, Journal of Institutional and Theoretical Economics, Journal of Comparative Economics, and Journal of Law, Economics, and Organization.

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Thomas Noe is the Ernest Butten Professor of Management Studies at Saïd Business School. He holds a PhD from the University of Texas at Austin. Thomas' main areas of research fall within Corporate Finance and Corporate Governance focusing on developing and experimentally validating rational choice models of financing, investment, governance, and management compensation. His research appeared in journals such as the American Economic Review, Journal of Finance, Journal of Financial Economics, Review of Economic Studies, and Review of Financial Studies. Currently, he is a co-editor of the Journal of Economics and Management Strategy.

Anna Obizhaeva

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Anna Obizhaeva is an Assistant Professor at the New Economic School. She received her PhD in Finance at the Massachusetts Institute of Technology. Anna Obizhaeva's research focuses on market microstructure, including topics such as market liquidity, transaction costs, information dissemination, price volatility, price manipulation, and optimal execution strategies. Anna has published in the Journal of Financial Markets and Computational Mathematics and Modeling. She has also won the prestigious Roger F. Murray Q-Group Prize (first place) for her work on market microstructure invariance.

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Bart Taub is a Professor in Finance (Economics) at the Adam Smith Business School of the University of Glasgow. He holds a PhD from the University of Chicago. Bart Taub studies dynamic models in which information and commitment play a role. He currently is applying these ideas to models of stock markets, international lending and corporate mergers. Main research interests of Bart Taub are Dynamic Models of Market Microstructure, Industrial Organization, Monetary Theory, Economic Development, Contract Theory. Bart Taub has published in the Journal of Economic Theory, the Journal of Financial Markets, Economic Theory, Economic Inquiry, the Journal of Finance, the Journal of Macroeconomics, the Review of Economic Design, Finance and Stochastics, and the Annals of Finance.

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Dimitrios Tsomocos is a Reader in Finance at the Saïd Business School and Fellow in Management at St. Edmund Hall at the Oxford University. He is also a Senior Research Associate at the Financial Markets Group at the London School of Economics. He holds a Ph.D. from Yale University. Dimitrios Tsomocos' current research focuses on banking and regulation, incomplete asset markets, systemic risk, financial instability and issues of new financial architecture. Dimitrios Tsomocos has published among others in the Journal of Financial Stability, Economic Theory, International Game Theory Review, Journal of Mathematical Economics, Journal of World Economics Review, Greek Economic Review, Journal of Economic, International Journal of Central Banking, Annals of Finance.

М И Э Ф

The International College of Economics and Finance (ICEF) of the National Research University Higher School of Economics is a unique college that was established in 1997 thanks to the combined efforts of the London School of Economics and Political Science (LSE), one of the world's leading centers of education and scientific research in economics, and the National Research University Higher School of Economics (HSE).

The main aim of establishing ICEF within the HSE was to create an internationally recognized center of scientific research and education in the field of economics (Internationally recognized Centre of Excellence).

The mission of ICEF is to provide students in Russia with access to cutting edge economic education, which is compatible to the education at the leading universities of the world.

Today, ICEF offers, in academic cooperation with the LSE, a double degree Bachelor's program and an international Master's programme in Financial Economics, which are unique in Russia and Eastern Europe.

The extraordinary quality of education at ICEF is achieved due to the highly qualified team of teachers, whose qualifications meet best international standards. ICEF faculty includes 17 full-time academics employed from the international labor market, visiting professors from the LSE and Oxford, the best HSE teachers, business experts that conduct special courses and master classes at ICEF.

All ICEF faculty members conduct academic research, the results of which are presented at international and Russian conferences (including the Society World Congress, American Economic Association Annual Meetings, European Finance Association Annual Meetings, World Finance Conference, Royal Economic Society Annual Conferences and many others) and published in international journals such as Journal of Banking and Finance, Journal of Economic Behavior and Organization, Journal of Empirical Finance, International Journal of Industrial Organization, Journal of Comparative Economics, and others.

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