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Bachelor Theses WiPäd FSS 2021: Topic

TOPIC NR1: The gender difference in the financial industries
Advisor: Mengqiao Du

TOPIC NR2: Gender biases in the mutual fund industry: a homophily perspective
Advisor: Chia-Yi Yen



TOPIC NR1: The gender difference in the financial industries

Advisor: Mengqiao Du

Even though women have become increasingly integrated into U.S. occupations since the 1950s, they are still underrepresented in many competitive fields such as the finance industry. An emerging literature in accounting and finance focuses on the role of gender in financial markets. Niessen-Ruenzi and Ruenzi (2018) show that female mutual fund managers receive lower flows in their funds, even though their investment abilities do not differ. Kumar (2010) finds that female analysts are more likely to issue bolder forecasts and their forecasts are more accurate. According to Kumar (2010), consistent with a self-selection hypothesis, female analysts are relatively more accurate and cover larger stocks with high institutional ownership, even when they are less experienced. Using analyst data, Fang and Huang (2017) show that men reap higher benefits from social networks than women in both, job performance and subjective evaluation. They find alumni ties improve male analysts' forecasting accuracy and recommendation impact significantly more than those of female analysts'.

Goals/Requirements:

The student is asked to conduct a literature review on gender differences in the financial industries. Furthermore, the student is expected to investigate papers on gender discrimination and policies that help improve female representation in the finance industry. The discussion should include but is not limited to gender differences in career choices and the gender pay gap.

Introductory Literature:

- Fang, L. H. & Huang, S. (2017). Gender and connections among Wall Street analysts. *Review of Financial Studies*, Vol. 30, No. 9, pp.3305-3335.
- Kumar, A. (2010). Self-selection and the forecasting abilities of female equity analysts. *Journal of Accounting Research*, Vol.48, No. 2, pp.393-435.
- Niessen-Ruenzi, A. & Ruenzi, S., 2018. Sex matters: Gender bias in the mutual fund industry. *Management Science*, Vol. 65, No. 7, pp. 3001-3025.

TOPIC NR2: Gender biases in the mutual fund industry: a homophily perspective

Advisor: Chia-Yi Yen

Women are underrepresented in the mutual fund industry. As documented by Niessen-Ruenzi and Ruenzi (2019), women account for only 10% of all single-managed U.S. equity fund managers over the past 20 years. Analog to Kumar (2010)'s self-selection hypothesis, female fund managers that select into the male-dominated fund industry are likely to be competitive and perform well. Indeed, Niessen-Ruenzi and Ruenzi (2019) report that female fund managers are more persistent in investing styles and have almost identical average performance as male fund managers. However, female-managed funds experience lower fund inflows than male-managed ones. It seems that some clients of mutual funds are subject to gender biases, which lead to lower fund inflows in female-managed funds. As a result, management companies might be less willing to hire female fund managers because they earn on fees for assets under management. This may explain the underrepresentation of women in the mutual fund industry.

What is exactly the underlying mechanism of such gender bias? Investigating the origin and mechanism of gender biases can help understand the underrepresentation of women in the financial industry. One possible origin is "homophily"—individuals' affinity for others like them, which can foster interpersonal trust. Stolper and Walter (2019) find a homophily effect along the gender dimension: male clients are more likely to be convinced by a financial advisor of the same gender. They also point out that this homophily effect is particularly strong when there is a considerable knowledge gap among counterparties; for instance, among financial advisors and clients. Such knowledge gaps exist between fund managers and retail investors, too. This is consistent with Niessen-Ruenzi and Ruenzi (2019), who show that gender biases are larger in funds focusing on retail investors exclusively than in funds only open to institutional investors. In addition, investment environment is known to be male-dominated, female fund managers might thus be less favorable due to this same-gender bias. Other gender homophily related papers include: Jannati et al. (2020) that document an in-group favoritism in the setting of CEO-analyst, and Zeltzer (2020) who explains the gender pay gap among physicians.

Goals/Requirements:

The primary goal of this bachelor thesis is to provide a comprehensive literature survey on gender biases in the mutual fund industry from the perspective of homophily. The discussion should include but is not limited to (1) the differences among male and female mutual fund managers, such as investing styles, risk-taking, pay gap, fund flows response, etc.; (2) the role of homophily in explaining these gender differences; (3) the effective affirmative actions to correct underrepresentation problems from the perspective of homophily.

Introductory Literature:

- Niessen-Ruenzi, A., & Ruenzi, S. (2019). Sex matters: Gender bias in the mutual fund industry. *Management Science*, 65(7), 3001-3025.
- Jannati, S., Kumar, A., Niessen-Ruenzi, A., & Wolfers, J. (2020). In-group bias in financial markets. Available at SSRN 2884218.
- Kumar, A., 2010. Self-selection and the forecasting abilities of female equity analysts. *Journal of Accounting Research*, 48(2), pp.393-435.

- Stolper, O., & Walter, A. (2019). Birds of a feather: The impact of homophily on the propensity to follow financial advice. *The Review of Financial Studies*, 32(2), 524-563.
- Zeltzer, D. (2020). Gender homophily in referral networks: Consequences for the medicare physician earnings gap. *American Economic Journal: Applied Economics*, 12(2), 169-97.