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20 & 21 December 2007

PROGRAMME

**Maison de la Mutualité
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CENTRE NATIONAL
DE LA RECHERCHE
SCIENTIFIQUE

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Patrick Sentis (Université de Montpellier 1)
Laurent Vilanova (Université de Lyon 2)

Thursday, the 20th of December

8 h 00 – 8 h 30
Registration
8 h 30 – 10 h 30

Room Conseil
SESSION I-1 PORTFOLIO MANAGEMENT
Chairman : Ekaterini Panopoulou (University Of Piraeus)

Utilitarianism and fairness in portfolio positioning
André De Palma (University of Cergy-Pontoise) ; Jean-Luc Prigent (University of Cergy-Pontoise)
Discussant : Carole Bernard (University of Waterloo)

Dynamic Asset-Liability Management for Defined-Benefit Pension Plan
Jerome Detemple (Boston University School of Management) ; Marcel Rindisbacher (Joseph Rotman School of Management) ; Jing Zhou (Boston University)
Discussant : Christian Gollier (Toulouse School of Economics)

Learning or Robust Control
Nicole Branger (University of Muenster) ; Christian Schlag (Goethe University Frankfurt) ; Lue Wu (Goethe University)
Discussant : Jean-Luc Prigent (University of Cergy-Pontoise)

Assets returns volatility and investment horizon: The French case
Frédérique Bec (University of Cergy-Pontoise) ; Christian Gollier (Toulouse School of Economics)
Discussant : Julie Salaber (Paris-Dauphine)

Room Poissy
SESSION I-2 CAPITAL STRUCTURE
Chairman : Frédéric Lobez (Université de Lille 2)

The Choice between Private and Public Capital Markets: The Importance of Disclosure Standards and Auditor Discipline to Countries Divesting State-owned Enterprises
Omrane Guedhami (University of South Carolina) ; Jeffrey Pittman (Hong Kong University of Science And Technology)
Discussant : Johan Hombert (Ensae)

The Liquidation Dilemma of Money Losing Investments – The Impact of Investment Experience and Window Dressing of Private Equity and Venture Capital Funds
Philipp Krohmer (Goethe University Frankfurt and CEPRES Center of Private Equity Research)
Discussant : Anis Samet (Hec Montréal)

Why privatize? A competition for ownership approach
Jean-Jacques Rosa (IEP Paris) ; Edouard Perard (IEP Paris)
Discussant : Erik Kole (Erasmus School of Economics - Erasmus University Rotterdam)

Law, Finance, and Venture Capital: The Cost of Capital for High-Tech Firms
Thomas Hall (Christopher Newport University)
Discussant : Laurent Vilanova (Université Lyon 2)

10 h 30 – 11 h 00
Coffee break
11 h 00 – 12 h 30

Room Conseil
SESSION II- 1 IPOs
Chairman : Laurent Vilanova (Université Lyon 2)

Venture Capital and Timing of IPO
Donia Trabelsi (University Panthéon-Sorbonne)
Discussant : Patrick Sentis (Cr2m - Gscm Montpellier Business School)

The Survival and Success of Penny Stock IPOs: Canadian Evidence
Cécile Carpentier (Laval University) ; Jean-Marc Suret (Laval University)
Discussant : Paul André (ESSEC)

Going Public to Acquire: The Acquisition Motive for IPOs
Ugur Celikyurt (Unc Kenan Flagler Business School); Merih Sevilir (Unc Kenan Flagler Business School); Anil Shivdasani (Unc Kenan Flagler Business School)
Discussant : Ulrich Hege (HEC Paris)

Room Poissy
SESSION II-2 MARKET MICROSTRUCTURE
Chairman : Terrence Henderschott (University of California, Berkeley)

Evaluating Spread Decomposition Models with a Basket Security
Patricia Chelley-Steeley (Aston University) ; Keebong Park (Aston University)
Discussant : Alexis Cellier (Université Paris 12 Val-de-Marne)

A Dynamic Limit Order Market with Diversity in Trading Horizons
Mark Van Achter (University of Bonn)
Discussant : Carole Gresse (Université Paris-Dauphine)

The Early News Catches the Attention: On the Relative Price Impact of Similar Economic Indicators
Alexandra Niessen (University of Cologne) ; Dieter Hess (University of Cologne)
Discussant : Mark Van Achter (University of Bonn)

Lunch - Room St Germain

14 h 00 - 15 h 30

Room Conseil
SESSION III-1 ASSET PRICING
Chairman : Ako Doffou (Sacred Heart University)

Information Asymmetries, Common Factors, and International Portfolio Choice
Vincentiu Covrig (College of Business And Economics, Northridge) ; Patrice Fontaine (Eurofidai University of Grenoble 2) ; Sonia Jimenez (Cerag and Grenoble Institute of Technology) ; Mark Seasholes (Insead)
Discussant : Ekaterini Panopoulou (University Of Piraeus)

Price Adjustment to News with Uncertain Precision
Nikolaus Hautsch (Humboldt-University of Berlin);
Dieter Hess (University of Cologne) ;
Christoph Mueller (University of Cologne)
Discussant : Radu Burlacu (Université Grenoble 2)

Replicating the properties of hedge fund returns
Nicolas Papageorgiou (Hec Montreal) ;
Bruno Remillard (Hec Montreal) ;
Alexandre Hocquard (Hec Montreal)
Discussant :Thomas Hall (Christopher Newport University)

Room Poissy
SESSION III-2 MERGERS & ACQUISITIONS I
Chairman : Paul André (ESSEC)

Entry for Buyout and Optimal Financial (In)Flexibility
Ulrich Hege (Hec Paris) ;
Christopher Hennessy (Uc Berkeley)
Discussant :

An empirical model of merger and acquisitions timing
Zafeira Kastrinaki (The University of Warwick) ;
Paul Stoneman (The University of Warwick)
Discussant : Donia Trabelsi (Université Panthéon-Sorbonne)

Fairness Opinions and Capital Markets: Evidence from Germany, Switzerland and Austria
Sebastian Lobe (University of Regensburg) ;
Nils-Christian Schenk (University of Regensburg)
Discussant : Cécile Carpentier (Laval University)

15 h 30 – 16 h 00
Coffee break
16 h 00 - 18 h 00

Room Conseil
SESSION IV-1 CORPORATE FINANCE I
Chairman : Ulrich Hege (HEC Paris)

The Determinants of Sin Stock Returns: Evidence on the European Market
Julie Salaber (Paris-Dauphine University)
Discussant : Sebastian Lobe (University of Regensburg)

Should we Invest in Microcredit? A Financial Analysis of Microcredit from a USD-Investor's Perspective
Hanna Koivulehto (Vienna University of Economics And Business Administration)
Discussant : Philipp Fasnacht (University of Geneva)

Leverage Choice and Credit Spread Dynamics when Managers Risk Shift
Ali Lazrak (University of British Columbia) ; Murray Carlson (University of British Columbia)
Discussant : Michael Troege (ESCP-EAP Paris)

How Do Firms Choose Between Intermediary and Supplier Finance?
Dimitar Antov (Cambridge Group) ;
Christina Atanasova (Simon Fraser University)
Discussant : Hanna Koivulehto (Vienna University of Economics And Business Administration)

Room Poissy
SESSION IV-2 RISK MANAGEMENT
Chairman : François Quittard-Pinon (Université de Lyon 1)

Time Varying Default Risk Premia in Corporate Bond Markets
Redouane Elkamhi (Mcgill University) ;
Jan Ericsson (Mcgill University)
Discussant : Alexandre Jeanneret (Swiss Finance Institute - University of Lausanne)

The Level and Quality of Value-at-Risk Disclosure by Commercial Banks
Christophe Perignon (Hec Paris) ;
Daniel Smith (Simon Fraser University)
Discussant : Ako Doffou (Sacred Heart University)

Comparison Results for Credit Risk Portfolios
Areski Cousin (Isfa – Claude Bernard Lyon 1 University) ; Jean-Paul Laurent (Isfa - Claude Bernard Lyon 1 University)
Discussant : Redouane Elkamhi (Mcgill University)

Admissible Designs of Debt-Equity Swaps for Distressed Firms: Analysis, Limits and Applications
Franck Moraux (University of Rennes 1) ;
Patrick Navatte (University of Rennes 1)
Discussant : Areski Cousin (Isfa – Claude Bernard Lyon 1 University)

18 h 00

Cocktail – Room Monge
Award of the best paper published in French academic journal "Finance"

Friday, the 21st of December

8 h 15 – 9 h 00 : AGE AFFI Room Poissy
9 h 00 - 10 h 30

Room Conseil
SESSION V-I CORPORATE FINANCE II
Chairman : Edith Ginglinger (Université Paris-Dauphine)

Corporate Investment and Analyst Pressure
Sébastien Michenaud (Hec Paris)
Discussant : Véronique Bessière (Université de Montpellier 2)

Assigning Market Power to Price Cap Regulation by the Analysis of Investment Decisions
Thomas Nagel (Vienna University of Economics And Business Administration) ;
Margarethe Rammerstorfer (Vienna University of Economics And Business Administration)
Discussant :

Financial Strength and Product Market Performance: The Real Effects of Corporate Cash Holdings
Laurent Fresard (University of Neuchâtel)
Discussant : Sébastien Michenaud (Hec Paris)

Room Poissy
SESSION V-2 DERIVATIVES
Chairman : J. Detemple (Boston University School of Management)

Get an implied correlation to price equity-interest rates hybrids
Mathieu Hamel (Inria)
Discussant : Sofiane Aboura (Université de Paris-Dauphine)

American Index Put Options Early Exercise Premium Estimation
Ako Doffou (Sacred Heart University)
Discussant : Mathieu Hamel (Inria)

Optimal Design of Structured Products and the Role of Capital Protection
Carole Bernard (University of Waterloo) ;
Phelim Boyle (Wilfrid Laurier University) ;
Weidong Tian (University of Waterloo)
Discussant : Lue Wu (Goethe University)

10 h 30 – 11 h 00
Coffee break
11 h 00 - 12 h 30

Room Conseil
SESSION VI-1 INTERNATIONAL FINANCE
Chairman : Patrick Navatte (Université Rennes 1)

The Choice of ADRs
Narjess Boubakri (Hec Montréal) ; Jean-Claude Cosset (Hec Montréal) ; Anis Samet (Hec Montréal)
Discussant : Laurent Fresard (University of Neuchâtel)

International stock market correlations: A sectoral approach
Philipp Fasnacht (University of Geneva) ;
Henri Loubergé (University of Geneva)
Discussant : Emmanuel Farhi (Harvard University)

Rare Disasters and Exchange Rates: A Theory of the Forward Premium Puzzle
Emmanuel Farhi (Harvard University) ; Xavier Gabaix (New York University);
Discussant : David Schroeder (Bonn Graduate School of Economics)

Room Poissy
SESSION VI-2 MARKET EFFICIENCY
Chairman : Roland Gillet (Université de Paris 1 – Panthéon Sorbonne)

Implied Cost of Capital Based Investment Strategies - Evidence from International Stock Markets
Florian Esterer (Swisscanto Asset Management Ag)
David Schroeder (Bonn Graduate School of Economics)
Discussant : Christina Atanasova (Simon Fraser University)

Corporate disclosure, information uncertainty and investors' behavior: A test of the overconfidence effect on market reaction to goodwill write-offs
Véronique Bessière (Cr2m – University of Montpellier 2) ; Patrick Sentis (Cr2m - Gscm Montpellier Business School)
Discussant : Christoph Mueller (University of Cologne)

Riding Bubbles
Erik Kole (Erasmus School of Economics - Erasmus University Rotterdam) ; Nadja Guenster (Maastricht University) ; Ben Jacobsen (Massey University)
Discussant : Erwan Le Saout (Université Paris 1 Panthéon-Sorbonne & ESCEM)

Lunch – Room St Germain

14 h 00 – 16 h 00

Room Conseil
SESSION VII-1 INTEREST RATES
Chairman : Patrice Poncet (Université de Paris 1 – Panthéon Sorbonne)

An Analysis of the True Notional Bond System Applied to the CBOT T-Bonds Futures
Ramzi Ben-Abdallah (Hec Montréal) ;
Hatem Ben-Ameur (Hec Montréal) ;
Michèle Breton (Hec Montréal)
Discussant : Franck Moraux (University of Rennes 1)

Joint Modelling of International Yield Curves
Matti Koivu (European Central Bank) ; Ken Nyholm (European Central Bank) ; Jacob Stromberg (European Central Bank)
Discussant : Ramzy Ben-Abdallah (Hec Montréal)

A Structural Model for Sovereign Credit Risk
Alexandre Jeanneret (Swiss Finance Institute - University of Lausanne)
Discussant : Philippe Raimbourg (University of Paris 1)

Testing for Instability in Factor Structure of Yield Curves
Dennis Philip (Cass Business School - Faculty Of Finance) ; Chihwa Kao (Syracuse University) ; Giovanni Urga (Cass Business School - Faculty Of Finance)
Discussant : Christophe Villa (ENSAI)

Room Poissy
SESSION VII-2 CORPORATE GOVERNANCE
Chairman : Omrane Guedhami (University of South California)

Ownership structure and Debt leverage: Empirical Test on French Firms
Hubert De La Bruslerie (University of Paris 1 Sorbonne) ; Imen Latrous (University of Quebec at Chicoutimi)
Discussant : François Derrien (HEC Paris)

The value-relevance of foreign currency disclosures
Aline Muller (Hec Management School of the University of Liège) ; Willem Verschoor (Radboud University Nijmegen)
Discussant : Pascal Dumontier (Unversité de Grenoble 2)

The Market for Corporate Directors
Changmin Lee (Indiana University, Bloomington)
Discussant : Bertrand Quéré (Université de Grenoble 2)

Ownership, Control and Market Liquidity
Edith Ginglinger (University Paris Dauphine) ; Jacques Hamon (University Paris Dauphine)
Discussant : Christophe Pérignon (HEC Paris)

16 h 00 – 16 h 30
Coffee break
16 h 30 – 18 h

Room Conseil
SESSION VIII-1 MERGERS & ACQUISITIONS II
Chairman : François Derrien (HEC Paris)

Cosmetic Mergers: The Effect of Style Investing on the Market for Corporate Control
Lei Zhang (Insead) ; Massimo Massa (Insead)
Discussant : David Thesmar (HEC Paris)

Value of your Advisor's Advice
Evgeny Plaksen (Swiss Finance Institute)
Discussant : Jean-Marc Suret (Université de Laval)

Fire Sales: Revisiting the Market Equilibrium Approach
Johan Hombert (Ensae)
Discussant : Evgeny Plaksen (Swiss Finance Institute)

Room Poissy
SESSION VIII-2 EMPIRICAL METHODS
Chairman : Christophe Pérignon (HEC Paris)

Testing for Jumps in a Discretely Observed Process
Yacine Ait-Sahalia (Princeton University) ; Jean Jacod (University of Paris 6)
Discussant : Olivier Le Courtois (EM Lyon)

"Effective" parameters for stochastic volatility models
Zaizhi Wang (Cerna, Ecole des Mines de Paris)
Discussant :

Assessing the power and the size of the event study method through the decades
Nihat Aktas (Université Catholique De Louvain Core & Iag) ; Jean-Gabriel Cousin: (University of Lille2 and Groupe Esc Lille) ; Eric De Bodt (University of Lille2 and Groupe Esc Lille)
Discussant : Zaizhi Wang (Cerna, Ecole des Mines de Paris)

Abstracts

AIT-SAHALIA Yacine (Princeton University)
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Testing For Jumps
In A Discretely Observed Process

We propose a new test to determine whether jumps are present in asset returns or other discretely sampled processses. As the sampling interval tends to 0, our test statistic converges to 1 if there are jumps, and to another deterministic and known value (such as 2) if there are no jumps. The test is valid for all Itô semimartingales, depends neither on the law of the process nor on the coefficients of the equation which it solves, does not require a preliminary estimation of these coefficients, and when there are jumps the test is applicable whether jumps have finite or infinite activity and for an arbitrary Blumenthal-Getoor index. We finally implement the test on simulations and asset returns data.

AKTAS Nihat (Université Catholique de Louvain Core & Iag)
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Assessing the power and the size of the event study method through the decades

The idiosyncratic risk is a key input of the standard event study method. The recent literature has suggested that the idiosyncratic risk is not stable through time, and it has increased significantly in the nineties. This paper investigates to what extent the event study method is affected by this economic phenomenon. Using both simulation and real dataset analyses, we show that the classical event study methods suffer from a significant loss of power due to increasing idiosyncratic risk, as the intuition suggests it. A (and maybe the only) solution to alleviate the impact of increasing idiosyncratic risk consists in increasing the sample size by a factor corresponding to the ratio of average idiosyncratic variances between the analyzed periods.

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How Do Firms Choose Between Intermediary and Supplier Finance?

We examine the dynamics of firm's choice of short-term financing between intermediated loans and trade credit. We argue that trade credit facilitates the access to and improves the terms of conventional loans. We model the idea that trade credit is a favorable signal of the creditworthiness of the borrower. Hence, some firms will use trade credit in addition to conventional institutional loans despite its higher cost. Our empirical results support the predictions of the theoretical model we develop. We show that firms with high agency costs rely heavily on supplier financing. For these firms trade credit has a significant positive effect on the level of intermediated borrowing.

BEC Frédérique (University of Cergy-Pontoise)
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Assets returns volatility and investment horizon: The French case

This paper explores French assets returns predictability within a VAR setup. Using quarterly data from 1970Q4 to 2006Q4, it turns out that bonds, equities and bills returns are actually predictable. This feature implies that the investment horizon does indeed matter in the asset allocation. The VAR parameters estimates are then used to compute real returns conditional volatility across investment horizons. The results reveal the same kind of horizon effect as the one found in recent empirical studies using quarterly U.S data. More specifically, the annualized standard deviation of French stocks returns goes down from 2,8% for a 25 year investment horizon. They suggest that long-horizon investors overstate the share of bonds in their portfolio choice when neglecting the horizon effect on risk of asset returns predictability.

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An Analysis of the True Notional Bond System Applied to the CBOT T-Bonds Futures

The main purpose of this paper is to apply the True Notional Bond System (TNBS) proposed by Oviedo (2006) for the theoretical pricing of the Chicago Board of Trade Treasury-bond futures, one of the most traded derivatives in the world. This system is proposed as an alternative to the current conversion factor system (CFS), whose poor performance is well known. In this paper, we price the CBOT T-bond futures as well as all its embedded delivery options and compare the corresponding results under the CFS in a stochastic interest rate framework. Our pricing procedure is an adaptation of the Dynamic Programming (DP) algorithm described in Ben-Abdallah et al. (2006), giving the value of the futures contract under the TNBS as a function of time and current short-term interest rate. Numerical illustrations, provided under the Vacisek and CIR models, show that the TNBS reduces dramatically the value of all the delivery options embedded in the CBOT T-bond futures.

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Optimal Design of Structured Products and the Role of Capital Protection

Index linked products (ILP) and other structured products as a new asset class are currently becoming very popular. In this paper we develop a simple model to address the optimal design issue from the seller's perspective of a class of structured products. The model derives some common features of these ILPs in particular the need for capital protection, (even though issuers might have different preferences of risk), in an incomplete market setting. On the other hand, the optimal design of ILPs can depend on the issuer's preference of risk and thus provides some explanations to the heterogeneity of the index-linked products currently traded on the financial market. Through an empirical analysis of the structured products currently traded on the American stock exchange, we find out that this theoretical optimal design model partly supports current designs of index linked products.

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Corporate disclosure, information uncertainty and investors' behavior: A test of the overconfidence effect on market reaction to goodwill write-offs

This article examines the link between uncertainty and investors' reaction to goodwill write-offs (GWWOs) for a sample of French firms during the period 2001- 2004. Our theoretical setting is derived from Daniel, Hirshleifer and Subrahmanyam (1998, hereafter DHS98) who posit that overconfidence leads to an overreaction to private information, followed by too little adjustments when the information becomes public and then a long adjustment

which reduce slowly the mispricing in the long run. We consider three proxies for uncertainty – stock return volatility, analyst coverage and dispersion in analyst forecasts – and sort two samples of GWWOs according to the level of uncertainty. Our results confirm DHS98 model and, indirectly, that overconfidence is boosted by uncertainty. We identify a particular corporate event – here a bad signal: goodwill write-offs – and a particular context – high uncertainty – that fit DHS98 model, allowing private information prospecting, overconfidence in this information and arbitrage obstacles. Our tests confirm the overconfidence effect on investors' reaction: the high-uncertainty sample is characterized by strongly negative abnormal returns during the period preceding GWWOs announcement, associated with high volatility. At the announcement date, negative abnormal returns are observed in line with the selfattribution bias effect (the overreaction is strengthened by a confirming signal). The overreaction to private information is corrected in the long run, where we observe positive abnormal returns, creating a reversal. No abnormal returns are observed for the low-uncertainty sample. This study offers interesting insights in two ways: (i) in the area of financial markets and efficiency, it provides a test of a major over- and under-reaction model, (ii) in the area of corporate finance and accounting, it helps to explain investors' reaction to corporate financial disclosure according to a theoretical approach of information process and inference.

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The Choice of ADRs

We study the determinants of a firm's decision to issue one of the four available ADR programs (Level I, Level II, Level III, and Rule 144A). We find that the firm's attributes (size, income, asset growth, leverage, privatization, ownership structure, and country-of-origin) and the firm's home-country institutional variables (accounting rating and legal protection of minority shareholders) condition this choice. We also examine the issuing activity and the determinants of the ADR choice before and after the enactment of the Sarbanes-Oxley (SOX) Act. Following this structural change, we provide evidence of a reallocation between ADR programs. Compared to the pre-SOX period, we find that, after SOX, firms from emerging markets and those from countries with weak legal protection of minority shareholders show an increased probability of choosing Rule 144A and Level III, respectively.

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Learning or Robust Control

Model mis-specification can cause substantial utility losses in portfolio planning. In this paper, we compare two approaches to cope with this problem, robust control and learning. We derive the optimal portfolio strategies and the utility losses due to model mis-specification. Surprisingly, neither learning nor robust control is uniformly superior to the naive approach where the investor simply ignores model risk. Furthermore, a comparison of the two approaches shows that learning takes some time to have an impact, so that short-term investors are in some (but not all) cases better off with robust control than with learning.

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The Survival and Success of Penny Stock IPOs: Canadian Evidence

In Canada, listing requirements and financing practices have created an atypical situation: IPOs mainly consist of micro- and penny stocks offered by non-venture-backed companies in the developing stage. The proportion of issuers without revenues (positive earnings) is 45% (71%) and the median issue price is CAN$0.75, less than Euro0.50. Consequently, Canada offers a very rich context to study the effect of less restrictive requirements on the survival and success of these issues. This situation, where a stock market plays a role usually assumed by specialized intermediaries such as venture capitalists, is also of interest for public policy makers. We analyze the survival and success of Canadian IPOs based on an original sample of 2,373 issues, free of selection or survival bias, from 1986 to 2003. Following the TSX Venture Exchange, we consider that a newly listed company succeeds if it graduates to a senior exchange. Using Survival functions and Cox Proportional Hazards models, we test whether the differences between the survival and success rates are linked to the class of minimum listing requirements in which the company is situated at the IPO. To link the listing requirement level with the fate of newly listed companies, we divide issuers into four categories, from the lowest level (no sales, earnings or history) to the highest (major exchange listing requirements). Lastly, we estimate the costs and benefits in terms of failure and success associated with easing the new listing requirements. Our research attempts to contribute to the debate surrounding IPO regulation, listing requirements, and the balance between investor protection and issuer financing.

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Going Public to Acquire: The Acquisition Motive for IPOs

This paper demonstrates that the desire for making acquisitions is a primary consideration underlying the decision of companies to go public. Using a sample of IPOs from 1994-2004, we show that newly public firms make acquisitions at a torrid pace. This acquisition activity is fueled both through the initial proceeds from the IPO but also through the use of an acquisition currency that is used to raise capital for both cash and stock financed acquisitions. Acquisitions play a more significant role in the growth of newly public firms than internal investment through R&D and CAPEX.

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Evaluating Spread Decomposition Models with a Basket Security

In this paper we evaluate the most widely used spread decomposition models. We argue that Exchange-Traded Funds (ETFs) should have lower adverse selection costs than appropriate control securities. We make this assertion because ETFs have the characteristics of a basket security described by Subrahmanyam (1991). As such, an ETF will diversify away the private information held by informed traders. Diversification of this information causes ETFs to have lower adverse selection costs than individual securities providing a criteria for evaluating spread decomposition models. Comparisons of adverse selection costs for ETF's and control securities obtained from spread decomposition models show that only the Glosten-Harris and the Madhavan-Richardson-Roomans models provide estimates of the spread that are consistent with the diversification of private

information in a basket security. Our results are robust even after controlling for the stock exchange.

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Comparison Results for Credit Risk Portfolios
This paper is dedicated to the risk analysis of credit portfolios. Assuming that default indicators form an exchangeable sequence of Bernoulli random variables and as a consequence of de Finetti's theorem, default indicators are Binomial mixtures. We can characterize the supermodular order between two exchangeable Bernoulli random vectors in terms of the convex ordering of their corresponding mixture distributions. Thus we can proceed to some comparisons between stoploss premiums, CDO tranche premiums and convex risk measures on aggregate losses. This methodology provides a unified analysis of dependence for a number of CDO pricing models based on factor copulas, multivariate Poisson and structural approaches.

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Information Asymmetries, Common Factors, and International Portfolio Choice
We propose a rational expectations equilibrium model in which agents are asymmetrically informed about both asset-specific components of payoffs and common factors that affect payoffs. The model produces closed-form solutions for asset prices and investor holdings (positions). We apply the model to a study of international portfolio choice. Low levels of asset-specific information, high levels of information about common (cross-border) factors, and different factor loadings lead to wide dispersion in home bias measures. We empirically analyze cross-border mutual fund holdings of 5,781 stocks from 21 developed countries and find broad support for our model's implications.

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Ownership structure and Debt leverage: Empirical Test on French Firms
The appropriation of private benefits by controlling shareholders introduces a conflict with outside shareholders. Debt is traditionally analyzed as disciplinary in the shareholders-manager conflict. It is less commonly analyzed in relation to controlling and outside shareholders. This paper shows that the joint problematics of ownership, private benefits and debt leverage are linked in a framework of financial governance. At the same time, debt helps to manage the conflict because it may be easier for the controlling shareholders to modify the leverage ratio than to modify his share of capital. A model shows that debt appears as a key governance variable as it can moderate private benefits or, conversely, may help diversion. The entrenchment effect and the fear for failure may explain the impact of debt. The existence of self-limited appropriation logics is highlighted as well as the importance of the information policy adopted by the controlling shareholders. In this paper, we test a possible non-linear relation between shareholders ownership and leverage. Using a sample of 118 French listed firms over the period 1998-2002, our results show that controlling shareholders ownership is linked with debt at different stage. At low levels of ownership, controlling shareholders use more debt in order to inflate their voting power and resist to unfriendly takeovers attempts. When ownership reaches a certain point, controlling shareholders' objectives converge further to those of outside shareholders. Thus, controlling shareholders have little incentives to use more debt. Moreover, the fear of financial distress will prompt controlling shareholders to reduce the firm's leverage ratio.

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Utilitarianism and fairness in portfolio positioning
The paper introduces the theory of optimal positioning of financial products. It is illustrated in the context of long-term intertemporal portfolio allocation and can be applied for example to asset allocation funds. We embed this problem in location theory : the portfolio is optimized within the investors'risk aversion dimension. For the CRRA utility functions, we compute explicitly the distance functions. For the first (utilitarian criterion), the average utility of the investors is maximized. For the second one (fairness criterion), the choice of portfolio is optimized so that the average monetary loss due to the lack of customization is minimized. Given the distribution of investors' risk aversion, we provide a solution method and an algorithm to optimally position standardized portfolio along one of these two criteria.

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Dynamic Asset-Liability Management for Defined-Benefit Pension Plan
A dynamic asset-liability management model for defined-benefit pension plans is developed. The plan sponsor exhibits features of loss aversion and tolerance for limited shortfalls in assets under management relative to the liability due. The optimal contribution policy, the optimal dividend policy and the associated asset allocation rule are derived and analyzed. Sound Asset-Liability Management is shown to entail future withdrawals from, as well as future contributions to, the pension fund, even if the current funding shortfall is large. The structure of the optimal portfolio is discussed. An extension to liabilities with unhedgeable cash flow components is outlined. A numerical analysis is carried out to examine the behavior of the optimal policy.

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American Index Put Options Early Exercise Premium Estimation
This paper examines empirically the value of early exercise by testing the ability of two American put valuation models to predict the early exercise premium for the S&P 100 American put options. An accuracy test and a quality test are performed on (1) the MacMillan (1986) & Barone-Adesi and Whaley (1987) model, and (2) the Carr, Jarrow and Myneni(1992) model. The test results show that early exercise premium is significant regardless of moneyness. Moreover, consistent with the theory, the value of early exercise is significantly negatively related to moneyness and interest rates and significantly positively related to time to maturity and to the volatility of the underlying index. Both American put valuation models examined do not fully capture the value of early exercise embedded in American put prices.

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Time Varying Default Risk Premia in Corporate Bond Markets

We develop a methodology to study the linkages between equity and corporate bond risk premia and apply it to a large panel of corporate bond transaction data. We and that a significant part of the time variation in bond default risk premia can be explained by equity implied bond risk premium estimates. We compute these estimates using a recent structural credit risk model. In addition, we show by means of linear regressions that augmenting the set of variables predicted by typical structural models with equity-implied bond default risk premia significantly increases explanatory power. This in turn suggests that time varying risk premia are a desirable feature for future structural models.

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Implied Cost of Capital Based Investment Strategies - Evidence from International Stock Markets

This paper demonstrates that investors can generate excess returns by implementing trading strategies that are based on publicly available analysts' forecasts. To capture expectations of equity analysts, we employ the so-called implied cost of capital (ICOC). Calculated as the internal rate of return that equates share price with discounted forecasted cash-flows, the ICOC allows condensing a variety of analysts' expectations about the future of any company into one single figure. Our analysis across the world's largest stock markets shows that a simple portfolio strategy yields significant excess returns with respect to several common asset pricing models.

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Rare Disasters and Exchange Rates: A Theory of the Forward Premium Puzzle

We propose a new theory of the forward premium puzzle for exchange rates. Our explanation combines two ingredients: the possibility of rare economic disasters, and an asset view of the exchange rate. Our model is frictionless and has complete markets. In the model, rare worldwide disasters can occur and affect each country's productivity. Each country's exposure to disaster risk varies over time according to a mean-reverting process. Risky countries command high risk premia: they feature a low exchange rate and a high interest rate. As their risk premium reverts to the mean, their exchange rate appreciates. Therefore, the currencies of high interest rate countries appreciate on average. This provides an explanation for the forward premium puzzle (a.k.a. uncovered interest rate parity puzzle). We then extend the framework to incorporate two factors: a slow moving productivity factor, and a fast mean-reverting disaster risk factor. We calibrate the model and obtain quantitatively realistic values for the volatility of the exchange rate, the forward premium puzzle regression coefficients, and near-random 1 walk exchange rate dynamics. Finally, we work out a model of the stock market, which allows us to make a series of predictions about the joint behaviour of exchange rates, bonds, options and stocks across countries.

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International stock market correlations: A sectoral approach

A lot of studies dealing with international correlations look only at correlations at the market level and often use its time-varying nature as motivation for their work. However, why and how market correlations change is a point that is still not very well understood. As the market is composed of different sectors, we propose to look into this question by studying the behavior of equity correlations at the sectoral level. We show how sectoral correlation coefficients determine the market correlation coefficient and decompose the latter into two parts ; one that represents country factors and one that represents industry factors. This decomposition allows us to get a clear idea on how and why market correlations change over time. We also get some interesting insights such as market level correlations are higher on average than sectoral correlations as well as that sectoral correlations between countries tend to do be more stable over time than market level correlations and sectoral correlations within countries. Finally, we present evidence that a few sector correlations related to Financial, Industrial and Consumer Services segments drive the evolution of the market level correlation.

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Financial Strength and Product Market Performance: The Real Effects of Corporate Cash Holdings

In this paper I empirically investigate whether a cash-rich firm can capture market shares to its cashpoor rivals, and examine the determinants of such strategic gains. Using U.S. intra-industry data from 1971 to 2005, I find that firms with larger cash reserves than their industry-year average expand their sales markedly more than rivals in future years. This "cash effect" turns out be magnified when industry rivals face tighter financing constraints, when investment opportunities are more interdependent between product market participants as well as in response to negative (unexpected) shocks to aggregate demand. Noteworthy, my tests show that the impact of cash on market share gains has increased over-time and that the importance of this evolution varies along with industry characteristics and the financial structure of rivals. Overall, my results provide strong evidence that by enhancing competitive performance, firm's cash policy encompasses an important strategic dimension.

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Ownership, Control and Market Liquidity

We examine how ownership concentration and the separation of ownership and control affect market liquidity in France. We find that firms with a large insider blockholder exhibit significantly lower liquidity. Different methods of concentrating control affect liquidity in different ways. Pyramid structures negatively affect liquidity for all pyramiding firms. Double voting right shares, a French specific means of control enhancement rewarding long-term shareholders, lead to increased liquidity for outside investors of small, familyfirms, by reducing the probability of informed trading.

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The Choice between Private and Public Capital Markets: The Importance of Disclosure Standards and Auditor Discipline to Countries Divesting State-owned Enterprises

For a sample of 1,866 privatizations from 37 countries, we estimate the impact of disclosure standards and legal institutions that discipline auditors on the method chosen to divest state-owned enterprises. The agency conflict between minority and controlling shareholders can impede a government from privatizing by selling its stake to diffuse investors in the public capital market with a share-issue privatization (SIP) that typically generates important spillover economic benefits, rather than an asset sale to a small group of buyers. However, prior research implies that accounting transparency plays a natural role in preventing controlling shareholders from siphoning corporate resources by helping minority investors identify any diversionary practices. After controlling for firm-level and other country-level characteristics, we find that SIPs become more likely when countries mandate strict disclosure standards, although this result is sensitive to model specification. In comparison, we provide strong, robust evidence that SIPs are more likely in jurisdictions that relax the burden of proof in civil lawsuits and criminal prosecutions against auditors, leading to more credible financial statements. These core results remain after controlling for other aspects of the auditing environment and liability standards in securities laws. From a policy perspective, our cross-country research suggests that investors value reforms that subject auditors to more severe private and public enforcement over several other legal determinants, including enhancing disclosure standards.

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Law, Finance, and Venture Capital: The Cost of Capital for High-Tech Firms

We use data from a professionally-conducted survey of high-technology managers to examine international variation in private equity contracting and cost of capital. Employing new variables and analyzing hundreds of financing rounds in the U.S., Europe, and Israel, we find that the sophistication of investors and the number of nonpecuniary services they provide are significantly associated with the ownership ratio (amount raised/valuation), but that funding rounds in the United States do not receive lower ownership ratios than elsewhere. We also find that useful patents are associated with a lower cost of capital, and that the institutional environment for entrepreneurial finance is related to exit strategy and valuation.

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Get an implied correlation to price equity-interest rates hybrids

To price vanilla options, the market does not rely on empirical parameters. Why should it be the case when pricing hybrids? When pricing long dated equity or indexes linked derivatives, one cannot assume the interest rates to be constant. As a consequence the market, consciously or not, does not only make bets on the volatility but also on the potential drift of the underlying. Therefore long dated vanilla options incorporate information on the dynamic of the interest rates. Using market prices from variance swaps, caps/floors and long dated vanilla options, one proposes a simple way to extract implied correlation between indexes and interest rates through a stochastic interest rates-stochastic volatility model.

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Price Adjustment to News with Uncertain Precision

Bayesian learning provides a core concept of information processing in financial markets. Typically, it is assumed that market participants perfectly know the quality of released news. In practice, information precision is rarely disclosed and needs to be assessed by traders. We extend the standard Bayesian model by including different precision signals that are actually available to traders. When these signals indicate a higher precision, the model predicts a stronger price reaction to news. Empirical tests based on intra-day T-bond futures price reactions to U.S. employment announcements suggest that these precision signals have a strong influence on the pricing mechanism of the market.

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Entry for Buyout and Optimal Financial (In)Flexibility

We analyze optimal financial structure for an incumbent and potential entrant accounting for feedback effects in secondary asset markets. By issuing sufficient debt, the incumbent creates overhang and credibly commits against purchasing entrant assets in bankruptcy auctions or trade sales. This depresses exit values and financier returns, thus reducing the likelihood of entry. The cost of debt overhang is that the incumbent fails to make positive NPV acquisitions if entry-deterrence fails. Optimal leverage weighs entry deterrence against ex post efficient investments. If predation is feasible, the case for shallow pockets is potentially stronger, since an unlevered incumbent generally prefers an acquisition whereas the levered incumbent generally responds to entry with predation. Since predation reduces financier returns and acquisitions raise them, the entry deterrence benefit from shallow pockets is magnified if predation is feasible. The model explains why growth firms eschew debt while entrenched value firms issue public debt. Optimal entrant contracts depend upon incumbent financial structure, with financiers retaining stronger ownership rights if the incumbent has deep pockets.

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Fire Sales: Revisiting the Market Equilibrium Approach

I explore the impact of fire sales on welfare. Because they allocate assets according to financial muscle rather than real efficiency, they are usually seen as socially costly. Though I show the following irrelevance result : When firms are cashless and use industry-specific assets, the competitive equilibrium exhibits fire sales and though is socially optimal. By contrast, when cash-rich outsiders can acquire assets in the industry, firms hoard less liquidity and the asset resale price is lower than in the social optimum. Although too many assets are reallocated from efficient cash-poor firms towards inefficient cash-rich firms, restricting such asset transactions (for example with anti-takeover laws) makes a bad situation worse.

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A Structural Model for Sovereign Credit Risk

This study examines the risk inherent to sovereign default on external debts denominated in foreign currency. I develop a contingent claims theory of a sovereign, which optimally chooses its level of foreign debt and default policy. In the

model, renegotiation upon default plays an important role in determining country creditworthiness. In crises episodes, the sovereign initiates a process of debt restructuring with the lender. Both parties bargain over a reduction of the debt service, which determines the level of economic sanctions. With a recovery rate being endogenous to the model, I show that the generated credit spreads are higher than when renegotiation is not accounted for and thus more consistent to the data. This prediction stands in stark contrast to the existing theoretical literature. On the empirical side, the analysis explores the relation between economic fundamentals and offers predictions that are consistent with the empirical literature. Finally, I compare credit spreads generated by the structural model with the observed EMBI+ spreads for a sample of emerging economies. The model is able to replicate most of the daily credit spread changes over the 1998-2006 period.

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An empirical model of merger and acquisitions timing
An empirical model of merger timing is constructed combining different micro-perspectives into a single framework that endogenises the merger process and illuminates the dynamics of merger activity. The model is estimated using survival analysis upon a uniquely constructed UK panel data set covering merger activity in twelve major industrial sectors over the period from 1990 to 2004. The findings provide strong empirical evidence for the endogenous character of mergers, especially as regards herd and preemption effects. The results also indicate that, mergers are strategic complements in the sense that by reducing competition in the market, merger activity today can dampen future competitive response and as a consequence mergers can become more profitable as merger activity proceeds. It is further shown that firm specific characteristic play an important role in merger timing. Specifically firms that are low growth but resource-rich, high growth but resource-poor, pay low dividends, have low investment opportunities or are small, are all considered 'attractive' targets and are more likely to be acquired. The relative importance of these micro-forces may differ at different stages of a merger wave, causing in this way the bandwagon rolling at full speed. These results provide answers to the long-standing question regarding the dynamics of merger activity and its wave like behavior.

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Joint Modelling of International Yield Curves
In this paper we propose a new approach to modelling and estimating yield curves across multiple currency areas. The idea is that one area acts as the 'cardinal' economy by affecting the yield curve evolution in the other markets. To some extent, the yield curve factors of the 'cardinal economy' serve the role as global yield curve factors. The adopted methodology is inspired by the 3-factor Nelson-Siegel yield curve model where a particular loading structure is identified for the 'non-cardinal' currency areas. Using US, German and Japanese data the model is shown to fit well both the cross-sectional and time-series dynamics of yields.

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Should we Invest in Microcredit? A Financial Analysis of Microcredit from a USD-Investor's Perspective

This study makes an innovative approach towards rating the profitability of micro-credit. While previous research on microfinance has been conducted through the analysis of individual case studies, this study takes a more widespread look at the financial performance of micro-lending organizations in less developed financial markets. A sample consisting of 24 micro-finance institutions (MFIs) operating in different regions worldwide is observed over a period of up to 9 consecutive years. The influence of both organization-specific and environmental factors on the profitability of their loan portfolios is examined. Furthermore, the capacity of those institutions to generate sufficient yields on their credit operations in order to attract rational foreign investors is rated. For this purpose, the realized credit spreads on MFI-portfolios are compared with spreads observable for exchange-traded USD-corporate bonds exhibiting equal levels of risk. The panel design and the investigation of multiple (partly qualitative) external variables influencing loan portfolio returns contribute to a comprehensive investigation of MFI-performance. Indeed, MFI-specific factors are found to be much more decisive for profitability than any environmental conditions.

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Riding Bubbles
Theoretical studies have yet to reach consensus on a rational investor's optimal response to asset price bubbles. Their predictions vary between going short, sidelining, and riding bubbles. We document patterns in U.S. industry returns that support riding bubbles as an optimal response, consistent with the theory of Abreu and Brunnermeier (2003). An investor who rides bubbles can earn abnormal returns in the order of 0.41% to 0.64% per month. However, these high returns come at the expense of a high crash risk: upon the detection of a bubble, the risk of a crash more than doubles. We evaluate the asset allocation implications of this tradeoff in a mean-downside risk framework. The additional return an investor can earn by riding a bubble more than offsets the higher risk of a crash.

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The Liquidation Dilemma of Money Losing Investments – The Impact of Investment Experience and Window Dressing of Private Equity and Venture Capital Funds

This study examines the investor's decision on the exit of loss making projects. The investor faces a liquidation dilemma: follow-on financing versus terminating a loss making investment, and thereby giving up the turn-around option. I examine the role of investment experience on solving this liquidation dilemma. Evidence from a sample of 712 realized Private Equity and Venture Capital investments confirms that young and inexperienced fund managers (i) hold loss-making investments longer, (ii) invest a higher share of the fund's portfolio capital into these losers, and (iii) provide relatively more financing rounds to these deals before the exit compared to more experienced funds. The results are robust to controlling for potential reputational concerns.

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Leverage Choice and Credit Spread Dynamics when Managers Risk Shift
We provide new insights that link compensation terms to credit spreads and leverage by structurally modeling the financial and operating decisions of a risk-averse manager paid with cash and stock. Optimal debt balances tax benefits with the utility cost resulting from ex-post asset substitution.

When cash-stock ratios are low (high), initial leverage is high and debt is safe (risky), while moderate cash-stock ratios are associated with low initial leverage. High credit spreads can be generated even when leverage and equity volatility are low. Using a large cross-section of 646 US based corporate credit default swaps (CDS) covering 2001-2006, we find strong evidence that the flexibility provided by the compensation terms is important for explaining CDS rates. With parameters estimated to match moments based on stock volatility and CDS rates, our model outperforms a similarly calibrated version of the Merton (1974) model, explaining an additional 10% of the variation in CDS rates and reducing average bias by over 50%.

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The Market for Corporate Directors
This paper develops a matching model in the market for directors to explain equilibrium board quality. In my model, (1) the boards of directors have the role of monitoring and advising, (2) the impact of a CEO.s quality increases with the size of a firm under his control, (3) the CEO and the boards could be either complements or substitutes, in the production function, and (4) the boards enjoy money value and reputation value. When the reputation depends on market value of firms, potential directors like to work at firms with talented CEOs if they can enjoy enough reputational gain on boards owing to talented CEOs. In contrast, when potential directors want value-added for reputation, they would be at firms with low-ability CEOs if the CEO and the boards are substitute. My empirical estimates suggest that talented ongoing CEOs and former CEOs work as outside directors of firms with high market capitalization and with high sales, though not with high assets. The quality of boards is higher where CEO pay is higher, but whether they like to work at firms with talented CEOs or not is ambiguous due to the endogeneity. The firms with talented boards would be likely to pay more to CEO. I also find that the firms with high sales pay more to outside directors. A 1% increase in sales makes board compensation increase by 0.66%. Finally, board pay is 0.13% higher where CEO pay is 1% higher. We can infer that the CEO and the boards are complements in the production function.

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Fairness Opinions and Capital Markets: Evidence from Germany, Switzerland and Austria
In this paper, we provide the first empirical evidence of fairness opinions in Europe. Legal requirements concerning the use of fairness opinions in mergers and acquisitions are significantly different in Germany, Switzerland, and Austria. We examine the determinants of target fairness opinions in these various regulatory settings and, moreover, investigate the impact of such opinions on abnormal target returns. Whilst in Germany and Austria market participants do not deem fairness opinions important, they do create value for shareholders in Switzerland. Because conflicts of interest between target board and bidder are a main determinant of fairness opinions in Switzerland, we conclude that, when target management faces such conflict, external expert advice replaces the board's opinion on the offer.

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Corporate Investment and Analyst Pressure
This paper empirically investigates whether executives alter capital budgeting decisions to meet or exceed analysts' earnings per share (EPS) consensus forecasts. I find that (i) firms reduce investment when analyst pressure to increase EPS is high and that (ii) firms increase their likelihood to meet or beat analyst EPS consensus forecasts by reducing investment. Investment has a direct impact on EPS through depreciation expenses and collateral costs. The observed reduction in investment to meet forecast targets occurs primarily within firms with better investment opportunities. This pattern is consistent with the passing up of valuable investment opportunities in response to analyst pressure.

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Admissible Designs of Debt-Equity Swaps for Distressed Firms: Analysis, Limits and Applications
This paper reconsiders the design of debt-equity swaps that are common tools to financially restructure distressed firms. While an ad hoc approach consists in characterizing a set of three parameters, we demonstrate that a system of two equations defines admissible designs. Hence, assuming that creditors do not want to bankrupt the firm nor they want to evict completely current equity holders, we solve the debt holders' design problem. We then undertake an in-depth analysis of corresponding solutions and we show that debt-equity swaps can significantly increase the probability of being reimbursed of the remaining due payment in the next future.

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The value-relevance of foreign currency disclosures
This paper studies the value-relevance of FCD disclosures on an unique and extensive ample of European companies. Our findings show that these firms use FCDs to hedge and not to speculate but that the impact of hedging strategies' disclosures is statistically and economically weak revealing that either (i) managers hedge only a small proportion of the currency risk they are facing, or that (ii) investors make systematic errors when assessing the link between disclosed FCD usage and firms' risk exposures. We find strong evidence in favor of the existence of economies of scale in hedging and that European firms engage in hedging programs in response to tax convexity. Our results tend to support financial distress motives to hedge, but no evidence is found in favor of agency costs related motives. Whereas the degree of international involvement strongly determines the magnitude and significance of a firm's exchange rate exposure, it appears that large firms benefit from the diversification of their foreign operations and are to a greater extent capable of implementing operational hedging strategies.

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Assigning Market Power to Price Cap Regulation by the Analysis of Investment Decisions
This paper examines the effects and dependence of price regulation, quality aspects or benchmark scaling and market power. By considering a model without regulation, we first show how quality parameters, included via benchmark scaling factors, influence investment behavior and how the additional existence of market power affects these results. This existence of market power allows further conclusions for certain stages of market liberalization. Hence, it becomes possible to analyze investment behavior over time which corresponds to different levels of regulatory development, starting from a natural monopoly and ending up at a market with workable competition. We can then enhance the previous model by creating a general framework with regulation and derive further optimal investment decisions. Therefore, we use a real option approach which enables us to

compare the two frameworks and the adherent investment triggers. Our model allows the regulatory authority to test their regulatory setup ex ante as well as ex post in order to quantify the consequences of their activities.

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The Early News Catches the Attention: On the Relative Price Impact of Similar Economic Indicators

There is strong evidence that macroeconomic news influence prices in financial markets. However, why do markets react to some indicators while they ignore others with a similar content? Based on a Bayesian learning model, we show that market impact is mainly determined by information quality and early availability of an indicator. To test the model's implications, we analyze the successive introduction of the two largest German business surveys: the well-known IFO index and the recently introduced ZEW economic indicator. In line with the model's prediction, we find a diminishing market impact of the IFO index after the ZEW indicator was introduced.

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Replicating the properties of hedge fund returns

In this paper, we implement a multi-variate extension of Dybvig (1988) Payoff Distribution Model that can be used to replicate not only the marginal distribution of most hedge fund returns but also their dependence with other asset classes. In addition to proposing ways to overcome the hedging and compatibility inconsistencies in Kat and Palaro (2005), we extend the results of Schweizer (1995) and adapt American options pricing techniques to evaluate the model and also derive an optimal dynamic trading (hedging) strategy. The proposed methodology can be used as a benchmark for evaluating fund performance, as well as to replicate hedge funds or generate synthetic funds.

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The Level and Quality of Value-at-Risk Disclosure by Commercial Banks

In this paper we study (1) the level of Value-at-Risk (VaR) disclosure and (2) the accuracy of the disclosed VaR figures for a sample of US and international commercial banks. To measure the level of VaR disclosures, we develop a VaR disclosure index that captures many different facets of market risk disclosure. Using panel data over the period 1996- 2005, we find large differences in the level of disclosure between US commercial banks and an overall upward trend in the quantity of information released to the public. Our cross-sectional analysis of the largest banks in the world indicates that US disclosures are below average. We also find that Historical Simulation is by far the most popular VaR method. We assess the accuracy of the disclosed VaR figures by studying whether actual daily VaRs contain information about the volatility of subsequent trading revenues. We find that VaR computed using Historical Simulation contains very little information about the future volatility of trading revenues and that a simple GARCH model often dominates bank proprietary VaR models. We show that this finding is a natural consequence of the growing popularity of the Historical Simulation method among banks.

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Testing for Instability in Factor Structure of Yield Curves

A widely relied upon but a formally untested consideration is the issue of stability in factors underlying the term structure of interest rates. In testing for stability, practitioners as well as academics have employed ad-hoc techniques such as splitting the sample into a few sub-periods and determining whether the factor loadings have appeared to be similar over all sub-periods. Various authors have found mixed evidence on stability in the factors. In this paper we develop formal tests in order to evaluate the factor structure stability of the US zero coupon yield term structure. We find the factor structure of level to be unstable over the sample period considered. The slope and curvature factor structures are however found to be stable. We corroborate the literature that variances (volatility) explained by the level, slope, and curvature factors are unstable over time. We find evidence of the presence of common economic shocks affecting the level and slope factors, unlike slope and curvature factors that responded differently to economic shocks and were unaffected by any common instabilities.

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Value of your Advisor's Advice

This empirical paper addresses the issue of the quality of financial advice given by investment banks regarding firms' acquisition activities. Motivated by anecdotal and documented evidence on the cases of "fee generating" motives in advisory business, the hypothesis of the paper is whether the better established contacts of investment bankers with firm's executives can boost the phenomenon of "chasing deals" and lead to a larger number of value destroying acquisitions. We investigate whether closer contacts between investment bankers and corporate management encourage the firm to perform acquisitions characterized with lower abnormal returns. In this paper, the event establishing close ties between advisors and executives is taking the firm public, i.e. the conjecture is that those banks, who have underwritten company's IPO issue, have preferential access to its corporate executives, in that the bankers can easily identify and pitch potential takeover targets deliberately and insistently. If the "fee generating" hypothesis is true, we expect the abnormal returns at acquisitions to be lower for firms that went public with banks actively advising on M&A. In contrast, whenever a firm goes public with an IPO-specialized bank, which does not seek fees from extra M&A advisory, we expect this firm to have higher announcement returns at acquisitions. The results suggest that there is indeed a negative relation between the engagement of the underwriter in advisory business and stock performance at acquisitions. The results stay robust when controlling for possible endogeneity of strategic choice of the investment banker for IPO.

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Why privatize? A competition for ownership approach

Theories of privatization or nationalization typically compare the economic or political efficiency of private and state ownership, either in general, or for a list of specific goods and services. They aim at defining, once and for all, what a normative allocation of ownership should be, i.e. the desirable scope of government. Such attempts however can hardly account for the "big reversal" of post WWII nationalization policies, which gave way to the current

privatization wave, initiated in the 1980s. Since what is to be explained is the fluctuating allocation of property rights over firms between private investors and the state, we model a competitive bidding for these rights in which the private investors value shareholders wealth, and the state values political survival, obtained through the transfer of the firm cash flow to various political clienteles. The investors who value the firm most get the rights of control, a privatization or a nationalization, according to which type of investor has the lowest cost of funds. Recent data on privatization amounts in eight countries lend support to our theory.

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The Determinants of Sin Stock Returns: Evidence on the European Market

This article deals with the time-series variation in average sin stock returns – returns on publicly-traded companies involved in producing tobacco, alcohol, and gaming. Next to nothing has been written about this class of stocks, especially on the European stock market. The hypothesis I explore in this paper is that sin stock returns depend on legal and cultural characteristics such as religious preferences, the level of excise taxation, and the degree of litigation risk. Using data on 18 European countries over the period 1975-2006, my results show evidence that Protestants are more "sin averse" than Catholics, and require a significant premium on sin stocks. Moreover, sin stocks have higher risk-adjusted returns when they are located in a country with high excise taxation; and sin stocks outperform other stocks when the litigation risk is higher, even after controlling for well-known risk factors such as market capitalization and book-to-market ratio. These findings suggest that sin stock returns depend on both legal and religious environments of each country.

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Venture Capital and Timing of IPO

Our purpose is to find the optimal exit time of a venture capitalist (VC) under profit flow uncertainty. We consider that the VC sells his holding in two steps: at the offer price at the date of the initial public offering (IPO) taking into account the underpricing, then at the expiration of the lock-up period. We use a real options approach when the profit flow of the venture capital backed company follows an arithmetic Brownian motion. We find a closed- form solution of the threshold at which it is optimal for the VC to exit and also determine the expected first hitting time.

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A Dynamic Limit Order Market with Diversity in Trading Horizons

This paper considers a trading game in which sequentially arriving liquidity traders either opt for a market order or for a limit order. One class of traders is considered to have an extended trading horizon, implying their impatience is linked to their trading orientation. More specifically, sellers are considered to have a trading horizon of two periods, whereas buyers only have a single-period trading scope (the extended buyer-horizon case is completely symmetric). Clearly, as the life span of their submitted limit orders is longer, this setting implies sellers are granted a natural advantage in supplying liquidity. This benefit is hampered, however, by the direct competition arising between consecutively arriving sellers. Closed-form characterizations for the order submission strategies are obtained when solving for the equilibrium of this dynamic game. These allow to examine how these forces affect traders' order placement decisions. Further, the analysis yields insight into the dynamic process of price formation and into the market clearing process of a non-intermediated, order driven market.

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"Effective" parameters for stochastic volatility models

This paper tackles the issue of approximated formula for stochastic model with time dependent model parameters, using an averaging principle. The idea lies in finding a similar model but with constant parameters that is the closest to our initial process, along the same lines as results proven by Gyöngy (1986) for general stochastic processes. We extend previous results found by Piterbarg (2005) for the particular case of SABR model (Hagan (2002)). The resulting formula can be evaluated very quickly solving the implied Riccati equations. We compare the approximation with exact solution of the corresponding partial differential equation using an ADI method. Numerical results show that the approximation works well for short term maturities.

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Cosmetic Mergers: The Effect of Style Investing on the Market for Corporate Control

We study the impact of style investing on the market for corporate control. We argue that a firm may choose to boost its market value by merging with a firm that belongs to a style that is more favored by the market. By using data on the flows in mutual funds, we construct a measure of neglectedness, which relies directly on the identification of sentiment-induced investor demand, rather than being a direct transformation of stock market data. We show that bidders tend to pair with targets that are relatively less neglected. The merger with a less neglected target generates a halo effect from the target to the bidder that induces the market to evaluate the assets of the more neglected bidder at the (inflated) market value of the less neglected target. Both bidder and target premia are positively related to the difference in neglectedness between bidder and target. However, the target's ability to appropriate the gain is reduced by the fact that its bargaining position is weaker when the bidder's potential for asset appreciation is higher. We document a better medium-term performance of more neglected firms taking over less neglected firms. The bidder managers engaging in these cosmetic mergers take advantage of the window of opportunity created by the higher stock price induced by the M&A deal to reduce their stake in the firm under convenient conditions.