UNIVERSITY OF MANNHEIM
Business School

CHAIR OF
CORPORATE FINANCE

Bachelor's Thesis Topics Wirtschaftspädagogik FSS 2020

AACSB ACCREDITED EFMD EQUIS ACCREDITED ASSOCIATION OF MBAS ACCREDITED

Topic 1: Excessive Risk-Taking by Banks

Excessive risk-taking by banks is seen as a major cause for financial crises and recessions like the recent global financial crisis (Jordà, Schularick, and Taylor 2013). Existing explanations for taking such high risk range from the institutional setting, such as government guarantees (Farhi and Tirole 2012), through firms' incentive structure, such as manager compensation schemes (Bolton, Mehran, and Shapiro 2015), to behavioural biases, such as the neglect of tail risk (Gennaioli, Shleifer, and Vishny 2012).

The goal of this thesis is to give an overview of the existing theoretical and empirical literature on the causes of excessive risk-taking of (financial) firms. The thesis should find answers to the following questions (focus on question in bold): What is risk-taking and how can it be measured? When can risk-taking be considered excessive? **What are the causes of excessive risk-taking by banks?**

Introductory Literature

- Bolton, Patrick, Hamid Mehran, and Joel Shapiro, 2015, Executive Compensation and Risk Taking, *Review of Finance* 19, 2139–2181.
- Boyd, John H., and Gianni Nicoló, 2005, The Theory of Bank Risk Taking and Competition Revisited, *The Journal of Finance* 60, 1329–1343.
- Farhi, Emmanuel, and Jean Tirole, 2012, Collective Moral Hazard, Maturity Mismatch, and Systemic Bailouts, *American Economic Review* 102, 60–93.

Topic 2: Payday Loans: A Popular Form of Subprime Lending

In the United States, "payday loans" have become popular among subprime borrowers in urgent need of money: Payday loan stores offer small loans for seven to 30 days in exchange for a fee of 15% to 30% (implied annual percentage rate: 400% to 1000%).

Judging this form of lending by economic theory is ambiguous: On the one hand, non-standard loans allow individuals without access to regular credit markets to smooth income or consumption shocks, which can ease financial distress. On the other hand, the immense fees exacerbate hardship among individuals who suffer from a large debt burden in the future. "Bilaterally voluntary" transactions on these and similar subprime credit markets take place among actors with very asymmetric outside options.

The goal of this thesis is to review the theoretical and empirical literature on subprime lending with a focus on payday loans. The thesis should answer the following questions: What is subprime lending, in general, and payday lending, in particular? How does the business model of payday lenders work? Why do people demand loans with relatively bad conditions such as payday loans? What are the economic and social consequences of such forms of subprime lending?

Introductory Literature

- Melzer, Brian T., 2011, The Real Costs of Credit Access: Evidence from the Payday Lending Market, *The Quarterly Journal of Economics* 126, 517-555.
- Stegmann, Michael A., 2007, Payday Lending, *Journal of Economic Perspectives* 21, 169-190.

Topic 3: Shareholder Orientation and Sustainability

According to the European Commission, a sustainable economy is an economy which "meet[s] the needs of the present without compromising the ability of future generations to meet their own needs". To contribute to such an economy, company decisions have to be made in line with long-term economic, ecological, and social goals.

Shareholders of listed companies could, on the one hand, support such decisions by strategically investing in sustainable firms or by actively persuading management to involve in more sustainable business practices. On the other hand, listed companies are often blamed for being inherently short-term oriented. Indeed, shareholder orientation can incentivize managers to boost short-term stock prices rather than pursuing what is best for the company, not to mention for society, in the long term (Edmans et al. 2017).

The question arises if shareholder orientation supports sustainable firm decisions, or, on the contrary, impedes a sustainable restructuring of firms. This thesis should provide an overview of the literature regarding shareholder orientation and sustainability and find an answer to this question.

Introductory Literature

- Edmans, Alex, Vivian W. Fang, and Allen Huang, 2017, The Long-Term Consequences of Short-Term Incentives, *European Corporate Governance Institute – Finance Working Paper* 527.
- Hackbarth, Dirk, Alejandro Rivera, and Tag-Yuen Wong, 2018, Optimal Short-Termism, *European Corporate Governance Institute – Finance Working Paper* 546.
- Hong, Harrison, and Marcin Kacpercyk, 2009, The Price of Sin: The Effects of Social Norms on Markets, *Journal of Financial Economics* 93, 15-36.

Topic 4: Climate Risks for Investments

Climate change poses various risks to investors. First, the changing climate challenges some business models. For example certain regions lose its touristic attractiveness because of an increasing temperature. Second, the global fight against climate change involves political, societal and technological changes which inhibit the profitability of some sectors, e.g. of energy generation from fossil fuels.

The idea that the financial investors should incorporate "climate risks" in their investments is therefore gaining ground: In December 2015, the Financial Stability Board (FSB) launched a Task Force on Climate-related Financial Disclosures (TCFD). Marc Carney, governor of the bank of England has urged financial institutions to include climate-related issues in their investment decisions for several years. The German advisory board on "Sustainable Finance" with a focus on climate-related issues has started its work last summer.

This thesis should provide an overview of the academic literature on climate risks for investments. It should find answers to the following questions: What are climate change-related investment risks? Does it make sense to incorporate these risks from an economic perspective? Do investors actually care about such risks?

Introductory Literature

- Campiglio, Emanuele, Yannis Dafernos, Pierre Monin, Josh Ryan-Collins, Guido Schotten, and Misa Tanaka, 2018, Climate change challenges for central banks and financial regulators, *Nature Climate Change* 8, 462-468.
- Krüger, Philipp, Zacharias Sautner, Laura Starks, 2019, The Importance of Climate Risks for Institutional Investors, *European Corporate Governance Finance Working Paper* 610.
- Caldecott, Ben, 2016, Introduction to Special Issue: Stranded Assets and the Environment, *Journal of Sustainable Finance and Investment* 7, 1-13.

Topic 5: Common Ownership and Competition

Large institutional investors, in particular, large asset managers, own a high and increasing share of public U.S. companies (about a 70% to 80% of all stocks). For example, the asset managers BlackRock, Vanguard, and State Street are the largest investor of 88% of the top 500 U.S. American public firms.

One concern that arises with the increasing concentration of investors is that it could hurt competition among public firms: When a large investor owns shares in several firms within the same industry, these firms do not really want to outcompete competitors as this, in turn, would hurt their own investor. Firms then have an incentive to reduce competition by producing fewer units, raising prices, reducing investment, innovating less, or limiting entry into new markets. In the end, this would hurt consumers.

The aim of this thesis is to review the literature on this "common ownership hypothesis". The thesis should find answers to the following questions: How high is the level of common ownership in different sectors of the U.S. economy? What is the theoretical idea behind the "common ownership hypothesis"? Is it supported in empirical studies?

Introductory Literature

- Azar, José, Martin C. Schmalz, and Isabel Tecu, 2018, Anticompetitive Effects of Common Ownership, *The Journal of Finance* 73, 1513-1565.
- Backus, Matthew, Christopher Conlon, and Michael Sinkinson, 2019, The Common Ownership Hypothesis: Theory and Evidence, *Economic Studies at Brookings*.