UNIVERSITY OF MANNHEIM
Business School

CHAIR OF FINANCIAL MARKETS AND FINANCIAL INSTITUTIONS

Seminar Thesis Fall 2023

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Topic S1: Investor Sentiment and the Cross-section of Stock Returns Revisited

Advisor: Frederik Horn

Classification: Empirical Topic

Anecdotally, investor sentiment has a strong impact on asset prices. Examples range from the tulip mania in the Netherlands in the 17th century to the recent GME craze. However, this anecdotal evidence is at odds with efficient markets where only changes in economic fundamentals should affect stock prices.

In their seminal paper, Baker and Wurgler (2006) create a novel measure of investor sentiment. They demonstrate that investor sentiment has as strong impact on the cross-sectional pricing of stock returns. Securities with subjective valuations like small, young, and volatile stocks exhibit high prices and thereby low returns following periods of high investor sentiment. They argue that noise traders are bidding up the prices of these securities when sentiment is high and due to limits to arbitrage informed investors cannot exploit these mispricings.

As this study was conducted almost 20 years ago, it would be interesting to replicate the authors' findings for more recent years. Furthermore, one could explore the importance of investor sentiment for asset prices during financial recessions.

First, the student should provide a comprehensive survey of the academic literature on investor sentiment and stock returns. Second, she should replicate the main findings of Baker and Wurgler (2006). Finally, the student should extend the analyses to include more recent years and explore the impact of sentiment during times of crises.

Introductory literature:

Baker, M., & Wurgler, J. (2006). Investor sentiment and the cross-section of stock returns. *The Journal of Finance*, *61*(4), 1645-1680.

Kumar, A., & Lee, C. M. (2006). Retail investor sentiment and return comovements. *The Journal of Finance*, *61*(5), 2451-2486.

Stambaugh, R. F., Yu, J., & Yuan, Y. (2012). The short of it: Investor sentiment and anomalies. *Journal of Financial Economics*, *104*(2), 288-302.

Topic S2: Quality-minus-Junk and Financial Crises

Classification: Empirical Topic

Advisor: Frederik Horn

Truly efficient markets would imply that future stock returns are unpredictable using past information. Furthermore, this means that fund managers are not able to consistently beat the market. Yet, there has been a host of proposed asset pricing anomalies that challenge the notion of efficient markets. On top of that, there seem to be a select number of fund managers like Warren Buffet that consistently beat the market.

Asness, Frazzini, and Pedersen (2019) create a score for the quality of a stock based on a security's profitability, safeness, and growth. Interestingly, they find that a portfolio that goes long in high-quality stocks and short in low-quality stocks generates significant abnormal returns. This is puzzling as it suggests that stocks' quality, one of the most obvious features of a stock, is not fully priced in the market.

Furthermore, one would expect that high-quality stocks should perform especially well during times of recession. Hence, it would be interesting to explore the performance of the Quality-minus-junk factor during these times.

First, the student should provide a comprehensive survey of the academic literature on asset pricing anomalies. Second, the student should replicate the main findings of Asness et al. (2019). Finally, she should explore the performance of high-quality versus low-quality stocks during times of crises.

Introductory Literature:

Asness, C. S., Frazzini, A., & Pedersen, L. H. (2019). Quality minus junk. *Review of Accounting Studies*, *24*(1), 34-112.

Feng, G., Giglio, S., & Xiu, D. (2020). Taming the factor zoo: A test of new factors. *The Journal of Finance*, *75*(3), 1327-1370.

Frazzini, A., Kabiller, D., & Pedersen, L. H. (2018). Buffett's alpha. *Financial Analysts Journal*, *74*(4), 35-55.

Topic S3: Green or Greed? The Social Impact of Private Equity Investment

Classification: Empirical Topic

Advisor: Sabrina Yufang Sun

In recent years, there has been a growing interest among institutional investors, in particular private equity investors, in generating positive social impact alongside financial returns. This trend is sometimes referred to as "impact investing".

One sector that is increasingly targeted by impact-seeking investors is the care industry – healthcare, childcare, and senior care. Over the past ten years, there has been a significant rise ins private equity investment in this industry. Private equity firms are increasingly drawn to these sectors because of their long-term growth potential and the critical need for innovative solutions to address complex social challenges.

An important open question is whether the institutional money poured into the care industry leads to positive social impact. While proponents cite the efficiency gain and innovation, critics argue that the focus on financial returns in these sectors can lead to a lack of attention to the needs of vulnerable populations and the quality of care provided, potentially undermining the social impact.

The current project will review the relevant literature and empirically investigate the social impact of private equity investment. Specifically, does private equity investment in the care industry lead to negative social consequences, such as lower quality services and a disadvantage to vulnerable populations?

Data:

I will provide a dataset on private equity investment in the care industry and a dataset on the social consequences. The student will merge the two datasets by geography.

Introductory Literature:

Gupta, A., Howell, S. T., Yannelis, C., & Gupta, A. (2021). Does private equity investment in healthcare benefit patients? Evidence from nursing homes. *NBER Working Paper* (No. w28474).

Pradhan, R., Weech-Maldonado, R., Harman, J. S., & Hyer, K. (2014). Private equity ownership of nursing homes: implications for quality. *Journal of Health Care Finance*, *42*(2).

Topic S4: What Does Not Kill You Makes You Prosocial: CEO Disaster Experience and Corporate ESG Performance

Classification: Empirical topic

Advisor: Sabrina Yufang Sun

I know of no one who has achieved something significant without also in their own lives experiencing their share of hardship, frustration, and regret . . . if you're like me and you occasionally want to swing for the fences, you can't count on a predictable life.

- Tim Cook, CEO of Apple Inc.

Cook highlights the importance of adverse life experience in a CEO's career. The finance literature has empirically investigated the link between disaster experience of corporate executives and firm outcomes. Bernile et al. (2016) find that CEOs who experience fatal disasters without extremely negative consequences lead firms that behave more aggressively. Chen et al. (2021) find that firms led by CEOs with early-life disaster experience have higher stock price crash risk. These are consistent with the interpretation that disaster experience makes the CEO more risk tolerant.

One open question is whether disaster experience also makes the CEOs more prosocial, and hence improves the firm's ESG performance. It can be speculated that CEOs who have lived through adverse experience have received help from others and are therefore more grateful toward society. This may result in more prosocial decisions and better corporate social impact.

The current project will review the relevant literature and empirically investigate whether early life disaster experience of corporate executives leads to better corporate ESG performance.

Data:

I will provide a dataset on corporate ESG performance and a dataset on corporate executives. The student will supplement the latter dataset with publicly retrievable data sources.

Introductory Literature:

Chen, Y., Fan, Q., Yang, X., & Zolotoy, L. (2021). CEO early-life disaster experience and stock price crash risk. *Journal of Corporate Finance*, *68*, 101928.

Bernile, G., Bhagwat, V., & Rau, P. (2017). What doesn't kill you will only make you more risk-loving: Early-life disasters and CEO behavior. *The Journal of Finance* 72 (1): 167-206.

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Topic S5: Gender Dynamics at the Top: Uncovering Spillover Effects in US Corporate Leadership

Classification: Empirical topic

Advisor: Leah Zimmerer

Gender inequality remains prevalent in leadership positions. Despite women constituting 46.7% of the U.S. labor force in 2022, according to the Department of Labor, they only held 27.9% of board seats and just 6.0% of CEOs in companies listed in the Russell 3000 were female in the second quarter of 2022.

The literature offers several possible explanations for the persisting differences in leadership positions. For example, differences in preferences for competition and negotiation (Niederle and Vesterlund, 2007) and educational and occupational choices (Blau and Kahn, 2017). Furthermore, there might be systematic demand-based barriers that prevent women from reaching leadership positions. The current top executives and corporate directors, who are largely male, may unconsciously discriminate or hold gender-based biases. Thus, Matsa and Miller (2011) argue that women in leadership positions can help other women reach leadership positions.

Matsa and Miller (2011) present evidence that women play a supportive role in corporate America. The board of directors, being the governing body of a company, is responsible for appointing and overseeing its executives. They investigate the impact of having female representation on corporate boards on the gender diversity of a company's top management. Matsa and Miller (2011) find that the proportion of women on a company's board of directors in the preceding year has a positive and significant effect on the proportion of women in top executive positions. An increase of 10 percentage points in the female representation on the board of directors corresponds to a 1.4 percentage point increase in the number of female executives.

The first goal of the thesis is to provide a comprehensive survey of the academic literature concerning potential systematic demand-based and institutional barriers that present a "glass ceiling" for women and potential remedies to overcome the glass ceiling. The second goal of the thesis is to replicate the main findings of Matsa and Miller (2011), including more recent years, and to explore whether we see changes over time.

Data:

The databases are readily accessible for affiliates of the University of Mannheim.

Introductory Literature:

Blau, F. D. and L. M. Kahn (2017). The gender wage gap: Extent, trends, and explanations. *Journal of Economic Literature*, 55 (3), 789-865.

Matsa, D. A., & Miller, A. R. (2011). Chipping away at the glass ceiling: Gender spillovers in corporate leadership. *American Economic Review*, *101*(3), 635-639.

Niederle, M. and L. Vesterlund (2007). Do women shy away from competition? *The Quarterly Journal of Economics,* 122, 1067-1101.

Topic S6: Mechanism driving the Child Penalty

Classification: Empirical topic

Advisor: Leah Zimmerer

Gender inequality in the labor market has been a matter of concern for economists and policymakers alike. Although there have been notable advancements in women's career opportunities, the persistence of the gender pay gap is evident (Blau and Kahn, 2017; Goldin, 2014). Parenthood plays a crucial role in explaining why women, on average, earn lower wages compared to men (Angelov, Johansson, and Lindahl, 2016).

After the birth of their first child, women tend to either exit the labor force completely (Bertrand, Goldin, and Katz, 2010) or experience slower career progress due to reduced working hours after becoming parents (Goldin, 2014). This circumstance is particularly detrimental for women working in occupations where career advancement often relies on the ability to work flexible hours. The concept of the "child penalty" has emerged in the literature to describe the decline in wages that women experience as a result of giving birth.

By analyzing Danish administrative data, Kleven, Landais, and Søgaard (2019) investigate how children affect gender inequality within the labor market. Their findings reveal that the presence of children leads to a substantial long-term gender gap in earnings, amounting to approximately 20 percent. This disparity is primarily driven by differences in hours worked, labor force participation, and wage rates.

The first goal of the thesis is to replicate the main findings of Kleven et al. (2019) for the UK using the British Household Panel Survey. The second goal of the thesis is to analyze potential mechanisms driving the child penalty.

Requirements:

The databases are available for download from public databases.

Introductory Literature:

Angelov, N., P. Johansson, and E. Lindahl (2016). Parenthood and the Gender Gap in Pay*, Journal of Labor Economics*, 34, 545-579.

Bertrand, M., C. Goldin, and L. F. Katz (2010), Dynamics of the Gender Gap for Young Professionals in the Financial and Corporate Sectors, *American Economic Journal: Applied Economics*, 2, 228-255.

Blau, F. D. and L. M. Kahn (2017). The gender wage gap: Extent, trends, and explanations. *Journal of Economic Literature*, 55 (3), 789-865.

Goldin, C. (2014). A Grand Gender Convergence : Its Last Chapter, *American Economic Review*, 104(4), 1091-1119.

Kleven, H., Landais, C., & Søgaard, J. E. (2019). Children and gender inequality: Evidence from Denmark. *American Economic Journal: Applied Economics*, *11*(4), 181-209.