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Social Preferences and Corporate Investment
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Irish Academy of Finance Annual Conference
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Outline
Motivation
Social Preferences
The Model
Preferences and production technologies
Firm valuation and investor's portfolio choice problem
Competitive Market Equilibrium
Empirical Analysis
Bivariate correlation between dividends and innovations in social preferences
Bivariate correlation between dividends and innovations in social preferences
Conclusion

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Insurance Firm Regulations
QUEEN'S UNIVERSITY BELFAST
• Regulation initially focused on disclosure by requiring publication of financial statements (1870, and 1909)
• Also had to deposit £20,000 capital with Paymaster General (1870), then have capital of £50,000 (1946), followed by increased capital requirements (1967) and supervision (1973)
• Government guarantee of 90% of value of policies (Policyholders Protection Act, 1975)

Aims
• To investigate persistence in alpha-performance of UK MFs
– Can we find positive net-alphas to investors (without too much data mining)
– How sensitive are results to the "size" of persistence portfolios (deciles versus "small" portfolios of MFs)
– (400 funds in the average month → decile contains 40 funds!)
– How sensitive are results to alternative factor models
– How robust are results to alternative time periods
– Take care with non-normality (bootstrap)

Data: Monetary Policy Announcements
Announcements from the Federal Reserve, European Central Bank, and People's Bank of China
Compiled by the Bank for International Settlements between January 2020 until December 2021
188 announcements in total across the three regions and 6 categories
Category of Event | Category of Event | Number of Events
Total Number of Events: | 188
Monetary Policy Announcement | Lending Operations | 58
Interest Rates | 44
Asset Purchases | 38
Foreign Exchange | 39
Reserve
3
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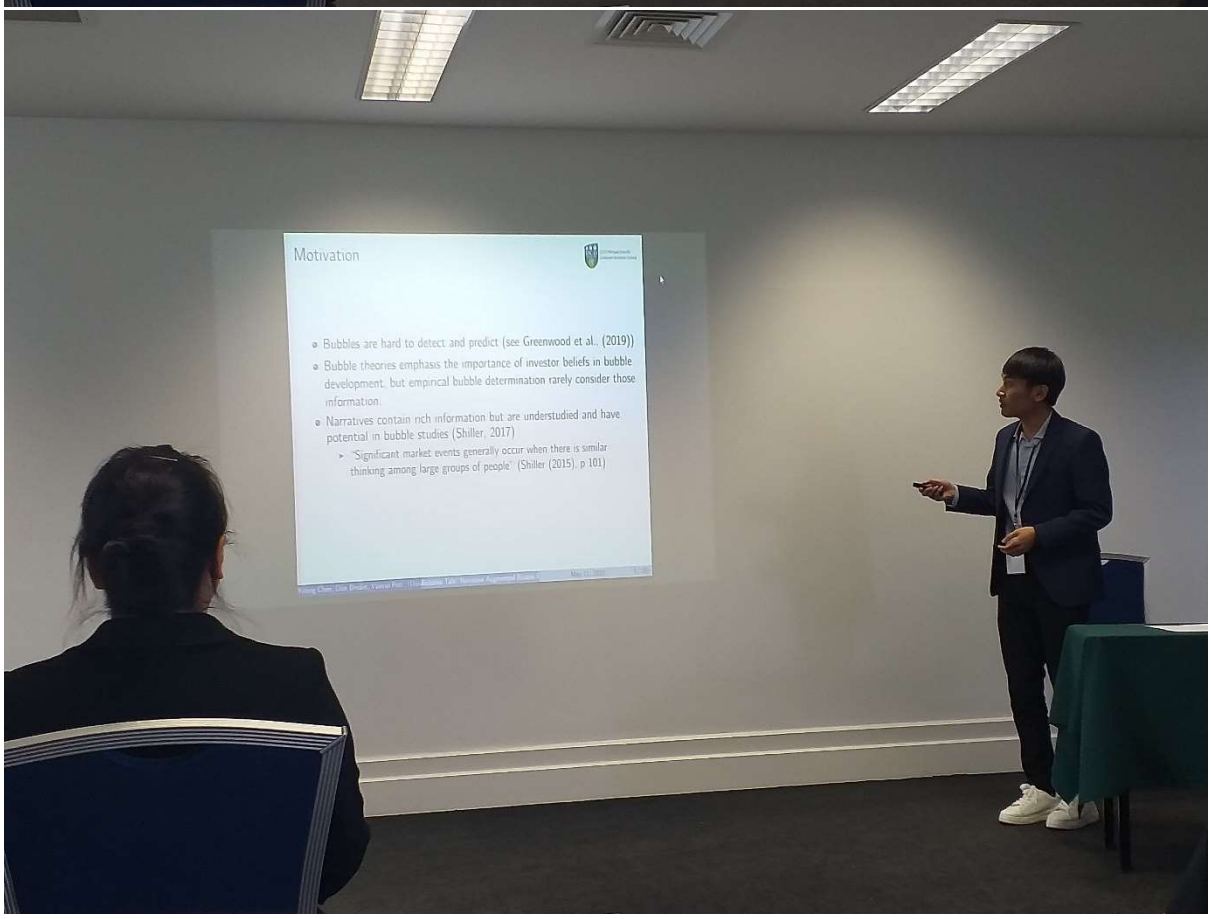
COMMENTS FOR THE IMPROV
An aspect that requires further clarification in this st
exclusively selecting large-cap banking stocks from e
To consider incorporating additional relevant literatu
performance during crises, rather than dedicating a s
to Monetary Policy and Event-Study Analysis in Finan
To enhance the robustness of the study, it is suggeste
incorporating additional short event windows as a m
robustness check. While the selection of a 5-day even
on event-driven trading and the pre- and post-annou
the literature, employing alternative event window le
insights into the dynamics of the relationship betwee
announcements and stock market reactions.

Motivation
Bubbles are hard to detect and predict (see Greenwood et al., (2019))
Bubble theories emphasis the importance of investor beliefs in bubble development, but empirical bubble determination rarely consider those information
Narratives contain rich information but are understudied and have potential in bubble studies (Shiller, 2017)
"Significant market events generally occur when there is similar thinking among large groups of people" (Shiller (2015), p.101)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Regime-dependent local projections
Linear projections can be easily adjusted to take account of regime dependence, using a smooth transition function:
$F(z_t) = \frac{e^{(-\gamma z_t)}}{1+e^{(-\gamma z_t)}}$
z_t is normalised
Baseline γ is set equal to 6
The nonlinear local projections model then becomes:
$y_{t+h} - y_{t-1} = z_{t-1}[\alpha_h + \beta_h shock_t + \phi x_t] +$
$(1 - z_{t-1})[\alpha_h + \beta_h shock_t + \phi x_t] + u_{h,t+h}$

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Intro
1. Carry is most prevalent factor in FX-literature and it is based on the fact that currencies tend to depreciate less than what is implied by their interest rate differential (Fama, 1984).
2. It is still debated what risks carry returns compensate. One popular explanation is crash risk:
Brunnermeier et al. (2008), Farhi et al. (2009) or Burnside et al. (2011) are often cited in this context.
All of them attribute a part of the carry risk premium to crash risk and argue/measure with the use of option prices (prices of risk reversals or skewness).
Jurek (2014) however, shows that crash-hedged portfolios still have statistically significant returns and estimates only 1/3 of the carry risk premium to be crash risk compensation.

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Price pressure
Also control for overlapping recommendations. General results holds, 1% depreciation on Day 1 but less persistent.
Comparision with impact of Central Bank interventions: lower in magnitude and less persistent but still comparable.
Also consider change in PFC net trading volume in spot and forward markets. Each additional 1,000 mill on USD PFC buy (sell) in the spot (forward) market the peso depreciates (appreciates) 0.32% (0.20%).

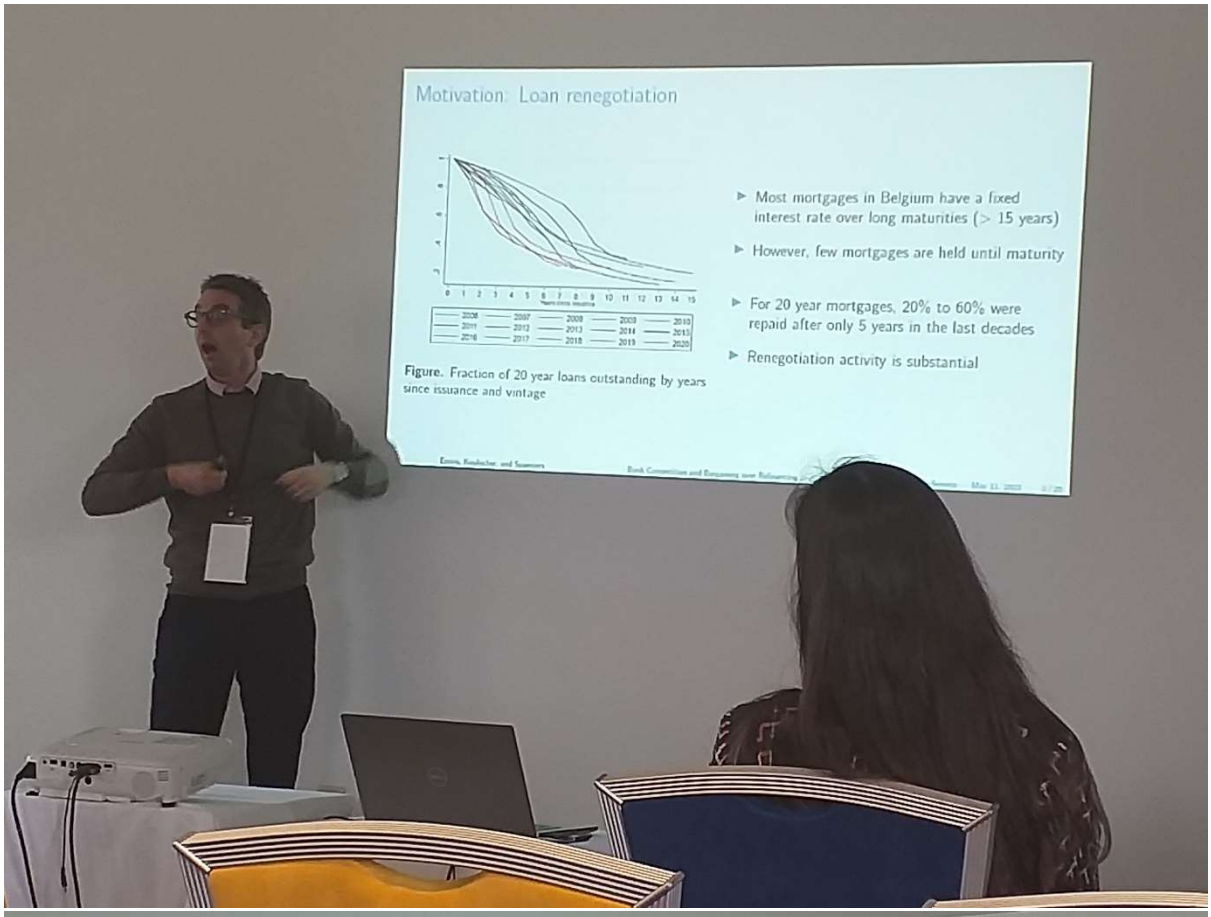
Motivation: Loan renegotiation
Most mortgages in Belgium have a fixed interest rate over long maturities (> 15 years)
However, few mortgages are held until maturity
For 20 year mortgages, 20% to 60% were repaid after only 5 years in the last decades
Renegotiation activity is substantial
Figure. Fraction of 20 year loans outstanding by years since issuance and vintage

Table 4: Bank culture and misconduct – Baseline models

Measures of housing price exposure and bank diversification
Housing exposure:
Identify the exposure of counties to housing price variation by calculating the annual change of HPI for each county.
Aggregate this county's change of HPI to the bank level by using the percentage of bank deposits in each county as weights.
This measure is specific to each bank and each year.
Alternative: in robustness test, we use the weights based on mortgage loan originations at MSA level.
Bank diversification:
Local banks: all branches locate in one state
Robustness: number of states where branches operate

Summary
Examine the sensitivity of geographically diversified and nondiversified banks' performance (ROA and ROE) to local housing prices.
Nondiversified banks experience lower ROA and ROE sensitivity to housing price than their diversified counterparts.
Bydiversified banks better manage loan quality, adopt a conservative capital strategy, capture underserved market segments and achieve competitive advantages in customer satisfaction and loan pricing.
Such resilience of nondiversified banks' performance explains why they have successfully coexisted with diversified banks over the recent waves of consolidation in the banking industry.

Hypothesis Development
We are interested in
1. Estimating the probability of suffering reputational damage when there is an announcement of an investigation or a probe into an alleged misconduct
2. Investigating the determinants of reputational damage when there is an announcement by a regulator of a civil monetary penalty or a settlement as a result of their misconduct
• According, following studies that focus on the determinants of bank profitability (Demirgüc & Huizinga, 1999; Dietrich & Wanzenried, 2011; Athanasoglou et al., 2008) we are interested in looking at the entire structure of a bank and focus on bank size, riskiness, profitability, efficiency, capitalisation, leverage and cash flows

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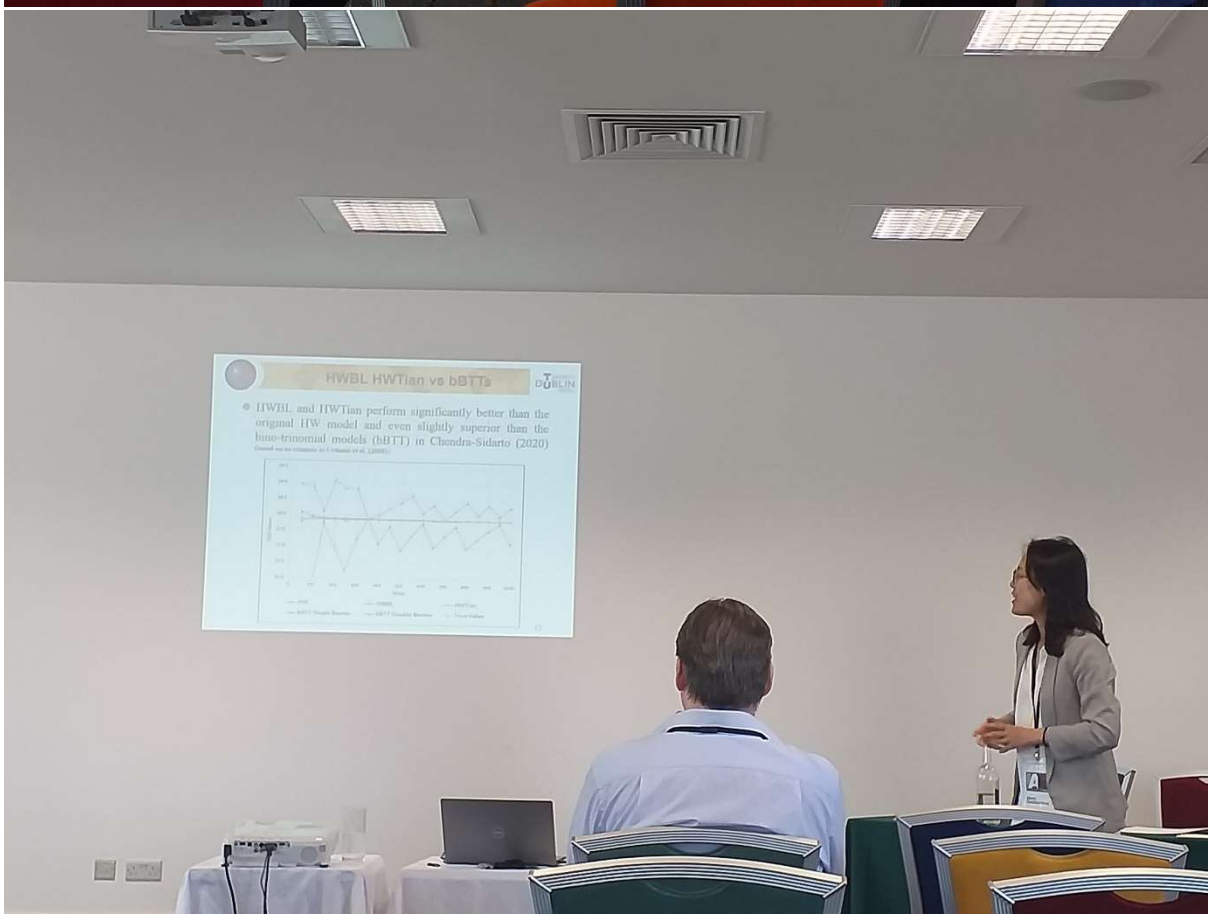
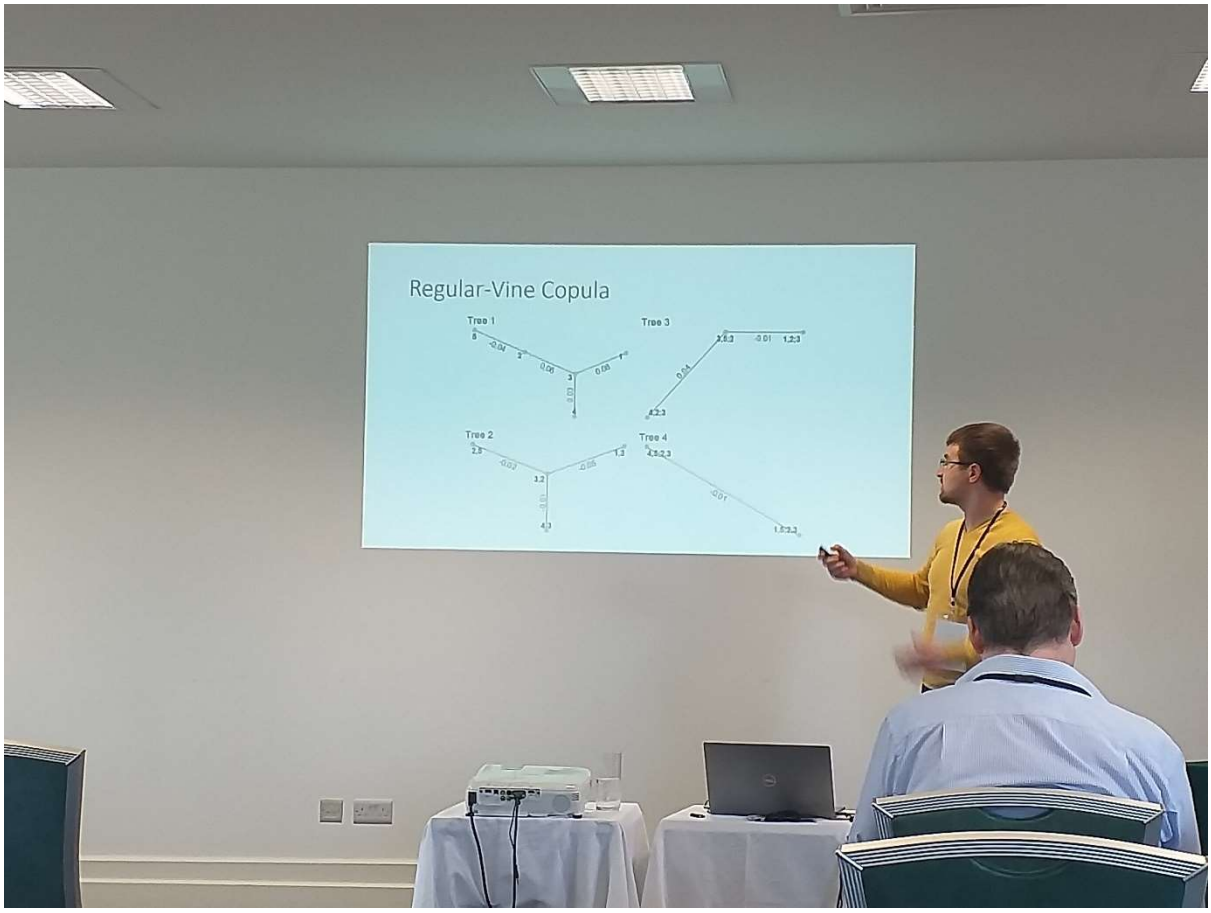
Who Contributes? New Consumers or Switchers?


HWBL HWTian vs bBTTs
HWBL and HWTian perform significantly better than the original HW model and even slightly superior than the bino-trinomial models (bBTT) in Chendra-Sidarto (2020)


Regular-Vine Copula
Tree 1
Tree 2
Tree 3
Tree 4

Sustainable Finance Regulation: SFDR

Comments and Feedback