UNIVERSITY
OF MANNHEIM
Business School

CHAIR OF FINANCIAL
MARKETS AND FINANCIAL
INSTITUTIONS

Master's Theses FSS 2021

Topic S1: Personal Experiences and Unemployment Expectations

Classification: Empirical Topic

Advisor: Frederik Horn

Economic expectations are a key component of most economic models. Based on expectations about future outcomes, individuals have to make a wide array of important life decisions, such as buying a house or investing into the stock market. Even though these economic expectations are so important for economic activity, research has not yet conclusively identified how expectations are formed.

A potential driver of expectations might be personal experiences. If a person experiences a particular event, she might be able to recall such an event more easily, which, in turn, might lead to an increased perceived likelihood of such an event happening. Malmendier and Nagel (2011) find, for example, that people that experienced periods of economic depressions are more reluctant to invest into the stock market and have more pessimistic expectations about stock returns. Similarly, Malmendier and Nagel (2016) show that individuals that experience higher inflation rates during their lifetime also have higher inflation expectations.

One of the most important financial challenges an individual can face is becoming unemployed. Hence, the fear of becoming unemployed has a massive impact on one's financial decision decision-making as it leads to increases in precautionary savings and thereby reduced consumption as well as deference of major purchases like a new car or a house.

Related to unemployment expectations, Kuchler and Zafar (2019) demonstrate that individuals that become unemployed are more pessimistic about US unemployment rates. However, they do not relate personal experiences to personal expectations and personal outcomes. Exploring these avenues might provide further interesting insights into the interplay between unemployment, unemployment expectations, and financial decisions.

The student should provide a comprehensive overview over the literature on personal experiences and economic expectations. Next, the student should replicate the main findings of Kuchler and Zafar (2019) with regards to unemployment expectations. Furthermore, she should explore how personal experiences affect expectations about personal outcomes. Finally, the relationship between expectations about personal and aggregate economic outcomes could be explored as well as how unemployment affects individual financial decisions.

Requirements:

The empirical work requires the use of large survey data. The data is readily available for download. The candidate should feel comfortable with the use of a statistical software program (such as STATA) and econometric methods.

Introductory Literature:

- Kuchler, T., & Zafar, B. (2019). Personal experiences and expectations about aggregate outcomes. *The Journal of Finance*, *74*(5), 2491-2542.
- Malmendier, U., & Nagel, S. (2011). Depression babies: Do macroeconomic experiences affect risk taking? *The Quarterly Journal of Economics*, *126*(1), 373-416.
- Malmendier, U., & Nagel, S. (2016). Learning from inflation experiences. *The Quarterly Journal of Economics*, *131*(1), 53-87.

Topic S2: Investor Attention and Global Warming

Classification: Empirical Topic

Advisor: Frederik Horn

Climate change has emerged as one of the most fundamental threats to human existence as we know it. The exponential surge in carbon emissions has increased the carbon dioxide concentration in earth's atmosphere dramatically. Caused by this, global temperatures are projected to increase by 3°C resulting in natural disasters and mass displacements.

There is a well-established literature in finance exploring how investor attention affects stock prices. The idea is that investors must decide between thousands of stocks when making an investment decision. However, he has only limited cognitive resources preventing him from making an optimal decision over all possible choices. Therefore, he focusses his decision on stocks that grab his attention. Several proxies for investor attention like extreme returns (Barber and Odean, 2008) or high trading volume (Grullon et al., 2004) have been used to show that retail investors are buying attention grabbing stocks. Da, Engelberg, and Gao (2011) propose a more direct way of measuring investor attention by looking at Google searches for stock tickers. They indeed find that stocks that are searched for a lot, exhibit subsequently higher returns.

Choi, Gao, and Jiang (2020) adapt the methodology of Da et al. (2011) and show that extreme weather in a city leads to an increase in Google searches for "global warming". This suggests that this abnormal weather events increase the salience of global warming and draw people's attention to the issue. Furthermore, the authors demonstrate that these attention spikes result in buying of companies contributing less to climate change and the selling of companies that are contributing more to climate change. In this context, it would be interesting to further explore whether the same effect can be found for funds that market themselves as environmentally conscious as it would provide further evidence for the relationship found by the authors.

First, the student should provide a comprehensive review of the academic literature exploring the effect of investor attention on stock returns. Next, she should replicate the main findings of Choi et al. (2020) for the US. Finally, one possible extension would be to investigate whether environmental conscious funds profit from the increased attention for climate change and therefore receive abnormal fund flows.

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. Other required data sources are readily available for download. The candidate should feel comfortable with the use of a statistical software program (such as STATA) and econometric methods.

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. *The Review of Financial Studies*, *21*(2), 785-818.
- Choi, D., Gao, Z., & Jiang, W. (2020). Attention to global warming. *The Review of Financial Studies*, *33*(3), 1112-1145.
- Da, Z., Engelberg, J., & Gao, P. (2011). In search of attention. *The Journal of Finance*, *66*(5), 1461-1499.
- Grullon, G., Kanatas, G., & Weston, J. P. (2004). Advertising, breadth of ownership, and liquidity. *The Review of Financial Studies*, *17*(2), 439-461.

Topic S3: Does the Market Value CEO Characteristics?

Classification: Empirical topic

Advisor: Leah Zimmerer

A growing body of research demonstrates that manager-specific characteristics and preferences affect the performance of firms and their policy choices. Bertrand and Schoar (2003) show that older generations of CEOs appear overall more conservative in their decision-making. Benmelech and Frydman (2015) present evidence that CEOs who served in the military are less likely to be involved in corporate fraudulent activity, and perform better during industry downturns. Thus, those papers, among others, show that CEOs have an impact on firm performance.

However, there is still a debate in academic research whether CEOs have a causal impact on the firms they run, since boards will always hire the CEO with the right match of skills for the firm. In this case, there should be no systematic impact on the firm or its stock price when a new CEO hire is announced. But, as the perfect CEO might not exists, not all firms would be able to hire the style of CEO they would prefer and thus we would see a systematic impact on the firm or its stock price when a new CEO hire is announced.

Schoar and Zuo (2016) provide evidence on how the market values different CEO management styles. Based on the finding that the management style differs between CEOs who started working during a boom or a bust, they show that announcement period returns around the appointment of recession CEOs are very significant and positive.

The first step of the thesis is to replicate the findings of Schoar and Zuo (2016) including more recent years, i.e., do markets assign a positive value to the selection of a recession CEO. Next, the student should examine whether different characteristics of CEOs have an impact on the market valuation. Third, based on Engelberg et al. (2013) who argue that the network of a CEO is valuable for the firm, the student should analyze whether there is a larger market reaction when a CEO with a larger network is appointed.

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:

- Benmelech, E., & Frydman, C. (2015). Military ceos. *Journal of Financial Economics*, *117*(1), 43-59.
- Bertrand, Marianne, and Antoinette Schoar. "Managing with style: The effect of managers on firm policies." *The Quarterly Journal of Economics* 118.4 (2003): 1169-1208.
- Engelberg, J., Gao, P., & Parsons, C. A. (2013). The Price of a CEO's Rolodex. *The Review of Financial Studies*, 26(1), 79-114.
- Schoar, A., & Zuo, L. (2016). Does the market value CEO styles? *American Economic Review*, *106*(5), 262-66.

Topic S4: Soccer Sentiment and Stock Returns

Classification: Empirical topic

Advisor: Leah Zimmerer

That capital market participants make rational decisions is, according to Fama (1970), one of the basic assumptions for efficient capital markets. This assumption is challenged by the research field of behavioral finance. There is empirical evidence that investor sentiment ("a belief about future cash flows and investment risks that is not justified by the facts at hand" (Baker and Wurgler, 2007, p.1)) has an influence on market participants when they value and act on financial markets. Thus, investor sentiment has an impact on the value of assets and can drive their prices away from their fundamental values.

One sentiment variable that is discussed in finance research is sports results. Sports results, in particular soccer results, have an impact on how people judge life in general (Schwarz, Strack, Kommer and Wagner, 1987). Their mood changes after a game. This change has an effect on their valuation of asset prices (Edmans, Garcia and Norli, 2007). Edmans et al. (2007) show that there is an economically and statistically significant negative abnormal daily stock market reaction after a loss of the national soccer team.

The first step of the thesis is to replicate the finding of Edmans et al. (2007) for the period 1973-2020. Next, the student could explore further soccer events, e.g. death of Diego Maradona, transfer of Cristiano Ronaldo to Juventus Turin, and analyze the impact on stock returns. Additionally, the student could create a national soccer sentiment index, e.g. based on the games of the national league, champions league and examine whether there is an effect on stock returns.

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 candidate should feel comfortable in the use of a statistical software program (such as STATA) and econometric methods.

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- Baker, M., & Wurgler, J. (2007). Investor sentiment in the stock market. *Journal of Economic Perspectives*, *21*(2), 129-152.
- Edmans, A., Garcia, D., & Norli, Ø. (2007). Sports sentiment and stock returns. *The Journal of Finance*, *62*(4), 1967-1998.
- Fama, E. F. (1970). Efficient capital markets: A review of theory and empirical work. *The Journal of Finance*, *25*(2), 383-417.
- Schwarz, N., Strack, F., Kommer, D., & Wagner, D. (1987). Soccer, rooms, and the quality of your life: Mood effects on judgments of satisfaction with life in general and with specific domains. *European Journal of Social Psychology*, *17*(1), 69-79.

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: How Minerals Fuel Conflicts in Africa: The Role of Global Banks

Classification: Empirical topic

Advisor: Alison Schultz

Valuable minerals are both a source of funding and a source of conflict between armed groups. Exploiting exogenous variation in world market mineral prices, Berman et al. (2017) show that mining activity in Africa increases the incidence of conflicts at the local level and spreads violence across territory and time by enhancing the financial capacities of fighting groups.

However, it is still unclear how exactly armed groups monetize minerals. The extent to which militias and terrorists use the global financial system to make cross-border payments, clear currencies, and disguise funds, is of particular interest to both researchers and policy-makers.

The goal of this thesis is to shed light on these questions. The student should first replicate the most relevant findings of Berman et al. (2017). Taking 9/11 as an exogenous shock to global banks' attention towards Islamist – but not towards other – armed groups, s/he should then test if complicating access to the global financial system hampers armed groups' monetization process.

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, Python, or Matlab). Replication data is given at the paper's AER website.

Introductory Literature:

- Berman, N., Couttenier, M., Rohner, D., & Thoenig, M. (2017). This mine is mine! How minerals fuel conflict in Africa. *American Economic Review 107*(6), 1564-1610.
- Financial Action Task Force (2016). Terrorist financing in West and Central Africa, available at: https://www.fatf-gafi.org/publications/methodsandtrends/documents/terrorist-financing-west-central-africa.html

Topic S7: A Risky Signaling Game? Bank Dividends in Crisis

Classification: Empirical topic

Advisor: Alison Schultz

While industrial firms have largely cut dividends and stopped share buybacks in crisis years, this is not the case for banks. Aggregate dividends paid by U.S. banks in 2008, for instance, exceeded their aggregate earning by about 30% (Floyd & Skinner (2015)). Given the public support banks have received during the financial crisis, this has fueled public debate. Scharfstein and Stein (2008), for example, called for a dividend ban, predicting that dividends would redirect more than USD25 billion of the USD125 billion government rescue package to shareholders. To avoid such capital depletion, in 2020, central banks have suspended dividend payments and share buybacks when introducing immense capital relief policies for banks.

The first explanation for banks' propensity to pay out funds when they should actually save capital refers to moral hazard: Banks benefit shareholders at the expense of debt holders, including taxpayers who fund the bailout. Given the risk of bankruptcy, they pay dividends to secure equity holders' funds before they are seized in case of bankruptcy. A second explanation states that dividends serve as a signal, both for the bank's future solvency and for its ability to rollover funds in troubling times. Given their opaque business model, banks use this signal to attract shareholders and raise funds of short-term lenders. Competing about shareholders and short-term lenders with its peers, each individual bank has the incentive to pay, or even increase, dividends in crisis, no matter how harmful this is for its own capital position (Juelsruf & Nenov (2020)).

The goal of this thesis is to portray banks' payout patterns over the last years and rationalize the observed patterns. First, the student should replicate the (descriptive) findings of Floyd & Skinner (2015) showing different payout strategies of industrial firms versus banks until 2008. The student should extend the sample up to 2020 to investigate if Floyd & Skinner's findings also hold for post-financial crisis years. Second, the student should explore the reasons for the observed patterns, e.g., by using sample splits and/or conducting event studies around the dates of relevant policy decisions.

Requirements:

The candidate should be highly interested in the topic and motivated to bring her own ideas into the research process. Moreover, s/he should be willing to read the (partly theoretical!) literature on banks' dividend payment patterns. S/he should be familiar with statistical programming (STATA, R, Python, or Matlab). Data from Compustat can be used via University access.

 Introductory Literature:

- Acharya, V., Gujral, I., Kulkarni, N., & Shin, H.S. (2011). Dividends and bank capital in the financial crisis of 2007-2009, *NBER Working Paper 16896*.
- Beck, T., Mazzaferro, F., Portes, R., Quin, J., & Schett, C. (2020). Preserving capital in the financial sector to weather the storm, voxEU.org, 23 June 2020.
- Floyd, E., Li, N., & Skinner, D. (2015). Payout policy through the financial crisis: The growth of repurchases and the resilience of dividends. *Journal of Financial Economics 118*(2), 299-316.
- Juelsrud, R. & Nenov, P. (2020). Dividend payouts and rollover crises. *The Review of Financial Studies 33*(9), 4139-4185.
- Scharfstein, D. & Stein, J. (2008). This bailout doesn't pay dividends. *The New York Times*, 20 October 2020.