Paris Finance International Meeting
19 & 20 December 2005

5 Avenue Kléber
75016 Paris
France

INSTITUT CDC
POUR LA RECHERCHE

Association Française de Finance

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Claude LAURIN (HEC Montréal)
Eduardo SCHIEHLL (HEC Montréal)
Claude FRANCOEUR (HEC Montréal)
Samir TRABELSI (Brock University)

Monday, the 19th of December

9 h 00

Registration

9 h 30

Room A

Session I-1 : Microstructure 1

Session chair :
J.F. GAJEWSKI
(IRG - University of Paris 12 Val-de-Marne)

Liquidity Formation and Preopening Periods in Financial Markets
Magueye DIA *(World Bank)*
Sébastien POUGET *(University of Toulouse – CRG)*
Discussant : A. CELLIER *(IRG - University of Paris 12 Val-de-Marne)*

Inside Volume and Liquidity
Arvind KRISHNAMURTHY *(Northwestern University)*
Ronnie SADKA *(University of Washington)*
Discussant : S. POUGET *(University of Toulouse – CRG)*

The Economic and Statistical Value of the Predictive Ability of Overnight Information
Ilias TSIAKAS *(Warwick Business School)*
Discussant : S. MOINAS *(ESC Toulouse)*

Room B

Session I-2 : Banking

Session chair :
R. GILLET
(University of Paris 1 Panthéon-Sorbonne)

Credit Risk Management in Banks : Hard Information, Soft Information and Manipulation
Brigitte GODBILLON-CAMUS *(Robert Schuman University of Strasbourg)*
Christophe GODLEWSKI *(Robert Schuman University)*
Discussant : S. VAN DEN HEUVEL *(University of Pennsylvania)*

The Welfare Cost of Bank Capital Requirements
Skander VAN DEN HEUVEL *(University of Pennsylvania)*
Discussant : C. GODLEWSKI *(Robert Schuman University)*

11 h 00

Coffee break

11 h 30

Room A

Session II-1 : IPOs

Session chair :
P. SENTIS *(University of Montpellier)*

Why Don't IPO Firms Disclose a Reservation Price?
Neil BRISLEY *(University of Western Ontario)*
Walid BUSABA (*University of Western Ontario)*
Discussant : P. SENTIS *(University of Montpellier 1)*

The Initial Public Offerings of Listed Firms
François DERRIEN *(University of Toronto)*
Ambrus KECSKÉS *(University of Toronto)*
Discussant : N. BRISLEY *(University of Western Ontario)*

Who Provides a Certification Effect? Evidence from IPO on the JASDAQ, MOTHER and HERCULES
Yasuhiro ARIKAWA *(Waseda University)*
Gaël IMAD'EDDINE *(University of Lille 2)*
Discussant : F. DERRIEN *(University of Toronto)*

Room B

Session II-2 : Portfolio Management 1

Session chair :
D. ISAKOV *(University of Fribourg - FAME)*

Do Families Matter in Institutional Money Management Industry
The Case of New Portfolio Openings
Janis BERZINS *(Indiana University)*
Discussant :

Optimal Portfolios when Volatility can Jump
Nicole BRANGER *(Goethe University)*
Christian SCHLAG *(Goethe University)*
Eva SCHNEIDER *(Goethe University)*
Discussant :

The Performance of Investment Grade Corporate Bond - Funds: Evidence from the European Market
Leif Holger DIETZE *(Catholic University of Eichstaett-Ingolstadt)*
Oliver ENTROP *(Catholic University of Eichstaett-Ingolstadt)*
Marco WILKENS*(Catholic University of Eichstaett-Ingolstadt and Australian Graduate School of Management)*
Discussant : G. SAN FILIPPO (EUROFIDAI)

13 h 00

Lunch

14 h 30

Room A

Session III-1 : International Finance

Session chair :
P. FONTAINE *(EUROFIDAI)*

Day-of-the-week in Returns and Conditional Volatility: A Fact or A Fiction? Evidence from Spot CAD/USD Foreign Exchange Rates
Samir SAADI *(University of Ottawa)*
Abdul RAHMAN *(University of Ottawa)*
Discussant : L. DE MOOR *(KU Leuven)*

Hedging Currency Risk: a Regret-Theoretic Approach
Sébastien MICHENAUD *(HEC Paris)*
Bruno SOLNIK *(HEC Paris)*
Discussant : P. MADIES *(CERAG – University of Grenoble 2)*

Country and Sector Effects in International Stock Returns Revisited
Lieven DE MOOR *(KU Leuven)*
Piet SERCU *(KU Leuven)*
Discussant : B. SOLNIK *(HEC Paris)*

Room B

Session III-2 : Corporate Finance 1

Session chair :
P. ANDRÉ *(University of Edinburgh)*

Financial Distress, Lender Passivity and Project Finance : The Case Of Eurotunnel
Laurent VILANOVA *(University of Toulouse)*
Discussant : J.L. PEYDRÓ-ALCALDE *(European Central Bank)*

A Market-Based Framework for Bankruptcy Prediction
Alexander REISZ *(Office of the Controller of the Currency)*
Claudia PERLICH-REISZ *(IBM T. J. Watson Research Center)*
Discussant : D. DUPRE (CERAG – University of Grenoble 2)

The Impact of a Large Creditor and its Capital Structure on the Financial Distress of its Borrower
José Luis PEYDRÓ-ALCALDE *(European Central Bank)*
Discussant : T. FRANCK *(Catholic University of Leuven)*

16 h 00

Coffee break

16 h 30

Room A

Session IV-1 : Corporate Finance 2

Session chair :
E. GINGLINGER *(University of Paris Dauphine)*

Ownership Structure and Board Characteristics as Determinants of CEO Turnover in French-Listed Companies
Bang NGUYEN-DANG (HEC Paris)
Discussant : M. MEOLI *(Bergamo University and Cass Business School)*

**'Running in the Family'
The Evolution of Ownership, Control, and Performance in German Family-owned Firms 1903-2003**
Olaf EHRHARDT *(Humboldt University of Berlin and University of Witten/Herdecke)*
Eric NOWAK *(University of Lugano)*
Felix-Michael WEBER *(University of Witten/Herdecke)*
Discussant : B. NGUYEN-DANG *(HEC Paris)*

When Controlling Shareholders "Live Like Kings": The Case of Telecom Italia
Michele MEOLI *(Bergamo University and Cass Business School)*
Stefano PALEARI *(Bergamo University)*
Giovanni URGA *(Cass Business School)*
Discussant : G. CHEMLA *(University of Paris Dauphine)*

Room B

Session IV-2 :Financial Markets 1

Session chair :
A. DOFFOU *(Sacred Heart University)*

Optimal Dynamic Hedging In Incomplete Commodity Futures Markets
Constantin MELLIOS *(University of Cergy-Pontoise)*
Pierre SIX *(University of Paris 1 Panthéon-Sorbonne)*
Discussant : E. SCHNEIDER *(Goethe University)*

Stochastic Interest Rates and Short Maturity Options
Ako DOFFOU *(Sacred Heart University)*
Discussant : P. SIX *(University of Paris 1 Panthéon-Sorbonne)*

**Demutualization, Outsider Ownership and Stock
Exchange Performance - Empirical Evidence**
Baris SERIFSOY *(Goethe University)*
Discussant : A. DOFFOU *(Sacred Heart University)*

18 h 00

Cocktail

Awards of the best papers published in FRENCH academic journals
"Finance" and "Banque et Marchés"

Tuesday, the 20th of December

9 h 30

Room A

Session V-1 : Corporate Finance 3

Session chair :
F. DERRIEN *(University of Toronto)*

Retail Financial Distress Prediction Using Credit Scoring Techniques
Yu-Chiang HU *(University of Edinburgh)*
Jake ANSELL *(University of Edinburgh)*
Discussant : D. ISAKOV *(University of Fribourg and FAME)*

Non-Financial Stakeholder Relationship Costs as Determinant of Capital Structure: Evidence from First-Time Business Start-Ups
Tom FRANCK *(Catholic University of Leuven)*
Nancy HUYGHEBAERT *(Catholic University of Leuven)*
Discussant : B. SERIFSOY *(Goethe University)*

Repurchasing Shares on a Second Trading Line
Dennis Y. CHUNG *(Simon Fraser University)*
Dušan ISAKOV *(University of Fribourg and FAME)*
Christophe PÉRIGNON *(Simon Fraser University)*
Discussant : Y.C. HU *(University of Edinburgh)*

Room B

Session V-2 : Portfolio Management 2

Session chair :
P. CHOLLET *(University of Aix-Marseille)*

Time Diversification in Pension Savings
Anders KARLSSON *(Stockholm University)*
Discussant : K. MAES *(CES, Catholic University of Leuven and National Bank of Belgium)*

Performance of Canadian Fixed-Income Mutual Funds
Mohamed AYADI *(Brock University)*
Lawrence KRYZANOWSKI *(Concordia University)*
Discussant : A. KARLSSON *(Stockholm University)*

Valuation and Risk Management of Demand Deposits: An Application to Belgian Savings Deposits
Hans DEWACHTER *(Catholic University of Leuven and Erasmus University Rotterdam)*
Marco LYRIO *(Catholic University of Leuven)*
Konstantijn MAES *(CES, Catholic University of Leuven and National Bank of Belgium)*
Discussant : O. ENTROP *(Catholic University of Eichstaett-Ingolstadt)*

11 h 00

Coffee break

11 h 30

Room A

Session VI-1 : Microstructure 2

Session chair :
E. CHALLE *(University of Paris Dauphine)*

Decomposing Volume for VWAP Strategies
Jedrzej BIALKOWSKI *(Auckland University of Technology)*
Serge DAROLLES *(Société Générale Asset Management AI and CREST)*
Gaëlle LE FOL *(University of Angers, CREST and Europlace Institute of Finance)*
Discussant :

Competition for Order Flow and Smart Order Routing Systems
Thierry FOUCAULT *(HEC Paris)*
Albert MENKVELD *(Vrije Universiteit Amsterdam)*
Discussant : I. TSIAKAS (Warwick Business School)

Measuring Private Information: A Rational Expectations Equilibrium Framework
Sonia JIMENEZ-GARCES *(INPG and CERAG)*
PHD Prize AFFI-FNEGE 2005
Discussant : E. CHALLE *(University of Paris Dauphine)*

Room B

Session VI-2 : Mergers and Acquisitions

Session chair :
U. HEGE *(HEC Paris)*

Why Do Managers Make Serial Acquisitions? An Investigation of Performance Predictability in Serial Acquisitions
Ettore CROCI *(University of Lugano)*
Discussant : S. EL GHOUL (*Laval University)*

CEO Turnover in the UK Following Recent Domestic and Cross-Border Deals
Jingjing HAN *(University of Edinburgh)*
Jonathan CROOK *(University of Edinburgh)*
Paul ANDRÉ *(University of Edinburgh)*
Discussant : V. BESSIERE *(University of Montpellier)*

The Bright and Dark Side Of Business Groups: Evidence From Mergers and Acquisitions
Sadok EL GHOUL (*Laval University)*
Klaus FISCHER *(Laval University)*
Discussant : U. HEGE *(HEC Paris)*

13 h 00

Lunch

14 h 30

Room A

Session VII-1 : Corporate Finance 4

Session chair :
G. CHEMLA *(University of Paris Dauphine)*

History versus Geography: The Role of College Interaction in Portfolio Choice and Stock Market Prices
Massimo MASSA *(INSEAD and CEPR)*
Andrei SIMONOV *(Stockholm School of Economics)*
Discussant : P. CHOLLET *(University of Aix-Marseille)*

Professional Reputation, Cash and Transition to Entrepreneurial Activity
Frédéric LOSS *(CNAM)*
Antoine RENUCCI *(University of Paris Dauphine)*
Discussant : L. VILANOVA *(University of Toulouse)*

Investment Reputation Index: Family Firms vs. Nonfamily Firms in the uk
Suranjita MUKHERJEE *(ICMA Centre, University of Reading)*
Carol PADGETT *(ICMA Centre an University of Reading)*
Discussant : J. BERZINS *(Indiana University)*

Room B

Session VII-2 : Financial Markets 2

Session chair :
T. FOUCAULT *(HEC Paris)*

Capital Market Equilibrium: The Mean-Gini Approach
Haim SHALIT *(Ben-Gurion University of the Negev)*
Shlomo YITZHAKI *(the Hebrew University)*
Discussant : S. JIMENEZ-GARCES *(INPG and CERAG)*

Are Bull and Bear Markets Economically Important?
Jun TU *(Singapore Management University)*
Discussant : A. KIND *(Swiss Institute of Banking and Finance, University of St. Gallen)*

Risk Shifting, Bubbles, and Self-fulfilling Crises
Edouard CHALLE *(University of Paris Dauphine)*
Xavier RAGOT *(CNRS and Paris Sciences Economiques)*
Discussant :

16 h 00

Coffee break

16 h 30

Room A

Session VIII-1 : Corporate Finance 5

Session chair :
V. BESSIERE *(University of Montpellier)*

Equity and Cash in Intercorporate Asset Sales: Theory and Evidence
Ulrich HEGE *(HEC Paris)*
Stefano LOVO *(HEC Paris)*
Myron SLOVIN *(Louisiana State University and HEC)*
Marie SUSHKA *(Arizona State University and HEC)*
Discussant : E. CROCI *(University of Lugano)*

Competition, Human Capital and Innovation Incentives
Paolo FULGHIERI *(University of North Carolina)*
Merih SEVILIR *(University of North Carolina)*
Discussant : A. RENUCCI *(University of Paris Dauphine)*

Earnings Estimates and Market Reactions « Anchoring » As a Potential Explanation for Two Underreaction Phenomena
Michael KAESTNER *(University of Montpellier)*
PHD Prize AFFI-EURONEXT 2005
Discussant : G. IMAD'EDDINE *(University of Lille 2)*

Room B

Session VIII-2 : Financial Markets 3

Session chair :
F. QUITTARD-PINON
(ISFA – Laboratory SAF - Lyon 1)

The Determinants of Default Correlations
Kanak PATEL *(University of Cambridge)*
Ricardo PEREIRA *(University of Cambridge)*
Discussant : A. SIMONOV *(Stockholm School of Economics)*

International Stock-Bond Correlations in a Simple Affine Asset Pricing Model
Stefano D'ADDONA *(Graduate School of Business, Columbia University and University of Rome III)*
Axel KIND *(Swiss Institute of Banking and Finance, University of St. Gallen)*
Discussant : A.L. CHUN *(Stanford University)*

Expectations, Bond Yields and Monetary Policy
Albert Lee CHUN *(Stanford University)*
Discussant : S. SAADI (*University of Ottowa)*

Abstracts

ANDRE Paul - University of Edinburgh
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HAN Jingjing - University of Edinburgh
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CEO Turnover in the UK Following Recent Domestic and Cross-Border Deals

Beyond being the most important M&As waves in history, recent M&As are characterized by many interesting features such as the large cross-border takeovers, the use of equity as opposed to debt as in the 1980s and a preference for friendly, strategically motivated deals instead of hostile financially motivated deals. Another distinctive feature of recent years is the increased focus on improving internal corporate governance mechanisms in order to maximise firm value. We look at the interaction between target CEO turnover in the UK takeover market, pre-takeover performance and suggested internal corporate governance mechanisms. We also distinguish between domestic and cross-border deals. Using both accounting and market-based performance measures, we find no significant negative relation between the probability of post-takeover CEO turnover and pre-takeover performance in the full samples. However, it is statistically and weakly significant in domestic takeovers. There is some evidence to point that better governance such as greater block holder ownership and a greater proportion of non executive lower the probability of CEO turnover in domestic deals. The results are similar to findings by Kini et al. (2004) suggesting that takeovers play less of a disciplinary role in the more recent M&A wave and act as a court of last resort when other governance mechanisms are weak. We do find a very strong and negative relationship between cross-border deals and CEO turnover. The local CEO's experience and knowledge of the business and of the environment appear to be valuable to foreign acquirers.

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Measuring Retail Company Performance Using Credit Scoring Techniques

This paper proposes a theoretical framework for predicting financial distress based on Hunt's (2000) Resource-Advantage Theory of Competition. The study focuses on the US retail market. Five credit scoring methodologies: Naïve Bayes, Logistic Regression, Recursive Partitioning, Artificial Neural Network, and Sequential Minimal Optimization (SMO), are used on a sample of 195 healthy companies and 51 distressed firms over five time periods from 1994 to 2002. Analyses provide sufficient evidence that the five credit scoring methodologies have sound classification ability in the time period of one year before financial distress. Moreover, the methodologies remain sound even five years prior to financial distress with classification accuracy rates above 80% and AUROC values above 0.80. However, it is difficult to conclude that which modelling methodology has the absolute best classification utility, since the model's performance varies in terms of different time scales and different variable groups. This paper also shows external environment influences exist based on all five credit scoring models, but these influences are weak. With regards to the model applicability, a subset of the different models is compared with Moody's rankings. It is found that both SMO and logistic regression models are better than the neural network model in terms of similarity with Moody's ranking, with logistic regression model being slightly better than the SMO Model.

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Who Provide a Certification Effect? Evidence from IPO on the JASDAQ, MOTHER and HERCULES

In this paper we investigate the certification effect of Japanese Venture Capitalists adapting the methodology applied on the American VC industry by Megginson & Weiss. After reviewing the characteristics of the Japanese VC sector, we predict a low economic effect of the VC as a certifiying agent. We find no significant effect of VC shareholding coefficient on the underpricing and a significant positive effect on the gross spread. In a second step we control for VC involvement in the firm prior the IPO. And we found that when the VC invest using internal money and through the limited partnership funds under management there is a significant decrease of the underpricing.

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Performance of Canadian Fixed-Income Mutual Funds

An examination of a comprehensive and survivorship-free sample of Canadian bond funds minimizes data snooping biases arising from the repeated examination of the same (U.S.) dataset and illustrates how actively managed funds with similar institutional features performed during a contemporaneous period with potentially different active return possibilities due to a different monetary policy regime. The unconditional risk-adjusted performance of Canadian fixed-income mutual funds is negative, deteriorates with partial and full conditionings, and is sensitive to the choice of the return-generating process. A full conditional five-factor model best describes the return generating process of Canadian fixed-income funds. The use of this multifactor benchmark structure in performance evaluation lowers measured performance while confirming the superior performance of larger over smaller funds identified using the single-factor benchmark model. Performance statistics based on averages of individual fund performances improve but remain negative when the cross-correlations for funds are accounted for using the block-bootstrap method. Estimates of survivorship bias of less than 16 basis points annually are reasonably stable across performance models but differ across groupings by fund objectives.

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Window Dressing at a Family Level: the Case of Professional Money Management Families

This study investigates whether family level analysis matters in the institutional money management industry by examining new portfolio openings in a large survivorship bias free sample of institutional money management families. I examine whether low-skill families that open new portfolios are successful in attracting significant new cash flows despite poor past performance in other family funds. I find that they *are* successful in attracting significant new cash flows. I also examine the future performance of these new funds. Using time varying alphas, I find that the fund families performing below average in one year create portfolios that on average under perform for up to three subsequent years. I call this combination of results the family new fund paradox. It is a paradox, because the fund flows indicate that institutional investors are not collecting and/or using information about prior family performance that would be useful in predicting the future performance of these new funds. My findings support theoretical predictions and are robust to the known persistence among the worst performing families.

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Decomposing volume for VWAP strategies

In this paper, we present a new methodology for modelling intraday volume which allows for a significant reduction of the Volume Weighted Average Price (VWAP) orders risk. The results are obtained for the forty stocks included in CAC40 index at the beginning of September 2004. The idea of considered models is based on the decomposition of traded volume into two parts: one reflects volume changes due to market evolutions, the second describes the stock specific volume pattern. The dynamics of the specific part of volume is depicted by ARMA, and SETAR models.

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Optimal Portfolios when Volatility can Jump

We consider an asset allocation problem in a continuous-time model with stochastic volatility and (possibly correlated) jumps in both, the asset price and its volatility. First, we derive the optimal portfolio for an investor with constant relative risk aversion. One main finding is that the demand for jump risk now also includes a hedging component, which is not present in models without jumps in volatility. Second, we show in a partial equilibrium framework that the introduction of non-linear derivative contracts can have a substantial economic value. Third, we analyze the distribution of terminal wealth for an investor who uses the wrong model when making portfolio choices, either by ignoring volatility jumps or by falsely including such jumps although they are not present in the true model. In both cases the terminal wealth distribution exhibits fatter tails than under the correctly specified model, as well as significant default risk. Volatility jumps are thus an important risk factor in portfolio planning.

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Why Don't IPO Firms Disclose a Reservation Price?

A significant proportion of IPOs filed with the SEC are withdrawn during book building when it becomes clear to the issuer that they will not achieve a minimum acceptable offer price. Why don't issuers disclose this price at the outset? This question is important given that in many auction designs, including some for IPOs in other countries, a reservation price *is* formally posted, and the auction literature has shown that posting a reservation price can be optimal. We characterize the firms that would enjoy higher proceeds if their reservation price were disclosed and the firms that are better off with non-disclosure. We also identify a set of issuers that benefit most with 'partial disclosure' - the reduction in, but not elimination of, investor uncertainty surrounding a secret reserve price - a strategy that to our knowledge has not previously been admitted in the auction literature. We explain why the firms that would benefit from the disclosure of a reserve price are those least likely to file for an IPO in the first place, explaining why firms that do file are not observed to post a reservation price. Our results have implications for issuing firms and for regulators of primary equity markets where book building or economically equivalent auction mechanisms are used.

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Measuring Private Information : A Rational Expectations Equilibrium Framework

This paper investigates the amount of private information for American-listed common stocks with a measure (PIM) based on rational expectations equilibrium (REE) models. We show that private information creates a negative link between securities' returns and their own equilibrium prices. In order to exploit this correlation, we define PIM by projecting stock returns on their own price and the price of narrowly-defined industry portfolios. Our measure is simple to implement and has superior abilities to capture private information effects relative to existing REE-based measures of private information, such as the Firm-specific Risk Variation (FSRV). Consistent with REE models, we find that common stocks with higher PIM exhibit higher returns. These results are robust to asset pricing models and period specifications, and hold for industry portfolios and Fama and French (1992) portfolios sorted on size/beta as well. Our findings support REE models with asymmetrically informed investors and partially revealing prices.

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Risk Shifting, Bubbles, and Self-fulfilling Crises

This paper analyses the occurence and properties of risk shifting-driven bubbles, first introduced by Allen and Gale (EJ 2000), when aggregate lending to portfolio investors is endogenous. First, we show that changes in the composition and riskiness of investors. portfolio as total lending varies may cause the ex ante return on lending to be increasing in the amount of total lending, which creates the potential for multiple (Pareto-ranked) equilibria associated with different levels of lending and asset prices. We then embed this mechanism into a 3-period model where the low-lending equilibrium is selected with positive probability at the intermediate date. This event is associated with a self-fulfilling liquidity dry-up, a market crash and widespread failures of borrowers.

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Expectations, Bond Yields and Monetary Policy

Through explicitly incorporating analysts' forecasts as observable factors in a dynamic arbitrage-free model of the yield curve, this paper proposes a framework for studying the impact of shifts in market sentiment on interest rates of all maturities. An empirical examination reveals that survey expectations about inflation, output growth and the anticipated path of monetary policy actions contain important information for explaining movements in bond yields. Although perceptions about inflation are largely responsible for movements in long-term interest rates, an explicit slope factor is necessary to adequately capture the dynamics of the yield curve. Macroeconomic forecasts play an important role in explaining time-variation in the market prices of risk, with forecasted GDP growth playing a dominant role. The estimated coefficients from a forward-looking monetary policy rule support the assertion that the central bank preemptively reacts to inflationary expectations while suggesting patience in accommodating real output growth expectations. Models of this type may provide traders and policymakers with a new set of tools for formally assessing the reaction of bond yields to shifts in market expectations due to the arrival of news or central bank statements and announcements.

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Repurchasing Shares on a Second Trading Line

This paper studies an innovative buyback method allowing firms to reacquire shares on a separate trading line where only the firm is allowed to buy shares. This temporary trading platform is opened concurrently with the original trading line on the stock exchange. This share repurchase method is called the Second Trading Line and has been extensively used by Swiss companies since 1997. We derive the buyback participation rules for every stock market participant. Using actual repurchase data from all buybacks implemented through a second trading line, we find that managers exhibit some timing ability for the majority of programs. We also document that the daily repurchase decision is statistically associated with short-term price changes. However, we reject the strategic repurchase hypothesis that states that managers strategically use their information advantage when reacquiring shares. We also find that repurchases on the second trading line do have an important impact on the liquidity of repurchasing firms. Specifically, the repurchasing firms' trading volumes tend to be higher and bid-ask spreads tend to be smaller on repurchase days. These findings are consistent with the presence of arbitrageurs taking simultaneous positions on both market segments and new investors buying more shares in reaction to actual firm' repurchases. Since it overcomes the main deficiencies of existing repurchase methods (negative effect of information asymmetry on firms' liquidity and lack of disclosure), the second trading line method may become a standard share reacquisition mechanism.

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Why Do Managers Make Serial Acquisitions? An Investigation of Performance Predictability in Serial Acquisitions

I evaluate why managers choose to make a series of acquisitions. To investigate this question, I study 591 bidding firms that completed at least five acquisitions within a five year interval during the sample period 1990-2002. I test four potential explanations for serial acquisitions: overconfidence, superior managerial acquisition skill, managerial empire building behaviour, and that the acquisitions comprise a single plan. My tests focus on persistence in the sign of CARs around the announcements. As a group, serial bidders show no evidence of performance persistence or reversal, but successful acquirers show persistent success. My evidence is consistent with only one hypothesis: that some managers have superior acquisition skills.

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International Stock-Bond Correlations in a Simple Affine Asset Pricing Model

We use an affine asset pricing model to jointly value stocks and bonds. This enables us to derive endogenous correlations and to explain how economic fundamentals influence the correlation between stock and bond returns. The presented model is implemented for G7 postwar economies and its in-sample and out-of-sample performance is assessed by comparing the correlations generated by the model with conventional statistical measures. The affine framework developed in this paper is found to generate stock-bond correlations that are in line with empirically observed figures.

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Country and Sector Effects in International Stock Returns Revisited

We find that, despite recent reports to the contrary, even recently—the 1990-1999 period—country-specific volatilities are still larger than sector factor variances. This conclusion is robust to different test formats although the relative magnitude of the two sources of variation changes widely. One factor affecting this magnitude is the presence or absence of small-cap stocks in the sample: small-caps have an above average variability (after controlling for sector and country effects) and are also less sensitive to their global sector index than large-caps. Another factor that matters is the country coverage (especially the presence of emerging markets) and the level of sector aggregation (NACE 3 versus 4, for example). Methodology matters too. Heston and Rouwenhorst (1994) rank the world, country, and sector factors on the basis of their own variance, but this ranking may miss the ranking on the basis of stock-return variance explained if exposures are dissimilarly distributed across factors. Finding that the assumption of similar exposures is, in general, not realistic, we incorporate the distributions of the exposures, taking care to purge out the variability due to estimation error. By this metric, the magnitude by which the country factor variance is larger than the sector-specific volatility becomes unassailable. Another question is to what extent can differences in country-index volatilities be explained by differences between country's sector-mix? Or can differences in sector-index volatilities be explained by differences between sector's geographically distribution ? Our result is that country-specific effects, on average, explain more of excess sector-index volatilities than sector-specific effects can explain excess country-index volatilities, except in one case. If EMs are included than sector-specific effects can explain more of excess country volatilities than country factors can explain excess sector volatilities. Lastly, we show that there is no necessary link between the HR-methodology and international risk diversification. We argue and prove that the HR-methodology does not tell us anything about the correlations

among sectors or countries and no conclusion can be made to international risk diversification. In contrast with the robust finding that the country-specific volatility is larger than the sector factor variance, we show that diversification across sector indices can be a more effective tool for risk reduction than diversifying across country indices. Worldwide risk diversification is about covariances, not about variances and variance components only.

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The Initial Public Offerings of Listed Firms

A number of firms in the United Kingdom first list without issuing equity and then issue equity shortly thereafter. We argue that this two-stage offering strategy is less costly than an IPO because trading reduces the valuation uncertainty of these firms before they issue equity. We find that initial return is 10% to 30% lower for these firms than for comparable IPOs, and we provide evidence that the market in the firm's shares lowers financing costs. We also show that these firms time the market both when they list and when they issue equity.

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Valuation and Risk Management of Demand Deposits: An Application to Belgian Savings Deposits

How can we economically value nonmaturing deposit accounts (NMAs), i.e. deposits of which the contractual maturity is basically zero, but which, in practice, remain stable through time and are remunerated below market rates? Does the NMA economic value differ from the face value? What are the main input parameters for a reliable measurement? To what extent is the economic value sensitive to interest rate changes? How should we determine the transfer price of NMAs? In this paper, we try to answer the above questions by decomposing the nominal value of NMAs into (ii) an economic value component and (ii) a premium component, and this for a sample of Belgian bank retail savings deposits accounts. The valuation is performed on yield curve, deposit rate and deposit balance data between March 1995 and September 2004. We allow the deposit rate setting behaviour of each bank to depend on the Belgian deposit market structure and on three term structure factors that drive yield curve dynamics. We find that the deposit premium component of savings deposits is economically and statistically significant, though sensitive to bank-specific assumptions about servicing costs and especially outstanding balance decay rates. We also find that deposit premiums appreciate when market rates increase, thereby offsetting some of the value losses on the asset side. The hedging depends in particular on the average decay rate of outstanding balances.

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Liquidity Formation and Preopening Periods in Financial Markets

This paper studies the role of preopening periods in financial markets. Because no transaction occurs during these preopening periods, their economic significance could be questioned. We model a market where costly participation and asymmetric information prevent latent liquidity to be expressed. We show that introducing a preopening period enhances liquidity and welfare. At equilibrium, risk-averse insiders use the preopening period to attract latent liquidity by communicating their trading needs and/or their private information concerning asset's valuation. This communication avoids market breakdown because it induces savings on the cost of market participation, and because it reduces the adverse selection risk borne by the liquidity providers. We provide implications of our analysis for the estimation of transaction costs and for the design of financial markets.

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The Performance of Investment Grade Corporate Bond Funds: Evidence from the European Market

We examine the risk-adjusted performance of European investment grade corporate bond mutual funds. The funds are evaluated using a single-index model and several multi-index and asset-class-factor models. In order to account for the risk and return characteristics of investment grade corporate bond funds, we apply both maturity-based indices and ratingbased indices, respectively, in our multi-factor models. In line with studies focusing on government bond funds, we find evidence that the corporate bond funds, on average, underperform the benchmark portfolios. Moreover, there is not a single fund exhibiting a significant positive performance. These results are robust to the different models. Additionally, we examine the driving factors behind the funds' performance. As well as examining the influence of several fund characteristics, specifically fund age, asset value under management and management fee, we investigate the impact of investment style on the funds' risk-adjusted performance. We find indications that funds having lower BBB exposure, larger and older funds, and funds charging lower fees show higher risk-adjusted performance (alphas).

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Stochastic Interest Rates and Short Maturity Options

This paper uses a ten-year data set to examine the ability of the jump-diffusion models to explain systematic deviations in implicit distributions from the benchmark assumption of lognormality. Scott's (1997) calibrations found that stochastic interest rates should not affect short- maturity stock option prices much. Doffou and Hilliard (2002) found differently by testing a three-state model in currency derivative markets based on transactions data for currency puts and calls from January to December 1996 and the second quarter of 1995. Using transactions data from the Philadelphia stock exchange (PHLX) for European call and put currency options on the Deutschmark, the Japanese yen and sterling, over the period July 1984 to August 1989 and from March 1995 to December 1999, this study provides a more robust proof that stochastic interest rates do affect short maturity currency options. The results are consistent with Doffou and Hilliard (2002).

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'Running in the Family' The Evolution of Ownership, Control, and Performance inGerman Family-owned Firms 1903-2003

In this study we analyze the evolution of ownership, control, and performance of German founding-family-owned firms over the last century. We begin by identifying German family-owned stock companies that were founded before 1913 and still in existence in 2003 with sales turnover of more than 50 million Euros. Then we construct a matching sample of non-family-owned German stock companies in 2003. The resulting full sample consists of 62 Family and 62 Non-Family Firms in 2003. We go back a century and identify all firms, for which we are able to collect data for the whole period. Then we compare family-owned vs. non-family-owned firms over the 100-year time-span, analyzing a variety of variables like ownership, control, industries, bank relationship s and performance, as well as the impact of intergenerational control transfers. We find that families give up ownership slowly and control of family businesses remains strong even after several generations. Family businesses seem to outperform non- family firms in terms of operating (but not stock) performance, but grow more slowly, and performance decreases through time.

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The Bright and Dark Side of Business Groups : Evidence from Mergers and Acquisitions

In this paper, we explore the bright and dark sides of business groups in Canada, a country characterized by well-functioning capital, product and labor markets and a high level of investor protection. We find that announcement returns to group-affiliated bidders do not differ from the announcement returns to stand-alone bidders. However, we find that within family business groups, firms in lower layers of the pyramid and cash-rich firms undertake worse acquisitions decisions relative to firms in higher layers of the pyramid and cash-poor firms. These results lend support to extant theories of agency costs in pyramidal business groups. An analysis of the spillover effect of the acquisition announcement within the group is inconsistent with tunneling. Rather, we find evidence of resource misallocation within family business groups as profits appear to be diverted to cash-rich and low growth (financially unconstrained) firms. Finally, an investigation of intra-group mergers is inconsistent with tunneling and internal capital markets. These transactions seem to be means to simplify the group structure. Overall, our evidence is consistent with the dark side of business groups and suggests that the institutional context and the identity of the controlling shareholder are key factors in determining the role of business groups.

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Competition for Order Flow and Smart Order Routine Systems

We study changes in liquidity following the introduction of a new electronic limit order market when, prior to this introduction, trading is centralized in a single limit order market. We also study how automation of routing decisions and trading fees affect the relative liquidity of rival markets. The theoretical analysis yields two main predictions : (i) other things equal, consolidated depth is larger in the multiple limit order markets environment and (ii) other things equal, the liquidity of the entrant market relative to that of the incumbent market increases with the level of automation for routing decisions (the proportion of "smart routers"). We test these predictions by studying the rivalry between the London Stock Exchange (the entrant market) and Euronext (the incumbent market) in the Dutch stock market. The main predictions of the model are supported.

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Non-Financial Stakeholder Relationship Costs as Determinant of Capital Structure: Evidence from First-Time Business Start-Ups

Titman (1984) is the first to argue that non-financial stakeholders (customers, suppliers and employees) pass on their expected liquidation costs to the firm. In his framework, firms can influence the probability of liquidation by choosing an appropriate capital structure. Other studies have reasoned that the bargaining power of non-financial stakeholders vis-à-vis the firm may also have an impact. This paper investigates these ideas in a sample of first-time business start-ups, where ex ante failure risk is high and non-financial stakeholders (NFS) have to make relationship specific investments. We find that the size of NFS liquidation costs significantly reduces leverage and the proportion of bank loans; we find no impact on the bank debt maturity structure, however. These effects of NFS liquidation costs on capital structure are strengthened when customers have strong bargaining power. Finally, start-ups reduce their reliance on bank loans when suppliers and employees are in a powerful bargaining position.

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Competition, Human Capital and Innovation Incentives

This paper sheds light on the changing nature of the firm and offers an explanation for why innovative, human capital intensive firms tend to operate in competitive environments, as discussed in Zingales (JF, 2000). We develop a model in which employees' incentives to acquire human capital, a necessary input for innovation, depend on the number of firms competing for employee human capital. A key insight of our paper is that firms operating in the same competitive industry have a higher degree of relatedness, since they invest in similar and more compatible technologies. This implies that employees in more competitive industries develop human capital that can be transferred more easily from one firm to another and, thus, can extract more rents (i.e., greater wages) from their firms. Anticipating their higher rent extraction ability, employees invest more in human capital and innovate more. Thus, competition in the market for innovation leads to competition for employee human capital and promotes innovation. We show that, under certain conditions, firms prefer to operate in a competitive product market in order to become more innovative. In this way, greater competition emerges endogenously and leads to more innovation. Hence, our analysis obtains endogenously the emergence of today's human capital intensive firms which are highly innovative in spite of operating under greater competition than ever. We also show that horizontal mergers may be detrimental to innovation generation, and that firms may prefer to preserve a competitive environment in order to provide better incentives for their employees. This find-

ing implies that, while internal competition within a firm may be detrimental for innovation (as in Rotemberg and Saloner, 1994), external competition may promote effort and foster innovation. Finally, our paper has implications for the choice of industry standards, such as open source technologies, and the adoption of contractual measures that hinder employee mobility, such as no-compete clauses.

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Credit Risk Management in Banks : Hard Information, Soft Information

The role of information's processing in bank intermediation is a crucial issue. The bank has access different types of information in order to manage risk through capital allocation for Value at Risk coverage. Hard information, contained in balance sheet data and produced with credit scoring, is quantitative and verifiable. Soft information, produced within a bank relationship, is qualitative and non verifiable, therefore manipulable, but produces more precise estimation of the debtor's quality. In this article, we investigate the impact of the information's type on credit risk management in a principal agent framework with moral hazard with hidden information. The results show that when the banker has access to soft information it gives him the possibility to decrease the capital allocation for VaR coverage. We also show the existence of an incentive of the credit officer to manipulate the signal based on soft information that he produces. Therefore, we propose the implementation of an adequate salary package which unable this manipulation. The comparison of the results from the two frameworks (information hard versus combination of hard and soft information) using simulations confirms that soft information may have an advantage but requires particular organisational modifications within the bank, as it allows to reduce capital allocation for VaR coverage.

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Equity and Cash in Intercorporate Asset Sales: Theory and Evidence

Intercorporate asset sales in which equity is a means of payment are associated with large gains in wealth for both buyers and sellers, whereas cash asset sales generate significantly smaller gains that typically accrue only to sellers. We develop a theoretical model based on two-sided asymmetric information that provides an explanation for this result and that entails an informationally efficient selling process. In the first stage, buyers submit bids that signal their private information. When seller private information indicates the asset is of low value, a cash deal is concluded. When seller information indicates the asset is of high value, the seller initiates a second stage by proposing to the highest bidder a take-it-or-leave-it offer that involves buyer equity. The model predicts that equity-based asset sales generate strong gains in combined wealth with positive excess returns for both buyers and sellers, but for cash transactions there are only modest combined gains that accrue largely to sellers. Empirical results closely accord with the models predictions.

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Earnings Estimates And Market Reactions: "Anchoring" As a Potential Explanation for Two Underreaction Phenomena

Over the last years, Behavioral Finance aimed to explain some of the security market anomalies by integrating the possibility of not fully rational investors. This study focuses on earnings announcements made by US companies over the period 1983-1999 and shows that analysts and investors are prone to the anchoring and adjustment bias. This heuristic leads someone to overweight past , salient information and underweight statistical important and more recent information. The results show that analysts stick to past earnings figures and provide earnings estimate that are too close to prior earnings per share levels. The study also shows that the market does not correct the analysts' bias but seems to rely on even more conservative earnings estimates.
As for the analysts' story, prior earnings per share level seem to be the relevant anchor.

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Time Diversification in Pension Savings

We take a closer look at how investment horizon affects risk taking, often referred to as the time-diversification controversy. We use data on individuals. choices in the Swedish pension system. Theoretically, if returns are serially uncorrelated, investors do not have human capital, and investors have constant relative risk aversion then investment horizon should not influence asset allocation. This theory causes some academics to explain the positive correlation between investment horizon and risk exposure by generational differences in human capital, not the investment horizon per se. Our empirical analysis shows that portfolio risk significantly declines with age in a statistical context. This behavior is still evident after controlling for alternative explanations related to human capital and difficult to reject in an economic context.

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Inside Volume and Liquidity

We decompose volume into two components: trades that consist of matches between investor buyers and investor sellers; and, trades where a liquidity provider takes the other side of either an investor sell or buy. We refer to the latter type of trade as inside volume. Our identification assumption is that a trade at time *t* involving a liquidity provider is reversed shortly after time *t*, leading to predictable short-run behaviour in both prices and volume. Our results provide a gauge as to the component of volume that is driven by frictional financial markets, as opposed to changes in investors' desired portfolio allocations.

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Professional Reputation, Cash, and Transition to Entrepreneurial Activity

We analyze the role of professional reputation in the transition to entrepreneurial activity when credit is rationed. We study an employee's willingness to allow the market to learn information about talent by choosing more or less informative projects. This choice impacts the employee's incentives to exert effort, which determines the wage, and in turn the cash to be invested in

the business venture. We show that reputation and cash are substitutes in overcoming credit rationing. However, maintaining a good reputation conflicts with accumulating cash. Hence, employees adopt a different strategy depending on their initial reputation. Besides, starting a business venture early can in expectation be easier than waiting in order to build a reputation and accumulate cash.

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History versus Geography: The Role of College Interaction in Portfolio Choice and Stock Market Prices

We study the link between social interaction and portfolio choice. We concentrate on a form of interaction that is rooted back in the past: college-based interaction — defined as the one that relates the portfolio choice of an investor to that of the other investors who went to the same college. We explain it in terms of a common cultural imprinting and the development of long-term friendship and alumni networks and we directly quantify its bonding effect. We compare college-based interaction to other forms of social interaction, such as educational, professional and geographical interaction, properly controlling for all the standard motivations of portfolio theory, such as hedging of non-financial income risk, familiarity and information effects, wealth and income effect, a host of demographic, geographic and professional dummies, trend-chasing and momentum behavior. All the different sources of social interaction significantly affect stock-picking as well as the choice between direct and delegated investment, both statistically and economically. College-based interaction is, however, is in general stronger than the other sources of interaction (professional and geographical) and has an explanatory power higher than that of all standard determinants of portfolio choice, such as hedging non-financial income risk, information and familiarity and so on. The impact of college-based interaction is statistically and economically significant. Investors invest in the same stocks in which their former classmates do and skew their portfolios towards growth stocks if their former classmates do the same. Moreover, investors are more likely to herd with the other investors who went to the same college than with the rest of the population. College-based interaction also affects investors' decision to concentrate their portfolios in few stocks. The impact of college-based interaction aggregates at the market level and affects stock prices. We argue that social interaction affects the degree of heterogeneity of the shareholders. We use the fact that investors are heterogeneous in terms of the schools they went to and we study how it affects the value of the firm. We posit that higher homogeneity of views allows shareholders to informally coordinate and therefore affect managerial decisions. For each firm, we measure the degree of homogeneity of views of its shareholders. Using this proxy, we show that higher homogeneity raises firm profitability and returns, lowers analyst dispersion and stock volatility.

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Optimal Dynamic Hedging In Incomplete Commodity Futures Markets

The main objective of this paper is to fill the gap in the literature by addressing, in a continuous-time context, the issue of using commodity futures as vehicles for hedging purposes. We derive optimal demands for commodity futures contracts by an unconstrained investor, who can freely trade on the underlying spot asset and on a discount bond. The investor, with a constant relative risk aversion, faces a dynamically incomplete market. A three-factor variant of the Schwartz (1997) model, incorporating the explanation of the convenience yield in terms of an embedded timing option, is used where the spot price, interest rates and the convenience yield are allowed to change randomly over time. However, the market price of risk is allowed to vary stochastically and assumed to be affine in the state variables for tractability. Our results show that, following the martingale route, optimal demand can be divided into a speculative term – the traditional mean variance component, and two terms hedging against unfavourable shifts in the opportunity set and exhibiting different behaviour. The first hedging term protects the investor against random fluctuation of the interest rate and translates into the covariance of the bond with that of the horizon of the investor, while the second hedging term is due to the stochastic behaviour of the (square) market price of risk and can be decomposed into three terms sharing fundamental properties with the classical Merton-Breeden components.

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When Controlling Shareholders "Live Like Kings": The Case of Telecom Italia

We study the evolution of the control of Telecom Italia, the sixth telecommunication company in the world by turnover, to provide evidence of an exemplary textbook case of minority expropriation. First, we analyse how Olivetti's and Pirelli's acquisition of Telecom Italia were carried out, and in particular who paid for the acquisition of control, tracing down all operations carried out in the market by all listed companies in the group. Second, we provide evidence on that the implementation of pyramids in the case of Telecom Italia is connected with the existence of large private benefits, measured both via the size of premium paid for the acquisition and via the voting premium. Third, we investigate how minorities are affected by the pyramidal control. Our results reveal how minority protection is still inefficient in the Italian market, despite the introduction of the Draghi reform in 1998, aimed to strength investor's and minority protection. While a consistent improvement in the Italian corporate governance has been documented in recent literature, this case shows how a controlling shareholder can still "live like a king".

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Hedging Currency Risk: a Regret-Theoretic Approach

Contrary to the predictions of existing normative currency-hedging models, a wide diversity of hedging policies is observed among institutional investors. We propose an alternative model of optimal currency-hedging choices based on regret theory, a normative and axiomatic behavioral theory. With hindsight, investors may experience regret of not having taken the *ex post* optimal hedging decision; i.e. full hedging if the foreign currency depreciated, or no hedging if the foreign currency appreciated. Hence, investors include expected future regret in their objective function. As a result, our model features two components of risk: traditional risk and regret. We derive closed-form optimal hedging rules using the Arrow-Pratt approach and highlight the difference with the traditional expected-utility results. We find that differences in the level of regret aversion among investors may explain why we observe such a wide di-

versity of currency hedging policies among institutional investors.

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Investment Reputation Index: Family Firms vs. Nonfamily Firms in the UK

Family firm researchers have found a host of characteristics that are unique to family firms. These familial attributes are often taken as plausible explanations for governance and operational differences between family firms and their non-family competitors. We use these familial characteristics as well as a host of 'non-family' specific provisions to build an Investment Reputation Index that measures the reputation of a family firm as an investment opportunity. The results of an empirical study of 199 'quoted' family firms supported the hypothesis that the investment reputation of a family firm has a positive impact on its performance. However, a similar empirical analysis using a measure of the Investment Reputation Index without the familial attributes, showed a stronger impact on performance, signifying a negative association with recognizing the familial characteristics of the firm. An empirical analysis on a matched sample of 304 family- and non-family firms revealed that the investment reputation of a family firm can only be brought into comparable terms with the reputation of a non-family firm if the familial attributes are included in the analysis. Understanding 'How family is the family firm?' is important from an investor's point of view as it highlights the good practices of some family firms. An investor instead of grouping all family firms into one category can now differentiate between 'good' and 'bad' family firms with the help of the Investment Reputation Index.

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Ownership Structure and Board Characteristics as Determinants of CEO Turnover in French-Listed Companies

This paper investigates ownership structure and board characteristics as determinants of CEO turnover in a sample of largest French-listed firms from 1994 to 2001. The results show that CEO turnover is negatively related to prior accounting and stock performance. Controlling for prior performance, ownership structure and characteristics of boards of directors impact the CEO turnover-performance relation. Firms with block holders, two-tier boards, larger boards, and high government ownership are less likely to fire CEOs for poor performance, and institutional investors do not influence the CEO turnover-performance sensitivity.

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The Determinants of Default Correlations

This paper extends empirical work on default risk in three ways. First, it estimates expected default probabilities (using structural models) and compute default correlations (via a copula function) for a sample of US companies. Second, it extracts common or latent factors that drive companies' default correlations using factor analytical technique. The results indicate that only the common factors related with the overall state of economy explain default correlations. Third, since idiosyncratic risk has different implications for risk management, this study examines this important variable. Idiosyncratic risk does change significantly prior to bankruptcy, which suggests that financial markets also react to company specific signals.

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The Impact of a Large Creditor and its Capital Structure on the Financial Distress of its Borrower

This paper analyzes the influence of a large creditor - mainly a financial intermediary- on the likelihood of financial distress of its borrower. Contrary to the common thinking, I show that a large creditor could increase the probability of financial distress of its borrower. The results are driven by two forces: Firstly, the large creditor may have high coordination problems with other creditors of the borrower. Secondly, and more interestingly, the debtholders of the large creditor can make other creditors of the borrower behave more aggressively, thus increasing the probability of failure of the borrower. Furthermore, I show how differences in precision and nature of public information modify the probability of financial distress of both the borrower and the large creditor. In particular, I show a new channel by which an increase in precision of public information amplifies the financial fragility of levered firms. In addition, I show how a precise public signal on endogenous information --price of a security-- has destabilizing effects on the pricing of a security of a highly leveraged firm. Finally, since the borrower can either be a non-financial firm, a financial firm or even a country, I discuss several predictions of this model in corporate finance, banking and international financial crises. In consequence, this paper not only highlights that the source of capital of the large creditor is an important factor in determining the financial distress of its borrower, but also sheds light on how this channel is affected by the nature and precision of public information that creditors observe in the market.

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A Market-Based Framework for Bankruptcy Prediction

We estimate probabilities of bankruptcy for 5,784 industrial firms in the period 1988-2002 in a model where common equity is viewed as a down-and-out barrier option on the firm's assets. Asset values and volatilities as well as firm-specific bankruptcy barriers are simultaneously backed out from the prices of traded equity. Implied barriers are significantly positive and monotonic in the firm's leverage and asset volatility. Our default probabilities display better calibration and discriminatory power than the ones inferred in a standard Black and Scholes (1974)/Merton (1974) and KMV frameworks. However, accounting-based measures such as Altman Z- and Z"-scores outperform structural models in one-year-ahead bankruptcy predictions, but lose relevance as the forecast horizon is extended.

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Day-of-the-week in Returns and Conditional Volatility: A Fact or A Fiction? Evidence from Spot CAD/USD Foreign Exchange Rates

In this paper, we demonstrate that the day-of-the-week effect in logarithmic changes in spot CAD/USD foreign currency rates are not robust to a GARCH model with normal, student–t, GED or double exponential error distribution respectively. In addition, the degree of statistical significance varies inversely with the extent of

leptokurtosis in the error distribution. Most strikingly, the day of the week effect in conditional variance disappears completely when we account for autocorrelation, heteroscedasticity and non-normality. We assert that earlier research in support of day of the week effect in returns and conditional variance may be the artifact of using inadequate methodology, ascribing attempts to give an economic explanation to an "effect" that may not exist.

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Demutualization, Outsider Ownership and StockExchange Performance - Empirical Evidence

We employ a balanced panel data set of 28 stock exchanges to disentangle the effects of demutualization and outsider ownership on the operative performance of stock exchanges. For this purpose we calculate in a first step individual efficiency and factor productivity values via DEA. In a second step we regress the derived values against variables that - amongst others - represent the different governance regimes at exchanges in order to determine efficiency and productivity differences between mutuals demutualized but customer-owned exchanges and publicly listed and thus at least partly outsider-owned exchanges. We find evidence that demutualized exchanges exhibit higher technical efficiency than mutuals. However, they perform relatively poor as far as productivity growth is concerned. Furthermore, we find no evidence that publicly listed exchanges possess higher efficiency and productivity values than demutualized exchanges with a customer-dominated structure.

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Capital Market Equilibrium: The Mean-Gini Approach

Being a two-parameter model that satisfies stochastic dominance, the mean extended Gini model is used to build efficient portfolios. The model also quantifies risk aversion heterogeneity in capital markets. Within a simple Edgeworth box, we show how capital market equilibrium is achieved for risky assets. This approach provides a richer basis for analyzing the pricing of risky assets under heterogeneity of preferences. Our main results are: At equilibrium all mean-variance investors and homogeneous mean-Gini investors will hold portfolios of risky assets that are identical to market portfolio. Heterogeneous investors as expressed by the extended Gini hold different risky assets portfolios and no one must hold the market portfolio.

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The Economic and Statistical Value of the Predictive Ability of Overnight Information

This paper provides a comprehensive analysis assessing the size, statistical significance, predictive ability, and economic value of overnight information for a set of European and US indices. We introduce a stochastic volatility model, which conditions on lagged overnight information and distinguishes between the nontrading periods of weeknights, weekends, holidays and long weekends. We employ a wide range of statistical criteria for evaluating the impact of information accumulated during nontrading hours on the daytime conditional expected returns and volatility. More importantly, we demonstrate that a short-horizon risk averse investor is willing to pay a high performance fee for switching from a dynamic portfolio strategy based on the plain vanilla stochastic volatility model to one which conditions on lagged overnight information. The economic value of the predictive ability of overnight information is higher for Europe than the US, and particularly for stock exchanges where the opening call auction is conducted by a specialist having an informational advantage and price continuity obligations.

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Are Bull and Bear Markets Economically Important?

As fluctuations of the stock market have long been classified into bull and bear markets, investors encounter regime-switching uncertainty in investing. In this paper, we propose a novel way of incorporating regime-switching and model uncertainties into portfolio choice decisions. We find that risks and returns vary greatly across bull and bear regimes, and the certainty-equivalent losses associated with ignoring bull and bear markets are fairly large. Therefore, the economic value of incorporating regime-switching is substantial from an investment perspective.

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The Welfare Cost of Bank Capital Requirements

This paper measures the welfare cost of bank capital requirements and finds that it is surprisingly large. I present a simple framework which embeds the role of liquidity creating banks in an otherwise standard general equilibrium growth model. A capital requirement plays a role, as it limits the moral hazard on the part of banks that arises due to the presence of a deposit insurance scheme. However, this capital requirement is also costly because it reduces the ability of banks to create liquidity. A key result is that equilibrium asset returns reveal the strength of households' preferences for liquidity and this allows for the derivation of a simple formula for the welfare cost of capital requirements that is a function of observable variables only. Using U.S. data, the welfare cost of current capital adequacy regulation is found to be equivalent to a permanent loss in consumption of between 0.1 to nearly 1 percent.

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Financial Distress, Lender Passivity and Project Finance : The Case of Eurotunnel

The paper analyzes the difficulties of Eurotunnel, both the largest project finance company and one of the largest private workout in the history. The project finance structure was at the origin of major agency conflicts that contributed to underperformance. We also investigate why the numerous banks did not trigger bankruptcy despite Eurotunnel's chronic distress. Lender passivity was mainly due to highly specific assets, political pressures and the threat of legal pursuits under the French debtor-friendly bankruptcy law. If passive, the banks made no concessions in debt restructurings and the firm remained highly leveraged. The case demonstrates that maintaining a firm in chronic financial distress may be an optimal strategy for banks since they keep a high bargaining power in subsequent restructurings while avoiding a costly bankruptcy.