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Bachelor Theses FSS 2024: Topics

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Advisor: Chia-Yi Yen

TOPIC NR1: Racial diversity in financial ads and heterogeneity across financial institutions

Advisor: Luisa Langer

Diversity matters. Racial diversity is seen as a topic of importance for firms today. Ethnically diverse boards, for example, are perceived as better equipped to deal with the needs of a diverse market and to boost firms' reputations. Whether a company is committed to racial and ethnic diversity might be assessed using the company's advertising campaigns. Marketing and advertising research shows that ethnic minorities as compared to the dominant (often white) majority in a society, are underrepresented and portrayed stereotypically in advertising.

Given the increased interest and commitment to racial diversity, one may hypothesize that younger firms/startups use advertising that promotes higher racial diversity. On the contrary, ethnic minorities remain invisible in ads from traditional old firms. Similarly, there might be other heterogenous factors among firms (e.g., headquarters location, country values when the firm operates, legislation against racism) that influence the percentage of ethnic minorities shown in the firms' ads. For instance, Western firms might employ the same advertisements in Eastern countries as in their home country, featuring mostly white people. This thesis will focus on racial diversity and heterogeneity in the context of ads from financial institutions.

Requirements:
The goal of this thesis is to analyze whether heterogeneity factors influence racial diversity portrayed in financial ads. For example, the student should also assess whether (1) more recently founded financial institutions (e.g., younger firms) have more racial-diverse ads; (2) financial institutions with a headquarter location in Western/Eastern countries advertise more racially and ethnically diverse ads; and (3) banks located in countries with legislation against racism portray ethnic minorities in more empowered roles in its ads. In conducting this analysis, the student should manually collect information regarding heterogeneity (e.g., age, geographic location, countries' rules and values) of financial institutions. Data on financial ads and ethnicity will be provided by the Chair. Empirical work for this topic requires the use of statistical software (e.g. STATA or R). Prior experience in using this software would be helpful.

Introductory Literature:

- Berger, A. N., Li, X., Morris, C. S., & Roman, R. A. (2021). The effects of cultural values on bank failures around the world. *Journal of Financial and Quantitative Analysis*, *56*(3), 945-993.
- Forehand, M. R., & Deshpandé, R. (2001). What we see makes us who we are: Priming ethnic self-awareness and advertising response. *Journal of Marketing Research*, *38*(3), 336-348.
- Goldstein, I., Kopytov, A., Shen, L., & Xiang, H. (2020). Bank heterogeneity and financial stability (No. w27376). National Bureau of Economic Research.
- Huh, Y., & Kashian, R. (2021). Corporate board gender diversity and ethnic ownership of US banks. *Journal of Applied Economics*, *24*(1), 258-276.
- Langer, L., & Niessen-Ruenzi (2024). Gender stereotypes in financial advertisements. Available at SSRN in this link.
- Richard, O. C. (2000). Racial diversity, business strategy, and firm performance: A resource-based view. *Academy of Management Journal*, *43*(2), 164-177.
- Rößner, A., & Eisend, M. (2023). Ethnic minorities in advertising. *Journal of Advertising*, *52*(5), 774-784.

TOPIC NR2: Diversity and corporate performance: a visual portrayal from company reports

Advisor: Luisa Langer

Corporate diversity policies help to shape gender and ethnic roles by indicating how such differences are to be treated and managed. Sometimes, the notions of gender and ethnicity diversity are positioned as a liability in need of protection, whilst in others, as a source of competitive advantage. Many companies publicly commit themselves to welcome diversity and to encourage more women and members of ethnic minorities to join them and occupy higher job positions. One way to gain insights into gender and ethnic corporate diversity is to analyze the language used in corporate disclosures, specifically to see how the notions of gender and ethnic diversity are portrayed in corporate reports. Diversity discourses can be communicated through photographs, which are symbolic artefacts of the organizational culture, manifesting the values of the company and setting expectations about how diversity is to be dealt with.

Visual images are powerful tools for communicating messages regarding all aspects of organizations. On one hand, the pictures and photographs in annual reports may be regarded as incremental information, neutral representation of intended organizational messages. On the other hand, visual images in annual reports might have a co-existing role as impression management tools. Ultimately, images from annual reports can help assess the company's visual rhetoric on gender and ethnic diversity. One can argue that more diversity in annual reports' photos can be found in firms with better financial and sustainability performance. However, more diversity in visual displays might also be used as an impression tool.

Requirements:
The goal of this thesis is to examine the association between gender and ethnic diversity and corporate performance. In particular, the student is expected to (1) document the existence of gender and ethnic diversity in corporate communications such as photos published in corporate reports, and (2) to examine the association between a diversity index and corporate performance (using both financial and non-financial indicators). Photos from the reports of the German DAX 40 companies over the last years will be provided by the Chair. The student is expected to categorize these photos using a coding template, provided by the Chair, and to build a diversity index. Data on corporate performance indicators should be collected. Empirical work for this topic requires the use of statistical software (e.g. STATA or R). Prior experience in using this software would be helpful.

Introductory Literature:

- Benschop, Y., & Meihuizen, H. E. (2002). Keeping up gendered appearances: Representations of gender in financial annual reports. *Accounting, Organizations and Society*, *27*(7), 611-636.
- Cho, C. H., Phillips, J. R., Hageman, A. M., & Patten, D. M. (2009). Media richness, user trust, and perceptions of corporate social responsibility: An experimental investigation of visual website disclosures. *Accounting, Auditing & Accountability Journal*, *22*(6), 933-952.
- Duff, A. (2011). Big four accounting firms' annual reviews: A photo analysis of gender and race portrayals. *Critical Perspectives on Accounting*, *22*(1), 20-38.
- Herring, C. (2009). Does diversity pay?: Race, gender, and the business case for diversity. *American Sociological Review*, *74*(2), 208-224.
- Rämö, H. (2011). Visualizing the phronetic organization: The case of photographs in CSR reports. *Journal of Business Ethics*, *104*, 371-387.
- Singh, V., & Point, S. (2006). (Re) presentations of gender and ethnicity in diversity statements on European company websites. *Journal of Business Ethics*, *68*, 363-379.

TOPIC NR3: Social Finance: The Role of Peer Effects in Financial and Economic Decision-Making

Advisor: Larissa Ginzinger

Social finance studies the structure of social interactions, how financial ideas spread and evolve, and how social processes such as in-group bias and homophily affect financial and economic outcomes. The research agenda includes, e.g., the study of how in-group bias affects investment behavior (e.g., Kumar et al. 2011) and of how beliefs and information that affect financial decisions form and spread across social networks (e.g., Cannon et al. 2024, Hu 2022).

Traditionally, the lack of accessible large-scale data on social ties has limited researchers' ability to understand the role of social interactions in financial and economic decision-making. In recent years, however, the availability of new data has facilitated a surge of research documenting the effects of social interactions and processes on economic and financial outcomes in various contexts. Bailey et al. (2018) construct and publish a measure of social connectedness at the US county level based on de-identified Facebook friendship ties. Building on this work, Chetty et al. (2022a) construct a measure of social capital that reflects the strength and quality (socio-economic status) of social networks.

Requirements:
The student is required to provide a comprehensive literature review on the role of peer effects in financial and economic decision-making. The discussion should include, but not be limited to, (1) the measurement of (the quality of) social ties, (2) the mechanisms behind the influence of peer effects on economic and financial decisions, and (3) a comprehensive review and comparison of the studies investigating the role of peer effects in the financial and economic decisions of individuals, professional money managers, and firms. In the context of (1), the student is required to visualize (the quality of) social ties based on publicly available data from Facebook's Data for Good. It is important that the candidate has basic knowledge of a statistical software program (e.g., Stata) or is willing to acquire such knowledge during the processing period.

Introductory Literature:

- Bailey, M., Cao, R., Kuchler, T., Stroebel, J., & Wong, A. (2018). Social connectedness: Measurement, determinants, and effects. Journal of Economic Perspectives, 32(3), 259-280.
- Cannon, B., Hirshleifer, D., & Thornton, J. (2024). Friends with Benefits: Social Capital and Household Financial Behavior (No. w32186). National Bureau of Economic Research Working Paper.
- Chetty, R., Jackson, M. O., Kuchler, T., Stroebel, J., Hendren, N., Fluegge, R. B., ... & Wernerfelt, N. (2022a). Social capital I: measurement and associations with economic mobility. Nature, 608(7921), 108-121.
- Chetty, R., Jackson, M. O., Kuchler, T., Stroebel, J., Hendren, N., Fluegge, R. B., ... & Wernerfelt, N. (2022b). Social capital II: determinants of economic connectedness. Nature, 608(7921), 122-134.
- Hirshleifer, D. (2020). Presidential address: Social transmission bias in economics and finance. The Journal of Finance, 75(4), 1779-1831.
- Hu, Z. (2022). Social interactions and households' flood insurance decisions. Journal of Financial Economics, 144(2), 414-432.
- Kuchler, T., & Stroebel, J. (2021). Social finance. Annual Review of Financial Economics, 13, 37-55.
- Kuchler, T., Li, Y., Peng, L., Stroebel, J., & Zhou, D. (2022). Social proximity to capital: Implications for investors and firms. The Review of Financial Studies, 35(6), 2743-2789.
- Kumar, A., Niessen-Ruenzi, A., & Spalt, O. G. (2015). What's in a name? Mutual fund flows when managers have foreign-sounding names. The Review of Financial Studies, 28(8), 2281-2321.

TOPIC NR4: The Gender Gap in Entrepreneurship and Start-up Financing

Advisor: Larissa Ginzinger

Entrepreneurship plays a pivotal role in enhancing productivity, job creation, and innovation. However, a growing body of research shows that there are wide disparities in the use of human capital in the entrepreneurial pool. In particular, female entrepreneurs are severely underrepresented. Gompers & Wang (2017) find that from 1990 to 2016, women made up less than 10% of the entrepreneurial labor pool in the US. The persistence of this gender gap runs counter to broader labor market trends known as the 'grand convergence' (Goldin, 2006, 2014).

Recent research has attempted to explore possible explanations for the gender gap in entrepreneurship. For example, Ewens & Townsend (2020) examine whether early-stage investors have gender biases that affect their investment decisions. They find that female founders are significantly less successful in attracting interest and raising capital from male investors than observably similar male founders. In contrast, the same female founders are actually more successful than male founders in attracting female investors. Morazzoni & Sy (2022) estimate that closing the gender gap in business financing has the potential to reduce capital misallocation and increase aggregate output.

Requirements:
The goal of this thesis is twofold. First, the student is required to provide a comprehensive literature survey on gender imbalances in entrepreneurship and start-up financing. The discussion should include, but not be not limited to, (1) the status quo of gender imbalances in entrepreneurship and start-up financing, (2) a comprehensive review and comparison of the most common explanations for the gender gap in entrepreneurship and start-up financing, and (3) policy measures that can help to close the gender gap in entrepreneurship and start-up financing. Second, the student is required to provide a characterization of the gender gap in the German entrepreneurial sector, e.g., by providing descriptive statistics using data from the Female Founders Monitor and/or by presenting a case study of successful German female start-ups.

Introductory Literature:

- Ewens, M., & Townsend, R. R. (2020). Are early stage investors biased against women?. Journal of Financial Economics, 135(3), 653-677.
- Calder-Wang, S., & Gompers, P. A. (2021). And the children shall lead: Gender diversity and performance in venture capital. Journal of Financial Economics, 142(1), 1-22.
- Goldin, C. (2006). The quiet revolution that transformed women's employment, education, and family. American Economic Review, 96(2), 1-21.
- Goldin, C. (2014). A grand gender convergence: Its last chapter. American Economic Review, 104(4), 1091-1119.
- Gompers, P. A., & Wang, S. Q. (2017). Diversity in innovation. National Bureau of Economic Research Working Paper.
- Hebert, C. (2023). Gender stereotypes and entrepreneur financing. SSRN Working Paper Series.
- Hellmann, T., Mostipan, I., & Vulkan, N. (2019). Be careful what you ask for: Fundraising strategies in equity crowdfunding (No. w26275). National Bureau of Economic Research.
- Kanze, D., Conley, M. A., Okimoto, T. G., Phillips, D. J., & Merluzzi, J. (2020). Evidence that investors penalize female founders for lack of industry fit. Science Advances, 6(48), eabd7664.
- Morazzoni, M., & Sy, A. (2022). Female entrepreneurship, financial frictions and capital misallocation in the US. Journal of Monetary Economics, 129, 93-118.

TOPIC NR5: Electronic Bond Trading

Advisor: Justus Veehof

Different from stocks, which primarily trade on exchanges, bonds predominantly trade in opaque over-the-counter (OTC) markets. In a traditional OTC market, investors must individually reach out to dealers to obtain potential trade prices. The search and information acquisition costs inherent in OTC trading might give dealers market power and increase transaction costs particularly for unsophisticated investors. However, in recent years, electronic trading platforms such as request-for-quote (RFQ) systems or limit order books have found their way into bond trading. These platforms allow investors to request prices from multiple dealers simultaneously or bypass dealers altogether by directly trading with other investors.

Multiple studies seem to confirm that the emergence of these electronic trading platforms has led to a decrease in transaction costs in the OTC bond market. For example, O'Hara and Zhou (2021) find that corporate bonds with greater trading volume on RFQ platforms exhibit a lower dispersion in OTC trade prices. Potential channels through which RFQ platforms might influence the liquidity of the OTC market are heightened competition among OTC dealers or the facilitation of inventory management. Similar empirical evidence exists for municipal bonds, for instance, by Wu et al. (2018).

Requirements:

The primary goal of this thesis is to conduct a comprehensive literature review on how electronic trading platforms influence the liquidity and price efficiency of corporate and municipal bonds. The discussion should encompass but is not limited to (1) an overview of the theoretical determinants of market liquidity, (2) an overview of the empirical measures of market liquidity, and (3) how electronic trading platforms seem to affect bond market quality and through which channels. Additionally, the student might conduct a short case study in which he or she presents the market design of a self-selected electronic trading platform in greater detail.

Introductory Literature:

- O'Hara, M., Zhou, X. A. (2021). The electronic evolution of corporate bond dealers. Journal of Financial Economics, 140, 368-390.
- Hendershott, T., Livdan, D., Schürhoff, N. (2021). All-to-All Liquidity in Corporate Bonds. Swiss Finance Institute Research Paper.
- Kozora, M., Mizrach, B., Peppe, M., Shachar, O., Sokobin, J. S. (2020). Alternative Trading Systems in the Corporate Bond Market. Federal Reserve Bank of New York Staff Report No. 938.
- Wu, S. Z., Bagley, J., Vieira, M. (2018). Analysis of Municipal Securities Pre-Trade Data from Alternative Trading Systems. Municipal Securities Rulemaking Board Working Paper.

TOPIC NR6: Bond Short Selling

Advisor: Justus Veehof

Short selling plays a pivotal role in the functioning of financial markets. Short selling matters not only to investors with negative private information but also to market makers who deal in securities they do not own. In essence, shorting significantly influences the price efficiency and liquidity of financial assets. Despite its relevance for any type of asset, much of the focus of academics and regulators has been on short selling in equities. The existing knowledge on short selling in bonds remains sparse.

Asquith et al. (2013), for example, investigate the market for borrowing corporate bonds. They document that borrowing costs are mainly influenced by a bond's rating (a proxy for price sensitivity towards negative news) and the inventory level of the lender. Hendershott et al. (2020), in contrast, research whether short selling in corporate bonds is informative. They discover that for high yield bonds and periods after the 2007/2008 financial crisis, bond short selling indeed negatively predicts future bond returns.

Requirements:

The main goal of this thesis is to offer a comprehensive literature review on the role of short selling in corporate and government bonds. The discussion should include but is not limited to (1) an overview of the shorting process and regulatory development of shorting in the US, (2) a brief overview of the market for borrowing bonds, and (3) the impact and significance of short selling in corporate and government bonds.

Introductory Literature:

- Asquith, P., Au, A. S., Covert, T., Pathak, P. A. (2013): The market for borrowing corporate bonds. Journal of Financial Economics, 107, 155-182.
- Duong, H. N., Kalev, P. S., Tian, X. (2023): Short selling, divergence of opinion and volatility in the corporate bond market. Journal of Economic Dynamics & Control, 147.
- Hendershott, T., Kozhan, R., Raman, V. (2020): Short Selling and Price Discovery in Corporate Bonds. Journal of Financial and Quantitative Analysis, 55(1), 77-115.

TOPIC NR7: Why do firms voluntarily disclose ESG information?

Advisor: Chia-Yi Yen

With more and more investors prioritizing environmental, social, and governance (ESG) considerations, sustainable investing has gained popularity and grown rapidly in recent years, especially after the COVID-19 pandemic. It is reported that global ESG assets have surpassed $30 trillion as of 2022, with projections set to exceed $40 trillion by 2030.[1] This trend has elevated the importance of comprehensive ESG disclosures.

While more and more companies are issuing CSR reports, it is unclear what incentivizes companies to disclose their ESG information. On one hand, ESG reporting can offer several benefits. For instance, firms may strategically engage in ESG reporting in order to insure against future reputational damage, as posited by Christensen et al. (2021). In addition, ESG reporting may reduce the information asymmetry between firms and their stakeholders, potentially leading to lower costs of capital and debt and a higher firm value (e.g., Dhaliwal et al., 2011). On the other hand, there are deterrents to ESG disclosure, such as litigation risk. If stakeholders interpret voluntary CSR disclosures as containing misleading or erroneous information, it could elevate a firm's legal exposure (e.g., Kuratek et al., 2020).

Requirements:
The student has to conduct a comprehensive literature review to determine the driving forces behind companies' voluntary ESG disclosures. In addition to the abovementioned motivations like reputation insurance and reduced information asymmetry, the student should explore other potential explanations, such as the use of ESG disclosure as a signaling mechanism and managers' agency incentives to greenwash. Furthermore, the student should discuss the impediments to voluntary ESG disclosure, including litigation and regulatory costs. Finally, the student should assess the reliability of these voluntary ESG disclosures based on his/her understanding of the various incentives and disincentives that influence a firm's decision in voluntary ESG reporting. Finally, the student is expected to evaluate the reliability of voluntary ESG disclosures and potential biases, based on various incentives and disincentives that influence a firm's decision in voluntary ESG reporting. Besides the literature review, the student has to show a time trend of voluntary ESG disclosure among a representative cohort of US-listed firms.

Introductory Literature:

- Christensen, H. B., Hail, L., & Leuz, C. (2021). Mandatory CSR and sustainability reporting: Economic analysis and literature review. Review of accounting studies, 26(3), 1176-1248.
- Dhaliwal, D. S., Li, O. Z., Tsang, A., & Yang, Y. G. (2011). Voluntary nonfinancial disclosure and the cost of equity capital: The initiation of corporate social responsibility reporting. The accounting review, 86(1), 59-100.
- Kuratek, C., Hall, J., & Huber, B. M. (2020). Legal liability for ESG disclosures. In The Harvard Law School Forum on Corporate Governance.
- Tsang, Albert, Tracie Frost, and Huijuan Cao. "Environmental, social, and governance (ESG) disclosure: A literature review." The British Accounting Review 55.1 (2023): 101149.

[1] https://www.bloomberg.com/company/press/global-esg-assets-predicted-to-hit-40-trillion-by-2030-despite-challenging-environment-forecasts-bloomberg-intelligence/

TOPIC NR8: Voluntary ESG disclosure and firm value

Advisor: Chia-Yi Yen

With more and more investors prioritizing environmental, social, and governance (ESG) considerations, sustainable investing has gained popularity and grown rapidly in recent years, especially after the COVID-19 pandemic. It is reported that global ESG assets have surpassed $30 trillion as of 2022, with projections set to exceed $40 trillion by 2030. This trend has elevated the importance of comprehensive ESG disclosures.

Many studies find that ESG practices are value-added, potentially reducing capital costs and mitigating long-term risks (Allman and Won, 2021; Bolton and Kacperczyk, 2021). However, it remains unclear whether the *disclosure* of ESG practices is also beneficial, even though it is a crucial channel by which ESG practices affect firm value. Naughton et al. (2019) observed that companies tend to experience higher abnormal returns after CSR announcements. In contrast, Bartov et al. (2021) present a different view, suggesting that CSR disclosure can exacerbate investors' backlash in response to negative non-CSR events.

Requirements:
The student has to conduct a comprehensive literature review to explore whether voluntary ESG disclosure is value-added for firms. The discussion should begin by analyzing the impact on the cost of capital, cost of debt, firm risk, liquidity, and other firm-level variables. The student should then analyze whether the relationship between ESG disclosure and firm value is positive or negative and whether the relationship depends on some scenarios or specifications. Besides the literature review, the student has to collect ESG data from the MSCI KLD database and show a time trend of ESG development for US-listed firms.

Introductory Literature:

- Allman, E., & Won, J. (2021). The Effect of ESG Disclosure on Corporate Investment Efficiency. Available at SSRN 3816592.
- Bartov, E., Marra, A., & Momenté, F. (2021). Corporate social responsibility and the market reaction to negative events: Evidence from inadvertent and fraudulent restatement announcements. The Accounting Review, 96(2), 81-106.
- Bolton, P., & Kacperczyk, M. (2021). Do investors care about carbon risk?. Journal of Financial Economics, 142(2), 517-549.
- Naughton, J. P., Wang, C., & Yeung, I. (2019). Investor sentiment for corporate social performance. The Accounting Review, 94(4), 401-420.
- Tsang, Albert, Tracie Frost, and Huijuan Cao. "Environmental, social, and governance (ESG) disclosure: A literature review." The British Accounting Review 55.1 (2023): 101149.

TOPIC NR9: Voluntary ESG disclosure and stakeholders

Advisor: Chia-Yi Yen

With more and more investors prioritizing environmental, social, and governance (ESG) considerations, sustainable investing has gained popularity and grown rapidly in recent years, especially after the COVID-19 pandemic. It is reported that global ESG assets have surpassed $30 trillion as of 2022, with projections set to exceed $40 trillion by 2030. This trend has elevated the importance of comprehensive ESG disclosures.

ESG disclosure serve as crucial information for both investors and non-investor stakeholders, influencing their decision-making. For investors, ESG information is pertinent because it can be associated with higher market value of firms, as identified by Matsumura et al. (2014). Stakeholders such as financial analysts also find ESG disclosures valuable. Dhaliwal et al. (2012) document that voluntary ESG disclosures are related to increased analyst attention and a reduction in the error of analysts' forecasts. Furthermore, other studies also find ESG disclosure has profound impacts on both chief executives and rank-and-file employees, indicating the externality of ESG disclosure (e.g., Christensen. 2016).

Requirements:
The student has to conduct a comprehensive literature review to analyze how stakeholders respond to firm ESG disclosure. The discussion should assess how firm ESG disclosure affects both shareholders and debt holders, who have direct financial ties to the firm, as well as the broader impacts on analysts and employees, who are indirectly affected. The student should analyze the costs and benefits for these varied stakeholder groups and consider the externality of ESG disclosure on them. Besides the literature review, the student has to compute the correlation between firms' ESG ratings and their market value.

Introductory Literature:

- Christensen, D. M. (2016). Corporate accountability reporting and high-profile misconduct. The Accounting Review, 91(2), 377-399.
- Dhaliwal, D. S., Radhakrishnan, S., Tsang, A., & Yang, Y. G. (2012). Nonfinancial disclosure and analyst forecast accuracy: International evidence on corporate social responsibility disclosure. The accounting review, 87(3), 723-759.
- Matsumura, E. M., Prakash, R., & Vera-Munoz, S. C. (2014). Firm-value effects of carbon emissions and carbon disclosures. The accounting review, 89(2), 695-724.
- Tsang, Albert, Tracie Frost, and Huijuan Cao. "Environmental, social, and governance (ESG) disclosure: A literature review." The British Accounting Review 55.1 (2023): 101149.

TOPIC NR10: Do mutual fund managers window-dress?

Advisor: Chia-Yi Yen

Window-dressing, a behavior that involves managers tweaking their portfolios just before disclosure deadlines to project a more favorable image, can mask the true nature of the portfolio. Agarwal et al. (2014) find that particularly unskilled managers, those with subpar performance records, are prone to engage in *return* window-dressing. They do this by selectively buying winners and selling losers as the quarter closes, creating an illusion of a more profitable portfolio. Furthermore, research into bond mutual funds reveals a similar trend, where managers engage in *risk* window-dressing to give the impression of a lower-risk portfolio (Musto, 1997; Musto, 1999; Morey and O'Neal, 2006). In addition, Parise and Rubin (2023) highlight that funds are also curating their holdings to appear more environmentally and socially responsible, known as *green* window-dressing. Such practices do not merely influence investor decisions; they also conceal genuine investment strategies, potentially misleading both shareholders and competitors.

Requirements:
The student has to conduct a comprehensive literature review on the issue of window-dressing within the mutual fund industry. The discussion should address the following questions: What motivations fund managers to engage in window-dressers? What are the consequences of window-dressing for fund investors? Do mutual fund investors respond to such misconduct? Besides the literature review, the student has to visualize and analyze the evolution of window-dressing over the past decades. Data on window-dressing will be supplied by the advisor.

Introductory Literature:

- Agarwal, V., Gay, G. D., & Ling, L. (2014). Window dressing in mutual funds. The Review of Financial Studies, 27(11), 3133-3170.
- Morey, M. R., & O'Neal, E. S. (2006). Window dressing in bond mutual funds. Journal of Financial Research, 29(3), 325-347.
- Musto, D. K. (1997). Portfolio disclosures and year-end price shifts. *The Journal of Finance*, *52*(4), 1563-1588.
- Musto, D. K. (1999). Investment decisions depend on portfolio disclosures. The Journal of Finance, 54(3), 935-952.
- Parise, G., & Rubin, M. (2023). Green Window Dressing. Available at SSRN 4459352.

TOPIC NR11: Are mutual fund investors more sensitive to good performance?

Advisor: Chia-Yi Yen

Many mutual fund managerial misbehaviors have their roots in the convex flow-performance relationship identified by Sirri and Tufano (1998). This convex relationship describes a scenario where investors often reward good performance with positive inflows yet fail to penalize poor performance with corresponding outflows. Such a convexity is often considered the primary cause of managerial excessive risk-taking, imposing large costs on fund investors. The literature offers many possible explanations for this pattern. From the perspective of rational explanations, investors might withhold punitive outflows, anticipating poor managers' replacement, as suggested by Lynch and Musto (2003), or due to participation costs, as documented in Huang et al. (2007). Behavioral explanations, such as investor unsophistication highlighted by Ferreira et al. (2012) or cognitive dissonance as outlined by Goetzmann and Peles (1997), suggest that investor flows are disproportionately influenced by positive performance. Notably, the relationship between fund flows and performance appears to be shifting. A recent study by Kim (2019) has identified a trend toward less convexity in this relationship after the year 2000, suggesting a change in how investors respond to mutual fund performance over time.

Requirements:
The student has to conduct a comprehensive literature review on the drivers of convex flow-performance relationships within equity mutual funds. This student should not only define these factors but also evaluate the shifts in their impact, particularly whether they have intensified or diminished, resulting in a less pronounced convex relationship in recent years, a trend noted by Kim (2019). Besides the literature review, the student has to visualize and analyze the evolution of the convex flow-performance relationship over the past decades. Data on fund flows will be supplied by the advisor.

Introductory Literature:

- Barber, B. M., Huang, X., & Odean, T. (2016). Which factors matter to investors? Evidence from mutual fund flows. The Review of Financial Studies, 29(10), 2600-2642.
- Ferreira, M. A., Keswani, A., Miguel, A. F., & Ramos, S. B. (2012). The flow-performance relationship around the world. Journal of Banking & Finance, 36(6), 1759-1780.
- Goetzmann, W. N., & Peles, N. (1997). Cognitive dissonance and mutual fund investors. Journal of financial Research, 20(2), 145-158.
- Huang, J., Wei, K. D., & Yan, H. (2007). Participation costs and the sensitivity of fund flows to past performance. The journal of finance, 62(3), 1273-1311.
- Kim, M. S. (2019). Changes in mutual fund flows and managerial incentives. Available at SSRN 1573051.
- Lynch, A. W., & Musto, D. K. (2003). How investors interpret past fund returns. The Journal of Finance, 58(5), 2033-2058.
- Sirri, E. R., & Tufano, P. (1998). Costly search and mutual fund flows. The journal of finance, 53(5), 1589-1622.