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Seminar HWS 2021 "Current topics in Finance"

Note:
An odd topic number implies that the topic is a literature review (6 weeks), e.g. NR1/NR3/…
An even topic number implies that the topic is an empirical topic (8 weeks), e.g. NR2/NR4/...

TOPIC NR1/NR2: On evaluation methods of mutual fund performance
Advisor: Chia-Yi Yen

TOPIC NR3/NR4: Tax distortion and corporate decision making
Advisor: Chia-Yi Yen

TOPIC NR5/NR6: Mutual fund media coverage and fund flows
Advisor: Mengqiao Du

TOPIC NR7/NR8: Mutual fund media coverage and fund manager gender
Advisor: Mengqiao Du

TOPIC NR1/NR2: On evaluation methods of mutual fund performance

Advisor: Chia-Yi Yen

To assess whether actively-managed mutual funds deliver superior performance, prior literature has developed different methods to evaluate mutual fund performance, such as Carhart (1997)'s alpha. One problem that reduces the power of such models is commonalities in fund returns. For example, funds which implement a similar strategy or target the same benchmark index will generate correlated residuals. To mitigate this concern, Hunter et al. (2014) propose an augmented Carhart (1997) factor models with Active Peer Benchmarks (APB), which accounts for unknown commonalities in investment behavior like using similar models, having similar behavior biases, or institutional herding. However, such multi-factor performance evaluation methods still suffer from other problems, such as the failure to directly account for transaction costs.

Other strands of literature that attempt to solve the aforementioned problems include frontier-based methods and data envelopment analysis (DEA). For example, Babalos et al. (2015) derive efficiency scores for each mutual fund based on stochastic frontier analysis. Premachandra et al. (2012) propose a relative performance measure using a two-stage DEA model and identify which stage is the main source of inefficiency.

Goals/Requirements:

- **NR1: Literature review (6 weeks)**
  The goal of this seminar thesis is to provide a comprehensive review of the methods of mutual fund performance evaluation. The student is expected to critically analyze the potential drawbacks of each method, such as the problem of commonality, and how other measures help mitigate the aforementioned concerns. The discussion should include but is not limited to (1) the general development of performance evaluation methods in the academic literature over the past four decades, (2) the strength and weakness of each performance evaluation method, (3) a special focus on alternative evaluation methods, including DEA and other more unconventional approaches.
- **NR2: Empirical topic (8 weeks)**
  The goal of this seminar thesis is to examine the importance of benchmarking in evaluating mutual fund performance. The student is expected to replicate the main empirical findings of Hunter et al. (2014) and further examine whether the choice of the benchmark will change the result. The empirical work requires the use of databases on mutual funds. Data are accessible at the University of Mannheim, Antti Petajisto's website (http://www.petajisto.net/research.html), or will be provided by the supervisor. The empirical work requires the use of statistical software (e.g. Stata), manipulation of data, and the application of econometric methods. Prior experience in this area is helpful.

Introductory Literature:

- Babalos, V., Mamatzakis, EC, & Matousek, R. (2015). The performance of US equity mutual funds. Journal of Banking & Finance, 52, 217-229.
- Carhart, M. M. (1997). On persistence in mutual fund performance. The Journal of Finance, 52(1), 57-82.
- Cremers, K. M., & Petajisto, A. (2009). How active is your fund manager? A new measure that predicts performance. The Review of Financial Studies, 22(9), 3329-3365.
- Hunter, D., Kandel, E., Kandel, S., & Wermers, R. (2014). Mutual fund performance evaluation with active peer benchmarks. Journal of Financial Economics, 112(1), 1-29.
- Premachandra, IM, Zhu, J., Watson, J., & Galagedera, DU (2012). Best-performing US mutual fund families from 1993 to 2008: Evidence from a novel two-stage DEA model for efficiency decomposition. Journal of Banking & Finance, 36 (12), 3302-3317.

TOPIC NR3/NR4: Tax distortion and corporate decision making

Advisor: Chia-Yi Yen

Taxes distort decision making. Different types of taxes affect individuals and corporations in different ways.

With regard to income taxes, researchers have found a strong impact of these taxes on corporate risk-taking decisions. Ljungqvist et al. (2017) document that the average firm reduces corporate risk-taking in response to an increase in corporate income taxes, while it does not respond to a decrease in these taxes. This asymmetric result comes from the limited ability to tax loss-offset: the government shares the firm's benefit in good times but not the loss in bad times. Remarkably, not only corporate-level taxes can affect corporate risk-taking, but also personal-level taxes. Armstrong et al. (2019) found that CEOs' personal income tax rates are positively related to their corporate risk-taking decisions. This is because taxes facilitate risk-sharing with the government, and therefore taxes decrease risk-averse managers' disutility toward risky investments.

Capital gains taxes also play a role in corporate decision making. Yost (2018) suggests a lock-in effect: To avoid taxable capital gains, CEOs with higher ownership are discouraged to sell the appreciated shares; CEOs are therefore locked in the company and have an incentive to reduce corporate risk-taking.

Goals/Requirements:

- **NR3: Literature review (6 weeks)**
  The goal of this seminar thesis is to provide a comprehensive review of the impact of different types of taxes in corporate decision making, such as capital gains/income taxes or personal/corporate taxes. The discussion should include but is not limited to (1) the impact of different types of taxes predicted by economic theories, (2) whether empirical evidence supports those theoretical views, and (3) a particular focus on risk-taking decisions. The student is expected to present the general development for each strand of literature over the past decades.

- **NR4: Empirical topic (8 weeks)**
  The goal of this seminar thesis is to examine how managers' personal taxes influence their corporate risk-taking decisions. The student is expected to replicate the main empirical findings of Armstrong et al. (2019) and further check their robustness. The empirical work requires the use of databases, including Compustat/CRSP, EDGAR, Execucomp, Thomson Reuters, and several government and non-profit datasets. Data are accessible at the University of Mannheim or will be provided by the supervisor. Empirical work for this topic requires the use of statistical software (e.g. Stata), manipulation of data, and the application of econometric methods. Prior experience in this area is helpful.

Introductory Literature:

- Armstrong, C. S., Glaeser, S., Huang, S., & Taylor, D. J. (2019). The Economics of managerial yaxes and corporate risk-taking. The Accounting Review, 94(1), 1–24.
- Ljungqvist, A., Zhang, L., & Zuo, L. (2017). Sharing risk with the government: How taxes affect corporate risk taking: Journal of Accounting Research, 55(3), 669–707.
- Yost, B. P. (2018). Locked-in: The effect of CEOs' capital gains taxes on corporate risk-taking. The Accounting Review, 93(5), 325-358.

TOPIC NR5/NR6: Mutual fund media coverage and fund flows

Advisor: Mengqiao Du

Media coverage is a primary method through which investors receive information regarding mutual fund returns and other aspects of the manager and fund. In discussing stocks, Merton (1987) mentions that a newspaper or other mass media story about a firm that reaches a large number of investors who are not currently shareholders, could induce some of these investors to incur the set-up costs to follow and invest in the firm. Barber and Odean (2008) posit that news is a primary mechanism for catching investors' attention and provide evidence that investors buy stocks that catch their attention.

As for mutual funds, Sirri and Tufano (1998) find circumstantial evidence that garnering a larger share of current media citations is related to faster current growth of mutual funds. In addition, Kaniel and Starks (2007) find that stance of media coverage affects net investor flows into the fund in ways consistent with investor attention and learning.

Goals/Requirements:

- **NR5: Literature review (6 weeks)**
  The goal of this seminar thesis is to provide a comprehensive review of the literature that covers the impact of media coverage on financial markets including stocks and mutual funds etc. Furthermore, related literature focusing on methodologies of analyzing textual information from media coverage should also be summarized. The discussion should include but is not limited to how media coverage influences investor attention and what media data previous literature uses.
- **NR6: Empirical topic (8 weeks)**
  The goal of this seminar thesis is to examine how media coverage on mutual funds influences fund flows. The student should download the news data and replicate the main findings in Kaniel and Starks (2007) with updated data. The empirical work requires the use of databases on mutual funds. All data are accessible at the University of Mannheim. Empirical work for this topic requires the use of statistical software (e.g. Stata) and natural language processing functions of Python, manipulation of data, and the application of econometric methods. Some experience in this area is helpful.

Introductory Literature:

- Barber, B. M., & Odean, T. (2008). All that glitters: The effect of attention and news on the buying behavior of individual and institutional investors. Review of Financial Studies, 21(2), 785-818.
- Kaniel, R., Starks, L. T., & Vasudevan, V. (2007). Headlines and bottom lines: attention and learning effects from media coverage of mutual funds. Available at SSRN 687103.
- Merton, R. C. (1987). A simple model of capital market equilibrium with incomplete information. Journal of Finance, 42, 483-510.
- Sirri, E. R., & Tufano, P. (1998). Costly search and mutual fund flows. Journal of Finance, 53(5), 1589-1622.

TOPIC NR7/NR8: Mutual fund media coverage and fund manager gender

Advisor: Mengqiao Du

Accounting for only 10% of all single-managed U.S. equity fund managers, women are underrepresented in the mutual fund industry. Niessen-Ruenzi and Ruenzi (2019) find that female mutual fund managers receive fewer flows compared to their male counterparts, which may be one of the reasons why women are underrepresented in this industry.

The media are instrumental in the process of gaining public consent. Media texts never simply mirror or reflect "reality", but instead construct hegemonic definitions of what should be accepted as "reality[ANR1]" (Carter and Steiner (2004)). Thus, media images underline gender stereotypes. Media coverage may emphasize the outperformance of male-managed funds rather than female-managed funds, enlarging the gender gap in the mutual fund industry.

Goals/Requirements:

- **NR7: Literature review (6 weeks)**
  The goal of this seminar thesis is to provide a comprehensive review of the literature that covers gender differences in media coverage. Furthermore, related literature focusing on gender differences in financial markets should also be summarized. The discussion should include but is not limited to how media coverage influences gender identity and the impact of gender identity on labor market choices.
- **NR8: Empirical topic (8 weeks)**
  The goal of this seminar thesis is to examine how media coverage on mutual funds differs for male and female fund managers. The student should download news coverage data and examine the determinants of media coverage with a focus on fund manager gender. The empirical work requires the use of databases on mutual funds. All data are accessible at the University of Mannheim. Empirical work for this topic requires the use of statistical software (e.g. Stata) and natural language processing functions of Python, manipulation of data, and the application of econometric methods. Some experience in this area is helpful.

Introductory Literature:

- Carter, C., & Steiner, L. (2004). Introduction to critical readings: Media and gender. Critical readings: Media and gender, 1, 1-10.
- Gauntlett, D. (2008). Media, gender and identity: An introduction. Routledge.
- Niessen-Ruenzi, A., & Ruenzi, S. (2019). Sex matters: Gender bias in the mutual fund industry. Management Science, 65(7), 3001-3025.
- Kaniel, R., Starks, L. T., & Vasudevan, V. (2007). Headlines and bottom lines: attention and learning effects from media coverage of mutual funds. Available at SSRN 687103.