UNIVERSITY OF MANNHEIM
Business School

CHAIR OF FINANCIAL MARKETS AND FINANCIAL INSTITUTIONS

Seminar Thesis Spring 2023

Topic S1: Subjective versus Objective Financial Literacy and Financial Decision Making

Classification: Empirical Topic

Advisor: Frederik Horn

Given that public pension systems are struggling to meet the needs of an ever-aging population, private retirement planning is becoming increasingly important for households. Finance research has identified financial literacy as one of the most important drivers of prudent retirement planning (Lusardi and Mitchell, 2011). However, financial literacy among households remains low across the world (Lusardi and Mitchell, 2014).

In a recent paper, Anderson, Baker, and Robinson (2017) argue that retirement planning decisions of business professionals are not actually driven by objective financial literacy but rather by the self-reported perceived financial literacy. If this finding holds true, governments across the world would have to adjust their strategies for fostering prudent retirement planning.

Yet, it is not clear whether the results of Anderson et al. (2017) generalize to average households. Hence, it would be interesting to check whether this finding persists for non-professional individual investors.

First, the student should provide a comprehensive literature review regarding financial literacy and financial decision-making. Second, the student should replicate the main findings of Anderson et al. (2017) using the survey of consumer finances (SCF). The SCF surveys a representative sample of the US population every 3 years since 1983. The data is readily available for download.

Introductory Literature:

Anderson, A., Baker, F., & Robinson, D. T. (2017). Precautionary savings, retirement planning and misperceptions of financial literacy. *Journal of Financial Economics*, *126*(2), 383-398.

Lusardi, A., & Mitchell, O. S. (2011). Financial literacy around the world: an overview. *Journal of Pension Economics & Finance*, *10*(4), 497-508.

Lusardi, A., & Mitchell, O. S. (2014). The economic importance of financial literacy: Theory and evidence. *Journal of Economic Literature*, *52*(1), 5-44.

Topic S2: Walking the Talk or Window-Dressing: Do ESG Funds Promote ESG?

Classification: Empirical topic

Advisor: Sabrina Yufang Sun

The number of mutual funds with "ESG" labels has increased exponentially over the past decade. One question remains: Do they walk the talk, or are they window-dressing?

Dikolli et al. (2022) investigated this question and found that mutual funds with investment objectives designated as "Sustainable Investment" are more likely than other mutual funds to vote in support of ESG shareholder proposals.

The current seminar thesis will replicate the main finding of Dikolli et al. (2022) and extend the authors' analysis by investigating how fund manager characteristics (e.g. gender, race, education, political affiliation) moderate the relationship found in the reference paper. For example, are female managers more likely to be true to their stated ESG causes than male managers? Are liberal or conservative managers more likely to perform ESG window-dressing?

Specific tasks:

1) Conducting a literature review on shareholder voting with a focus on ESG-related papers.
2) Replicate the main finding in Dikolli et al (2022).
3) Extend the analysis by examining the effect of fund manager characteristics on ESG window-dressing.

Requirement:

The student should be comfortable with Stata and econometrics.

Data:

The replication part uses mutual fund data, all of which can be downloaded from the university's MorningStar and WRDS databases. For the extension part, I will provide the dataset with manager characteristics.

Introductory Literature:

Dikolli, S. S., Frank, M. M., Guo, Z. M., & Lynch, L. J. (2022). Walk the talk: ESG mutual fund voting on shareholder proposals. *Review of Accounting Studies*, 27(3), 864-896.a

Disclaimer:

I am working on a related project.

Topic S3: Inequality Aversion and Executive Compensation of German Firms

Classification: Empirical Topic

Advisor: Sabrina Yufang Sun

Experimental and survey evidence suggests that many individuals are averse to pronounced income inequality, a tendency known as inequality aversion. Empirically, there is a large variation of inequality aversion across different regions, and among individuals in the same region. The current seminar thesis seeks to examine how cross-regional differences in inequality aversion may explain the dispersion in executive compensation in Germany. For the analysis, the student will use cross-sectional data on Germany firms' executive compensation in 2006, the year in which disclosure of executive compensation became mandatory in Germany.

Specific tasks:

1) Collect data on executive compensation in Germany in the year 2006
2) Provide descriptive statistics on the executive compensation in Germany (2006)
3) Empirically analyze the correlation between regional inequality aversion and level of executive compensation in the region

Requirement:

Reading fluency in the German language is necessary to complete the project. The empirical analysis can be conducted using either Excel or Stata.

Data:

I will provide data on regional inequality aversion. The student will collect data on executive compensation from firms' financial statements.

Introductory Literature:

Beck, D., Friedl, G., & Schäfer, P. (2020). Executive compensation in Germany. *Journal of Business Economics*, 90(5), 787-824.

Pan, Y., Pikulina, E. S., 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 this project.

Topic S4: To Group or Not to Group? The Performance of Team-Managed Mutual Funds

Classification: Empirical topic

Advisor: Sabrina Yufang Sun

There is an overwhelming trend in the mutual fund industry toward team-management. The finance literature, however, has generated inconsistent results with respect to the relative performance of team vs. individual-managed mutual funds (e.g. Chen et al. 2004; Bär, Kempf and Ruenzi, 2011; Patel and Sarkissian, 2017). In particular, Patel and Sarkissian (2017) found that team-managed funds perform better than individual-managed funds.

The current paper will replicate the main finding of Patel and Sarkissian (2017) and extend their analysis by investigating whether team vs. individual-managed star funds differ in their performance. That is, taking a team vs. an individual star fund, both having performed well in the past, which would perform better in the future?

Specific tasks:

1) Conduct a thorough literature review on individual vs. team-managed mutual funds
2) Replicate the main findings of Patel and Sarkissian (2017)
3) Extend the analysis by investigating the performance difference between individual star funds and team star funds.

Requirement:

The student should be comfortable with Stata and econometrics.

Data:

Both the replication and the extension parts use mutual fund data that can be downloaded from the university's MorningStar database.

Introductory Literature:

Bär, M., Kempf, A., & Ruenzi, S. (2011). Is a team different from the sum of its parts? Evidence from mutual fund managers. *Review of Finance*, 15(2), 359-396.

Chen, J., Hong, H., Huang, M., & Kubik, J. D. (2004). Does fund size erode mutual fund performance? The role of liquidity and organization. *American Economic Review*, 94(5), 1276-1302.

Patel, S., & Sarkissian, S. (2017). To group or not to group? Evidence from mutual fund databases. *Journal of Financial and Quantitative Analysis*, 52(5), 1989-2021.

Disclaimer:

I am currently working on this project.

Topic S5: The Wisdom of the Robinhood Crowd

Classification: Empirical topic

Advisor: Sabrina Yufang Sun

The trading platform Robinhood was founded in 2013 with a plan to make stock market more accessible to retail investors. By mid-2020, Robinhood has attracted over 13 million investors, with a typical account size of 2000 USD.

The active participation of such tiny investors on this large scale is a new phenomenon to both the practitioners and the academic finance literature. What types of stocks do Robinhood investors tend to hold? How diversified are their holdings? Are their investment strategies profitable ex post (i.e. with the benefit of the hindsight we have today)?

Welch (2022) investigated these questions and found that Robinhood investors tilted primarily toward stocks with high past share volume and dollar-trading volume (mostly big stocks), and that the aggregated Robinhood portfolio from mid-2018 to mid-2020 had both good timing and good alpha. The current thesis will replicate and extend the main findings of Welch (2022).

Specific tasks:

1) Conduct a thorough literature review on retail investor trading, with a focus on papers using data from Robinhood and similar trading platforms.
2) Replicate the main findings of Welch (2022)
3) Extend the analysis by Welch (2022). The student will design his own direction of extension.

Requirement:

The student should be comfortable with Stata and econometrics.

Data:

I will provide Robinhood trading data to the student writing this thesis. CRSP and Compustat data can be downloaded from the university's WRDS databases.

Introductory Literature:

Welch, I. (2022). The wisdom of the Robinhood crowd. *The Journal of Finance*, 77(3), 1489-1527.

Disclaimer:

I am working on a related project.

Topic S6: The Impact of Corporate Scandals on Stock Market Participation

Classification: Empirical topic

Advisor: Leah Zimmerer

As John Campbell pointed out, "textbook financial theory implies that all households, no matter how risk averse, should hold some equities if the equity premium is positive." Empirically, however, the average stock market participation rate is lower than 50 percent in many developed economies. This is known as the "limited participation puzzle". It is crucial to understand why the average stock market participation is so low because it has important implications on equity risk premium, diversification discount, and market liquidity.

Many factors have been found to influence investors' decisions to participate in the stock market, e.g. risk aversion, pessimistic expectation, fixed participation costs, and trust in the stock market (e.g. Vissing-Jorgensen, 2002; Gusio et al., 2008).

Giannetti and Wang (2016) introduce a new explanation for why households might not participate in the stock market. They argue that corporate scandals could decrease individuals' willingness to invest in the stock market. Giannetti and Wang (2016) show that households decrease stock market participation if corporate fraud in the state of the household is revealed. Households decrease their stock holdings in fraudulent as well as nonfraudulent firms and thus the authors argue that their results are not driven by financial losses associated with holdings in fraudulent stocks.

The goal of the thesis is to replicate the main findings of Giannetti and Wang (2016) including more recent years. Next, the student should analyze whether fine sizes and types of crime have an impact on households' reactions after corporate scandals.

Requirements:

The empirical work requires the use of large databases. The databases are available for download from public databases. The candidate should feel comfortable in the use of a statistical software program (such as STATA) and econometric methods.

Introductory Literature:

Giannetti, M., & Wang, T. Y. (2016). Corporate scandals and household stock market participation. *The Journal of Finance*, 71(6), 2591-2636.

Guiso, L., Sapienza, P., & Zingales, L. (2008). Trusting the stock market. *The Journal of Finance*, 63(6), 2557-2600.

Vissing-Jorgensen, A. (2002). Towards an explanation of household portfolio choice heterogeneity: Nonfinancial income and participation cost structures.