UNIVERSITY OF MANNHEIM
Business School

CHAIR OF FINANCIAL MARKETS AND FINANCIAL INSTITUTIONS

Master's Theses HWS 2020

Topic S1: Dismantling Unions: The Hidden Redistribution of Income 2

Advisor: Frederik Horn

Topic S2: Do Investors Value Clean Energy? 3

Advisor: Frederik Horn

Topic S3: The Value of Executives' Networks 4

Advisor: Leah Zimmerer

Topic S4: Word-of-Mouth Effects in the Holdings, Trades and Performance of Institutional Investors .. 5

Advisor: Leah Zimmerer

Topic S5: Population Health and Employment Protection Legislation: A Causal Inference Approach 6

Advisor: Jiri Tresl

Topic S6: Why Do Right-Wing Populists Gain from Financial Crises? The Role of Inequality 7

Advisor: Alison Schultz

Topic S7: Why Do Right-Wing Populists Gain from Financial Crises? The Role of Bailouts 8

Advisor: Alison Schultz

AACSB ACCREDITED EFMD EQUIS ACCREDITED ASSOCIATION OF MBAS ACCREDITED

Topic S1: Dismantling Unions: The Hidden Redistribution of Income

Classification: Empirical Topic

Advisor: Frederik Horn

Over decades, the labor share, i.e. the share of the national income that goes to wages, remained constant in the US. However, since the 1980s the labor share has continuously fallen (Autor et al., 2020). Stansbury and Summers (2020) attribute this fall in labor share to a weakening of the bargaining power of workers. There could be several reasons for the decline in worker power, like institutional changes or international competition of low-wage countries. Yet, they argue that one of the most impactful changes has been the reduction in union membership rate from over 30% in the 1950s to 6% today.

Among the policies that crucially weakened unions in the US are the so-called right-to-work laws. These laws enormously reduce a worker's incentive to join and contribute to a union. Chava, Danis, and Hsu (2020) exploit the staggered adoption of right-to-work laws across states and find that the adoption considerably reduces wages and increases firms' profits. They also argue that this is due to a weakened bargaining position of workers.

However, they do not directly address the question whether these measures increase due to a creation of new economic rents or due to a redistribution of existing rents as proposed by Stansbury and Summers (2020). One way to test this would be to examine how returns to shareholders develop after the introduction of right-to-work legislations.

The student should provide a comprehensive overview over the literature on worker power, labor share and firm performance. Next, the student should replicate the main findings of Chava et al. (2020). Furthermore, she should test whether the introduction of right-to-work legislations resulted in higher returns to shareholders. This can be done utilizing the methodology of Bessembinder and Zhang (2013). Data on stock prices and company financials is readily available for download.

Requirements:

The empirical work requires the use of large databases, i.e. CRSP/Compustat. The databases are readily accessible for affiliates of the University of Mannheim. The candidate should feel comfortable with the use of a statistical software program (such as STATA) and econometric methods.

Introductory Literature:

- Autor, D., Dorn, D., Katz, L. F., Patterson, C., & Van Reenen, J. (2020). The fall of the labor share and the rise of superstar firms. *The Quarterly Journal of Economics*, *135*(2), 645-709.
- Bessembinder, H., & Zhang, F. (2013). Firm characteristics and long-run stock returns after corporate events. *Journal of Financial Economics*, *109*(1), 83-102.
- Chava, S., Danis, A., & Hsu, A. (2020). The Economic Impact of Right-to-Work Laws: Evidence from Collective Bargaining Agreements and Corporate Policies. *Journal of Financial Economics*.
- Stansbury, A., & Summers, L. H. (2020). The Declining Worker Power Hypothesis: An Explanation for the Recent Evolution of the American Economy (No. w27193). *National Bureau of Economic Research*.

Topic S2: Do Investors Value Clean Energy?

Classification: Empirical Topic

Advisor: Frederik Horn

Man-made climate change has emerged as one of the greatest threats to humanity. Exponentially growing carbon emissions have dramatically increased carbon dioxide concentrations in the atmosphere of planet earth. This will cause a projected surge in global temperature of over 3 °C, resulting in natural disasters and mass displacements.

Since 1988, only 100 companies accounted for 71 percent of global industrial greenhouse gas (GHG) emissions. Of these companies, 32 percent are publicly traded firms (CDP Carbon Majors Report, 2017). Thus, investors could play a crucial role in the fight against climate change. As most of the worldwide GHG emissions stem from fossil fuel energy production, transitioning to renewable energy sourcing would reduce carbon emissions considerably. However, most companies will only take this step if pressured by relevant stakeholders or if the transition increases shareholder value.

The academic literature on the relationship between environmental and financial performance of firms is scarce. However, Matsamura, Prakash, and Vera-Muñoz (2014) show that higher carbon emissions decrease firm value significantly. Similarly, Flammer (2013) demonstrates in an event study that investors react positively to eco-friendly events of a company and negatively to eco-damaging events. Furthermore, Bolton and Kacperczyk (2020) find that companies with high CO_2 emissions earn higher returns. They argue that investors are compensated for the exposure to carbon risk. Furthermore, they discover that institutional investors underweight high production emission companies in their portfolios. Hence, it would be interesting to test whether the announcement of a company to reduce its carbon emissions by sourcing renewable energy causes a shift in institutional ownership.

First, the student should provide a comprehensive overview over the academic literature on CSR, environmental performance, and financial performance. Second, the student should investigate the stock price reaction to firm's announcements of renewable energy sourcing following the methodology of Flammer (2013). Finally, she should explore whether the announcements result in a shift in institutional ownership. The student will be provided with data on events related to corporate renewable energy sourcing. On top of that, the student should collect some additional event data. Data on stock prices and institutional stock holdings is readily available for download.

Requirements:

The empirical work requires the use of large databases, i.e. CRSP/Compustat. The databases are readily accessible for affiliates of the University of Mannheim. The candidate should feel comfortable with the use of a statistical software program (such as STATA) and econometric methods.

Introductory Literature:

- Bolton, P., & Kacperczyk, M. (2020). *Do investors care about carbon risk?* (No. w26968). National Bureau of Economic Research.
- Flammer, C. (2013). Corporate social responsibility and shareholder reaction: The environmental awareness of investors. *Academy of Management Journal*, *56*(3), 758-781.
- Matsumura, E. M., Prakash, R., & Vera-Muñoz, S. C. (2014). Firm-value effects of carbon emissions and carbon disclosures. *The Accounting Review*, *89*(2), 695-724.

Topic S3: The Value of Executives' Networks

Classification: Empirical topic

Advisor: Leah Zimmerer

In academia, there are two opposite views that dominate research on the level of CEO compensation. First, rent extraction contends that CEOs are able to transfer wealth from shareholders (e.g., Bebchuk and Fried, 2004). Second, the efficient contracting framework shows that CEOs are worth what they are paid (e.g., Gabaix and Landier, 2008). Evidence that CEO pay reflects a manager's market value is scarce. One potential reason is that those value-creating attributes are difficult to measure.

Engelberg et al. (2013) argue that the Rolodex of a CEO, defined as the personal associations with high-ranking executives or directors at other firms, is valuable for the firm. Thus, the Rolodex has an influence on CEOs compensation. Engelberg et al. (2013) show that size of the Rolodex has a significant positive impact on the CEOs compensation. An additional connection to an executive or director outside the firm increases yearly compensation by about $17,000 on average.

The first step of the thesis is to replicate the findings of Engelberg et al. (2013) for the period 2000-2019, i.e., investigate if CEOs with larger networks have a higher compensation. Next, the student should examine whether networks have an impact on the compensation of all directors. Additionally, it can be examined whether different components of networks are more important. Furthermore, it can be analyzed whether CEOs with larger networks will be more powerful.

Requirements:

The empirical work requires the use of large databases, i.e. CRSP and/or COMPUSTAT. The databases are readily accessible for affiliates of the University of Mannheim. The candidate should feel comfortable in the use of a statistical software program (such as STATA) and econometric methods.

Introductory Literature:

- Adams, R. B., Almeida, H., & Ferreira, D. (2005). Powerful CEOs and their impact on corporate performance. *The Review of Financial Studies, 18*(4), 1403-1432.
- Bebchuk, L., & Fried, J. (2004). Pay without performance. Cambridge, MA: Harvard University Press.
- Engelberg, J., Gao, P., & Parsons, C. A. (2013). The Price of a CEO's Rolodex. *The Review of Financial Studies, 26*(1), 79-114.
- Gabaix, X., & Landier, A. (2008). Why has CEO pay increased so much? *Quarterly Journal of Economics 123*(1), 49–100.

Topic S4: Word-of-Mouth Effects in the Holdings, Trades and Performance of Institutional Investors

Classification: Empirical topic

Advisor: Leah Zimmerer

"A fundamental observation about human society is that people who communicate regularly with one another think similarly. […] Word-of-mouth transmission of ideas appears to be an important contributor to day-to-day or hour-to-hour stock market fluctuations." (Shiller, 2000, pp. 148, 155)

Hong et al. (2005) address the question whether the trading of mutual funds shows the word-of-mouth effect. They argue that fund managers who work in the same city are more likely to come into direct contact with one another and hence to exchange ideas by word of mouth. Thus, Hong et al. (2005) analyze the holdings data of mutual funds and show that manager's purchases of a stock increase significantly when other managers in the same city increase their purchases of the same stock.

Managers of mutual funds are usually seen as rational agents making rational choices on the mutual fund investments. However, fund managers face limited cognitive resources and are subject to biases when making trading decisions (see for example Lu et al., 2016). Hence, the question arises if the word-of-mouth effect is driven by limited resources and, consequently, has an impact on funds' performance.

The first step of the thesis is to replicate the finding of Hong et al. (2005) for the period 1983-2019 including different types of institutional investors. The second step, is to analyze whether the effect is stable over time or differs, e.g. in times of uncertainty. The third step, is to examine whether the word-of-mouth effects has an impact on funds' performance.

Requirements:

The empirical work requires the use of large databases, i.e. CRSP and/or COMPUSTAT. The databases are readily accessible for affiliates of University of Mannheim. The location data is proprietary and will be provided. The candidate should feel comfortable in the use of a statistical software program (such as STATA) and econometric methods.

Introductory Literature:

- Hong, H., Kubik, J. D., & Stein, J. C. (2005). Thy neighbor's portfolio: Word-of-mouth effects in the holdings and trades of money managers. *The Journal of Finance*, *60*(6), 2801-2824.
- Lu, Yan, Sugata Ray, & Teo, M. (2016). Limited Attention, Marital Events and Hedge Funds, *Journal of Financial Economics 122*(3), 607–24.
- Shiller, R. J. (2000). *Irrational Exuberance* (Broadway Books, New York).

Topic S5: Population Health and Employment Protection Legislation: A Causal Inference Approach

Classification: Empirical topic

Advisor: Jiri Tresl

In general, employment protection laws may be an important government intervention to limit increasing anxiety levels among a country's workforce. Employment contracts are inherently incomplete, as firms cannot condition wages perfectly on the quantity and quality of employee effort. Akerlof and Kranton (2005) argues that this contracting problem may be overcome by an intrinsically motivated workforce. If employees identify themselves with the job or the firm's objective, they may receive utility from doing a good job. The firm becomes a source of self-worthiness. Employees, however, who dislike their job or the company they work for might experience disutility from the work effort. If the fear of job loss outweighs the workers' disutility however then firms can nevertheless expect high efforts. Mike, the steelworker, illustrated in Akerlof and Kranton (2005), is an example. These employees will often feel anxiety and result in costs ultimately borne by society.

The goal of this study is to test the causal relationship of employment protection legislation on population health. The students can either develop their own setting to test this relationship or conduct the following empirical analysis. The student may compile a dataset using inevitable disclosure doctrine laws (IDD), wrongful discharge laws (WDL), and health care data from the Behavioral Risk Factor Surveillance System collected by the CDC National Center for Chronic Disease Prevention and Health Promotion. Then the student may conduct similar tests following Acharya et al. (2014) and Chen et al. (2018). A theoretical framework for analyzing population health is offered by Kinding and Stoddart (2011).

Requirements:

The student is expected to have experience in working with health care data and employment legislation. Furthermore, the student should have experience in developing econometric models with a strong emphasis on causal inference. The statistical software that should be used for this project is STATA.

Introductory Literature:

- Akerlof, G. A., & Kranton, R. E. (2005). Identity and the Economics of Organizations. *Journal of Economic Perspectives*, *19*(1), 9-32.
- Bowles, S., Carlin, W., & Stevens, M. (2017). The firm: Owners, Managers, and Employees, In: *The Economy*. Oxford University Press, Oxford.
    - Link:https://core-econ.org/the-economy/book/text/06.html#67-wages-effort-and-profits-in-the-labour-discipline-model
- OECD (2019). Health at a Glance – OECD Indicators.
- Kindig, D., & Stoddart, G. (2011). What is Population Health? *American Journal of Public Health, 93*(3), 380-383.
- Chen, D., Gao, H., & Ma, Y. (2018). Human capital driven acquisition: Evidence from the Inevitable Disclosure Doctrine. *Available at SSRN 2713600*.
- Acharya, V. V., Baghai, R. P., & Subramanian, K. V. (2014). Wrongful discharge laws and innovation. *The Review of Financial Studies*, *27*(1), 301-346.
- **Useful Data Links:** https://www.cdc.gov/brfss/annual_data/annual_data.htm

Topic S6: Why Do Right-Wing Populists Gain from Financial Crises? The Role of Inequality

Classification: Empirical topic

Advisor: Alison Schultz

Financial crises evoke political radicalization. Looking at the past 140 years, far-right parties have increased their vote share by 30%, on average, after a financial crisis. This political shift is absent after "normal", that is, non-financial recessions (Funke et al., 2016).

It is unclear why the nationalistic and/or racist political rhetoric of the far right has greater appeal to voters after a financial crisis. One hypothesis is that inequality rises more strongly in the aftermath of financial crises, as compared to other recessions (e.g., Atkinson and Morelli, 2011), inducing political radicalization (Winkler, 2019).

The goal of this thesis is to investigate this channel. The candidate should first replicate the results of Funke et al. (2016) who find that financial crises between 1870 and 2014 systematically entail political shifts to the right. Second, candidate should test if inequality mediates this effect, that is, (i) if financial crises lead to a higher wealth and income inequality as compared to non-financial crises, and, (ii) if, in turn, the higher inequality can explain shifts to the political right.

The topic as described here is just one possible extension of the paper of Funke et al. (2016). If the candidate is interested in a specific extension or another focus of the question, s/he is encouraged to change the focus.

Requirements:

The candidate should be highly interested in the topic. S/he should be willing to read a broad range of literature and motivated to bring in her own ideas into the research process. Moreover, s/he should be or become acquainted with the econometric methods used in the paper and familiar with statistical programming (STATA, R, or Matlab). Data for the thesis can be downloaded from Moritz Schularick's website, inequality data from the world inequality database or other sources.

Introductory Literature:

- Atkinson, A. B., & Morelli, S. (2011). Economic crises and inequality. *UNDP-HDRO Occasional Papers* 2011/6.
- Funke, M., Schularick, M. & Trebesch, C. (2016). Going to extremes: Politics after financial crises, 1870-2014. *European Economic Review 88*(1), 227-260.
- Mian, A., Sufi, A. & Trebbi, F. (2014). Resolving debt overhang: Political constraints in the aftermath of financial crises. *American Economic Journal: Macroeconomics 6*(2), 1-28.
- Winkler, H. (2019). The effect of income inequality on political polarization: Evidence from European regions, 2002-2014. *Economics & Politics 31*(2), 137-162.

Topic S7: Why Do Right-Wing Populists Gain from Financial Crises? The Role of Bailouts

Classification: Empirical topic

Advisor: Alison Schultz

Financial crises evoke political radicalization. Looking at the past 140 years, far-right parties have increased their vote share by 30%, on average, after a financial crisis. This political shift is absent after "normal", that is, non-financial recessions (Funke et al., 2016).

It is unclear why the nationalistic and/or racist political rhetoric of the far right has greater appeal to voters after a financial crisis. One hypothesis is that during financial crises, governments use highly unpopular political instruments like bank bailouts, which are predestined for an anti-establishment discourse (e.g., Broz, 2005).

The goal of this thesis is to investigate this channel. It should first replicate the results of Funke et al. (2016) who find that financial crises between 1870 and 2014 systematically entail political shifts to the right. Second, it should test if bank bailouts mediate this effect by investigating if the effect is stronger or only present for financial crises during which the government has bailed out banks.

The topic as described here is just one possible extension of the paper of Funke et al. (2016). If the candidate is interested in a specific extension or another focus of the question, s/he is encouraged to change the focus.

Requirements:

The candidate should be highly interested in the topic. S/he is required to gather information on bailout policies for as many of the 104 crisis-country observations from the dataset as possible. S/he should be motivated to bring in her own ideas into the research process. Moreover, s/he should be or become acquainted with the econometric methods used in the paper and familiar with statistical programming (STATA, R, or Matlab). Data for the thesis can be downloaded from Moritz Schularick's website, bailout data has to be searched from different sources, e.g. here for Europe and here for the U.S..

Introductory Literature:

- Bowman, K. (2010). TARP, the auto bailout, and the stimulus: Attitudes about the economic crisis. *AEI Public Opinion Studies*.
- Broz, J. L. (2005). Congressional politics of international financial rescues. *American Journal of Political Science 49*(3), 479-496.
- Funke, M., Schularick, M. & Trebesch, C. (2016). Going to extremes: Politics after financial crises. 1870-2014*, European Economic Review 88*(1), 227-260.
- Mian, A., Sufi, A. & Trebbi, F. (2014). Resolving debt overhang: Political constraints in the aftermath of financial crises. *American Economic Journal: Macroeconomics 6*(2), 1-28.