

# Master's Theses HWS 2022

<b>Topic S1: Political Polarization and the Media Coverage of Financial Markets .....</b>	<b>2</b>
Advisor: Sabrina Yufang Sun	
<b>Topic S2: Do Institutional Investors Care about Income Inequality on the Equity Market? .....</b>	<b>3</b>
Advisor: Sabrina Yufang Sun	
<b>Topic S3: The Narrative Economics of Mutual Fund Investments.....</b>	<b>4</b>
Advisor: Sabrina Yufang Sun	
<b>Topic S4: Social Learning among Sell-Side Equity Analysts .....</b>	<b>5</b>
Advisor: Sabrina Yufang Sun	
<b>Topic S5: Gender Differences in Self-Attribution Bias: Evidence from Acquisition Experiences .....</b>	<b>6</b>
Advisor: Leah Zimmerer	
<b>Topic S6: Boys will be boys: Gender of Mutual Fund Managers and Overconfidence .....</b>	<b>7</b>
Advisor: Leah Zimmerer	

**Topic S1: Political Polarization and the Media Coverage of Financial Markets**

Classification: Empirical topic

**Advisor: Sabrina Yufang Sun**

The United States and Europe have been experiencing a recent increase in political polarization. Not only is there less collaboration and mutual understanding between liberals and conservatives, but members of both political camps increasingly view each other in an extremely negative way. While a large amount of literature has been devoted to the understanding of this division, little is understood about the economic and financial consequences of this polarization. A growing literature looking into it suggest that political polarization can have important economic implications (see e.g. Fos et al. 2021).

The current seminar thesis aims at understanding an important consequence of political polarization: How political division influences the media coverage of financial markets, in particular the stock market. Portrayals of the stock market has important economic implications, as it is one of the main channels for capital allocation and household wealth accumulation. Specifically, the student will empirically investigate how liberal vs. conservative-leaning media portray the stock market in different manners, and whether this liberal-conservative gap widens in times of increasing political polarization.

The candidate has the following tasks:

- Review the literature on the media coverage of financial markets.
- Empirically investigate two questions: (1) Does political leanings of the media outlets influence their coverage of the financial markets, i.e. is there a liberal-conservative gap in the media coverage of financial markets? (2) If so, does this gap widen with increasing political polarization?

**Requirement:**

The project requires familiarity with MS-Excel and the intellectual capacity to analyze sociopolitical and economic topics. STATA knowledge is NOT necessary. All empirical analysis can be conducted in Excel. The candidate will search, read, and analyze newspaper-style texts on sociopolitical and economic topics.

**Introductory Literature:**

Fiorina, P., & Abrams, S. (2008). Political polarization in the American public. *Annual Review of Political Science*, 11, 563-588.

Prior, M. (2013). Media and political polarization. *Annual Review of Political Science*, 16, 101-127.

Fos, V., Kempf, E., & Tsoutsoura, M. (2021). The political polarization of US firms. Working Paper.

**Disclaimer:** I am currently working on the topic as part of my dissertation project.

**Topic S2: Do Institutional Investors Care about Income Inequality on the Equity Market?**

Classification: Empirical topic

**Advisor: Sabrina Yufang Sun**

There is a growing debate about income inequality in the United States (Acemoglu and Autor, 2011). In theory, capital markets may reduce income inequality by punishing firms that exacerbates such inequality, e.g. those with a higher ratio of CEO salary to the salary of the median worker. The question is, does the capital market care about income inequality?

Pan et al. (2022) looked into this question and found that US firms disclosing higher pay ratios indeed experience significantly lower abnormal announcement returns, suggesting that equity market participants care about the income inequality within the US corporations. The current project aims at better understanding the effect of pay ratio disclosure from the perspective of institutional investors. Specifically, the candidate will investigate whether institutional investors consider within-firm income inequality in their equity investment decisions, and the mechanisms behind their consideration.

The candidate has the following tasks:

- Conduct a literature review on the link between inequality and the financial market
- Replicate the findings from Pan et al. (2022) related to institutional investors.
- Extend the analysis by investigating the channels through which inequality concerns influence institutional investment.

**Requirements:**

The empirical work requires the use of large databases, i.e. CRSP, Thompson Reuters, and MSCI KLD. 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:**

Acemoglu, D., & Autor, D. (2011). Skills, tasks and technologies: Implications for employment and earnings, in Orley, A. & Card, D. ed.: *Handbook of Labor Economics*, 4B, 1043–1171.

Pan, Y., Pikulina, E., Siegel, S., & Wang, T. Y. (2022). Do equity markets care about income inequality? Evidence from pay ratio disclosure. *The Journal of Finance*, 77(2), 1371-1411.

**Disclaimer:** I am currently working on the topic as part of my dissertation project.

### **Topic S3: The Narrative Economics of Mutual Fund Investments**

Classification: Empirical topic (Chinese reading proficiency is a must)

**Advisor: Sabrina Yufang Sun**

In his recent book *Narrative Economics*, the Nobel Laureate and New York Times bestseller Robert Shiller popularized the idea that stories people tell can go viral and powerfully drive economies by influencing individual and collective decisions, including financial decisions. For example, stories about investor confidence and panic may contribute to a worsening financial crisis. Therefore, serious investigations into these narratives could improve our ability to predict and prepare for major economic events like the financial crisis.

The current project applies the concept of narrative economics to mutual fund investment, one of the most important investment vehicles for retail investors worldwide. What stories do investors tell themselves about the mutual fund performance they observe? When do they attribute successful performance to manager ability, and when do they attribute it to luck? How do these narrative influence fund flows?

The candidate has the following tasks:

- Review the literature on narrative economics and its application to the financial context
- Empirically examine the narratives retail investors form to interpret mutual fund performance and their consequences for the fund flow
- Propose future research directions on the topic

### **Requirements:**

The empirical work uses datasets from the Chinese mutual fund industry, including text data in Simplified Chinese and numerical data. I will provide the candidate with all datasets needed for the analysis. The project requires reading proficiency in Simplified Chinese (简体中文). In addition, the candidate should feel comfortable with the use of a statistical software program (such as STATA). Other programming knowledge is a plus, but not a must.

### **Introductory Literature:**

Carhart, M. M. (1997). On persistence in mutual fund performance. *The Journal of Finance*, 52(1), 57-82.

Lynch, A. W., & Musto, D. K. (2003). How investors interpret past fund returns. *The Journal of Finance*, 58(5), 2033-2058.

Shiller, R. J. (2017). Narrative economics. *American Economic Review*, 107(4), 967-1004.

Shiller, R. J. (2019). *Narrative Economics*. Princeton: Princeton University Press.

**Disclaimer:** I am currently working on this topic as part of my dissertation project.

#### **Topic S4: Social Learning among Sell-Side Equity Analysts**

Classification: Empirical topic

**Advisor: Sabrina Yufang Sun**

Sell-side equity analysts face the difficult task predicting the future performance of stocks and making buy/sell recommendations based on their own analysis. To accomplish this task, they routinely use information from multiple sources to improve their forecasting accuracy. One important source of information comes from “social learning”, i.e. learning from one’s peers.

The first goal of this project is to investigate whether analysts engage in social learning, and whether their social learning leads to better performance. Two recent papers have looked into these questions. Huang et al. (2022) find that analysts whose colleagues cover economically related industries along the supply chain have better research performance. Kumar et al. (2022) find that analysts learn from other analysts to improve their forecast accuracy.

The second goal of the project is to investigate the type of personal characteristics that influence social learning among equity analysts. The analysis here will focus on the political affiliation of the analysts. Specifically, the candidate will investigate whether politically conservative analysts learn more from other conservative analysts, and liberal analysts learn more from other liberal analysts.

In sum, the student has the following tasks:

- Review the literature on social learning and information sharing in the financial markets
- Replicate the main findings of Kumar et al. (2022)
- Extend the analysis of Kumar et al. (2022) by empirically investigating how political affiliation moderates the social learning among equity analysts.

#### **Requirement:**

The empirical work requires the use of large databases from WRDS, which are readily accessible for affiliates of the University of Mannheim, and a voter registration dataset, which I will provide. The student should feel comfortable in the use of a statistical software program (such as STATA) and econometric methods.

#### **Introductory Literature:**

Huang, A., Lin, A., & Zang, A.Y. (2022). Cross-industry information sharing among colleagues and analyst research. *Journal of Accounting and Economics*, 101496-101515.

Kumar, A., Rantala, V., & Xu, R. (2022). Social learning and analyst behavior. *Journal of Financial Economics*, 143 (1), 434-461.

#### **Disclaimer:**

My coauthor and I are currently working on the topic.

**Topic S5: Gender Differences in Self-Attribution Bias: Evidence from Acquisition Experiences**

Classification: Empirical topic

**Advisor: Leah Zimmerer**

Roll's (1986) hubris hypothesis states that only managers who are overconfident about their value-creating ability will engage in acquisitions. This raises the question of how managers become overconfident. One common explanation of overconfidence is biased self-attribution. Individuals are more likely to attribute bad outcomes to chance or external factors while they attribute good outcomes to their own abilities (Miller and Ross, 1975).

While self-attribution has been used to explain investor overconfidence (e.g. Daniel et al., 1998, and Gervais and Odean, 2001), there is little work examining whether self-attribution affects managerial decision making. Billett and Qian (2008) argue that self-attribution bias can explain CEOs' overconfidence. They analyze the sequence of mergers and acquisitions made by individual CEOs and show that acquisition experience influences CEOs' overconfidence.

The first goal of the thesis is to replicate the main findings of Billett and Qian (2008) including more recent years. Are CEOs who become overconfident from a successful acquisition more likely to acquire again and do future deals of overconfident CEOs exhibit negative wealth effects?

Beyer (1990) shows that women are less prone to self-attribution bias than men. Thus, women might become less overconfident through experience than men. This raises the question of whether the findings of Billett and Qian (2008) differ for female and male CEOs.

The second goal of the thesis is to explore whether CEOs' acquisition experience influences the overconfidence of female and male CEOs differently.

**Requirements:**

The empirical work requires the use of large databases, i.e. CRSP. 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:**

Beyer, S. (1990). Gender differences in the accuracy of self-evaluations of performance. *Journal of Personality and Social Psychology*, 59(5), 960.

Billett, M. T., & Qian, Y. (2008). Are overconfident CEOs born or made? Evidence of self-attribution bias from frequent acquirers. *Management Science*, 54(6), 1037-1051.

Daniel, K., Hirshleifer, D., & Subrahmanyam, A. (1998). Investor psychology and security market under- and overreactions. *The Journal of Finance*, 53(6), 1839-1885.

Gervais, S., & Odean, T. (2001). Learning to be overconfident. *The Review of Financial Studies*, 14(1), 1-27.

Miller, D. T., & Ross, M. (1975). Self-serving biases in the attribution of causality: Fact or fiction?. *Psychological Bulletin*, 82(2), 213.

Roll, R. (1986). The hubris hypothesis of corporate takeovers. *Journal of Business*, 197-216.

**Topic S6: Boys will be boys: Gender of Mutual Fund Managers and Overconfidence**

Classification: Empirical topic

**Advisor: Leah Zimmerer**

Managers of mutual funds are usually seen as rational agents making rational choices on mutual fund investments. However, there is empirical evidence that mutual fund managers are also prone to behavioral biases. One widely documented behavioral bias that has been shown to influence retail investors' behavior is overconfidence (Odean, 1999). One common explanation of overconfidence is biased self-attribution. Individuals are more likely to attribute bad outcomes to chance while they attribute good outcomes to their own abilities (Miller and Ross, 1975). As investors become more overconfident after good portfolio performance (Gervais and Odean, 2001), they trade too much because of their over-optimistic beliefs about their own trading skills (Odean, 1999).

Based on these findings, Puetz and Ruenzi (2011) analyze whether mutual fund managers become (more) overconfident after good portfolio performance. They argue that mutual fund managers attribute good past portfolio performance to their own abilities. Accordingly, they show that mutual fund managers trade more after good past individual portfolio performance.

The first goal of the thesis is to replicate the main findings of Puetz and Ruenzi (2011) including more recent years.

Many studies show that in masculine tasks men are more overconfident than women. Barber and Odean (2001) analyze the investment decision of retail investors and show male retail investors are more overconfident than female retail investors. This raises the question of whether male and female mutual fund managers differ with respect to their overconfidence.

The second goal of the thesis is to explore whether the findings are different for female and male mutual fund managers.

**Requirements:**

The empirical work requires the use of large databases, i.e. CRSP. 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:**

Barber, B. M., & Odean, T. (2001). Boys will be boys: Gender, overconfidence, and common stock investment. *The Quarterly Journal of Economics*, 116(1), 261-292.

Gervais, S., & Odean, T. (2001). Learning to be overconfident. *The Review of Financial Studies*, 14(1), 1-27.

Miller, D. T., & Ross, M. (1975). Self-serving biases in the attribution of causality: Fact or fiction?. *Psychological Bulletin*, 82(2), 213.

Puetz, A., & Ruenzi, S. (2011). Overconfidence among professional investors: Evidence from mutual fund managers. *Journal of Business Finance & Accounting*, 38(5-6), 684-712.

Odean, T. (1999). Do investors trade too much?. *American Economic Review*, 89(5), 1279-1298.