Master Thesis Topics HWS 2024

Chair of Finance – Prof. Dr. Erik Theissen

UNIVERSITY OF MANNHEIM
Business School



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Chair of Finance

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- **Address:**
  - L 9, 1-2
  - Secretary: third floor (“3. OG“)
  - Assistants: second and fourth floor
- **Office hours:**
  - By appointment
  - General questions: please visit our homepage first
  - Questions about specific topics: please feel free to contact the respective supervisor
- **Research at the Chair of Finance**

a) Market Microstructure

b) Empirical Asset Pricing

c) Blockchain & Cryptocurrency

Topic Allocation

- **Prerequisite:** You must have successfully completed one seminar of the area "Banking, Finance, and Insurance" (Prof. Maug, Prof. Niessen-Ruenzi, Prof. Ruenzi, Prof. Spalt, Prof. Theissen).

- The assignment of topics is carried out jointly by the finance area.

- Assignment to the topics will be based on your priority list and the grade in the respective seminar.

Time Schedule

- **Application period:** Thursday, 05.09.2024 – Sunday, 15.09.2024
- **Topics Allocation Announcement:** Thursday, 19.09.2024
- **Registration Period:** Thursday, 19.09.2024 – Wednesday, 25.09.2024
- **Starting Date:** Thursday, 19.09.2024
- **Colloquium:** Friday, 29.11.2024 (in-person)
- **Submission Deadline:** Thursday, 06.02.2025

Guide to Scientific Writing

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- **An information sheet on writing a seminar paper or a master thesis is provided on our website.**

- **Most important rules:**
  - Your thesis should be 45 pages (+/- 10%).
  - 50 pages is the absolute maximum.
  - Tables and figures have to be included in the text (and count towards the page restriction).
  - Only supplementary material that is not needed to read and understand the thesis may be collected in an appendix.
  - Please only include literature that is either in English or German.

Important Remarks

- **Plagiarism policy:**
  - Your master thesis will be analyzed by plagiarism detection software (Turnitin).
  - Our chair has a **zero-tolerance policy** regarding plagiarism.
  - Students who submit plagiarized work will be graded with 5.0.

- **Language quality:**
  - Grading of your master thesis takes also into account the language quality.
  - Linguistic shortcomings negatively impact your final grade.
  - The master thesis can be either written in English or German.

FAQ

- **Some topics look more difficult than others. Why should I choose a rather difficult topic?**

  We take the difficulty of the topic into account when grading your thesis.

- **Can I do an internship during the writing process?**

  We generally advise against doing an internship during the writing process.

- **My computer crashed and I lost all my progress on the thesis. Can I get an extension of the deadline?**

  No, you are responsible to make enough backups of your work.

- **Can I submit earlier?**

  Yes.

Master Thesis Topics

- If you have any questions regarding one of the topics before applying for topics, please feel free to contact the respective supervisor!
- You can find contact information for each supervisor on the website of the Chair of Finance

https://www.bwl.uni-mannheim.de/en/theissen/team/

T1. Dark Pool Trading and Information Acquisition

Erik Theissen

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Topic Description

- Broogard and Pan (2022) provide empirical evidence that more trading in dark pools leads to higher information acquisition.
- The analysis is based on (1) two measures of information acquisition (Weller's (2018) price jump ratio and the future earnings response coefficient) and (2) a shock to the level of dark trading caused by the SEC's tick size pilot program
- The objective of the Master thesis is to replicate this study using European data and exploiting a specific feature of European regulation, the double volume cap (DVC, see Johann et al. 2019)
- The DVC implies that dark pool trading for a stock is banned for six months when the market share of all dark pools exceeds 8%. Thus, dark pool trading is "switched off and (six months later) on again for these stocks. The idea for the thesis is to exploit this exogenous variation in dark pool trading for the analysis.

Requirements:

The candidate should feel comfortable in the use of appropriate software (such as STATA or Python) and econometric methods.

T1. Dark Pool Trading and Information Acquisition

Erik Theissen

UNIVERSITY OF MANNHEIM
Business School

Starting References

- Broogard, J. and J. Pan (2022): Dark Pool Trading and Information Acquisition. Review of Financial Studies 35, 2625-2666.
- Johann, T., T. Putnins, S. Sagade and C. Westheide (2019): Quasi-Dark Trading: The Effects of Banning Dark Pools in a World of Many Alternatives. Working Paper, available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3365994.
- Weller, B. (2018): Does Algorithmic Trading Deter Information Acquisition? Review of Financial Studies 31, 2184-2226.

T2. Salience Theory and Mutual Fund Flows

Büsra Eroglu

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Topic Description

- Limited attention is an important factor that shapes trading behavior. >> Attention-driven trading: Investors tend to buy attention-grabbing stocks (news, abnormal trade activity, and extreme returns). (Barber and Odean, 2008)
- Salience Theory says the most different option in the set of alternatives attracts attention, and this salient outcome is overweighted relative to their objective probability.
- In the context of financial markets, asset returns that differ most from the average market return are considered salient. Investors are drawn to stocks with salient upsides, which tend to be overvalued and subsequently yield lower returns. Similar patterns are observed in mutual funds. Mutual funds with more upside salient returns attract higher inflows, while those with more downside salient returns experience outflows.
- The aim of this thesis is to 1) conduct a literature review on the salience effect in financial markets and 2) replicate the study by Hu et al. (2023) in the US mutual funds market.

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 (i.e. STATA, Python) and econometric methods.

Starting References

Theoretical

- Bordalo, P., N. Gennaioli, & A. Shleifer, 2012, Salience theory of choice under risk, Quarterly Journal of Economics 127, 1243-1285.
- Bordalo, P., N. Gennaioli, & A. Shleifer, 2013, Salience and asset prices, American Economic Review: Papers & Proceedings 103, 623-628.

Empirical

- Cakici, N. & A. Zaremba, 2021, Salience theory and the cross-section of stock returns: International and further evidence, Journal of Financial Economics, 146, 689-725.
- Cosemans, M., & R. Frehen, 2021, Salience theory and stock prices: empirical evidence, Journal of Financial Economics 140(2), 460-483.
- Hu, S., Xiang, C., & Quan, X., 2023, Salience theory and mutual fund flows: Empirical evidence from China, Emerging Markets Review 54.

For further questions, e-mail me at beroglu@mail.uni-mannheim.de

T3. Mutual Fund Performance and Fee Structure

Hongting Jiang

UNIVERSITY OF MANNHEIM
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Topic Description

- Mutual fund is one of the most prevailing investment objects and the fund managers become among the most highly compensated group in the finance industry. Despite their popularity, studies indicate that mutual funds, on average, yield negative **after-fee** returns. Martin Gruber (1996) identifies a puzzle: mutual funds generally underperform their benchmarks while imposing higher fees. Roger Edelen (1999) adds to this by showing a negative correlation between the net-of-expense performance and mutual fund inflows. Expanding on these findings, Gil-Bazo and Ruiz-Verdú(2009) documents an anomalous negative relationship between the **before-fee** performance and fees, which further questions the efficiency of the mutual fund industry. These findings imply a large wealth loss among the investors and challenge the justification for the high fees charged by mutual funds.
- In this thesis, the student will conduct a comprehensive study on the relationship between the fee structure and the mutual fund performance, as well as the investor reaction. The tasks for this master thesis are threefold: First, to provide a comprehensive summary of the existing literature on mutual fund fees and pricing strategies. Second, to partially replicate the empirical findings of Roger Edelen (1999) and Gil-Bazo and Ruiz-Verdú (2009) using the latest data to analyse whether the observed anomalies still persist. Finally, the student will extend the analysis to the fund-class level to investigate whether the wealth loss impacts different investor groups differently.

Requirements

The empirical work requires the use of large databases (i.e. CRSP, Thomson Reuters)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.

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Starting References

- Das, S.R. and Sundaram, R.K., 2002. Fee speech: Signaling, risk-sharing, and the impact of fee structures on investor welfare. The Review of Financial Studies, 15(5), pp.1465-1497.
- Edelen, R.M., 1999. Investor flows and the assessed performance of open-end mutual funds. Journal of Financial Economics, 53(3), pp.439-466.
- Gil-Bazo, J. and Ruiz-Verdú, P.A.B.L.O., 2009. The relation between price and performance in the mutual fund industry. The Journal of Finance, 64(5), pp.2153-2183.
- Gruber, M.J., 1996. Another puzzle: The growth in actively managed mutual funds. The journal of finance, 51(3), pp.783-810.
- Navone, M. and Pagani, M., 2015. Brothers from different mothers how distribution fees change investment behavior. Journal of Banking & Finance, 51, pp.12-25.

T4. Is liquidity priced? And if yes: Which one?

Thomas Johann

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Topic Description

- Amihud (2002) develops a simple measure of illiquidity: $Illiq = \frac{|r_{CTC}|}{Vol_{OTC}}$
- The simple idea: The less liquid a stock is, the less volume it takes to move prices
- Despite – or maybe because of - its simplicity, this measure is still widely used in research (more than 13,000 citations (as of September 24)) and practice.
- Amihud (2002) and Acharya/Pedersen (2005) show that liquidity risk, as measured by above measure is a priced factor.
- Czauderna et al. (2015) and Barardehi et al. (2021) adapt Amihud's measure to consider the "tradeless" overnight return: $Illiq = \frac{|r_{OTC}|}{Vol_{OTC}}$
- Johann/Theissen (2024) propose a third version, considering high, low, open and close prices.
- The aim of this thesis is to replicate studies that try to determine the price of illiquidity. Similarities and differences in the pricing of the three measures shall be carved out and analyzed.
- This thesis is especially suited for those wanting to conduct original research. Some prior experience in working empirically (Stata, R, or Python) would be advisable.

T4. Is liquidity priced? And if yes: Which one?

Thomas Johann

UNIVERSITY OF MANNHEIM
Business School

Starting References

- Amihud, Yakov, 2002. "Illiquidity and stock returns: cross-section and time-series effects." *Journal of financial markets* 5.1, pp.31-56.
- Acharya, Viral V., and Lasse Heje Pedersen, 2005. "Asset pricing with liquidity risk." *Journal of financial Economics* 77.2, pp.375-410.
- Barardehi, Y. H., Bernhardt, D., Ruchti, T. G., & Weidenmier, M., 2021. “The night and day of Amihud’s (2002) liquidity measure.” *The Review of Asset Pricing Studies 11*(2), pp.269-308.
- Czauderna, Katrin, Christoph Riedel, and Niklas Wagner, 2015. "Liquidity and conditional market returns: Evidence from German exchange traded funds." *Economic Modelling* 51, pp. 454-459.
- Johann, Thomas, and Erik Theissen, 2024. “The Highs and Lows of the Amihud Illiquidity Ratio.” Unpublished Working Paper.

T5. Do ETFs Over-score Mutual Funds in Fire Sales?

Chen Lin

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Topic Description

- Asset managers facing large redemptions must liquidate portfolio positions to restore cash. However, because financial markets are not perfectly liquid, the large-scale disposal of assets can create externalities that affect underlying asset prices. Prior research has demonstrated that stocks subject to mutual fund fire sales often experience temporary negative price movements, which later revers (Coval et al., 2007, Edmans et al., 2012, Dessaint et al., 2018).
- While this liquidation obligation is identical for exchange-traded funds (ETFs), it is unclear whether ETFs exhibit the same level of fire sales spillover to individual stocks as mutual funds. Unlike ETFs, mutual fund managers are not required to track indices passively, allowing them to focus on selling more liquid stocks. This suggests that mutual funds may be better positioned to mitigate fire sale price pressure. On the other hand, ETFs may reduce fire sales price pressure more effectively due to their structure, which includes designated market makers (DMMs) that can provide liquidity during large redemptions. Instead of returning cash directly to investors, ETFs transfer stocks to DMMs, who may retain some of these stocks on their balance sheets. This retention could reduce the total selling pressure, resulting in less severe transitory price movements for ETF fire sales.
- The aim of this master thesis is two folds. Firstly, the student is expected to update the mutual fund fire sales evidence (Coval et al., 2007) with recent data. Secondly, the student should extend the fire sales analysis to ETFs and answers the question whether ETF fire sales is less severe than that from mutual fund fire sales for individual stocks.

Requirements

The empirical work requires the use of large databases (i.e. <CRSP, Refinitiv>). 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.

T5. Do ETFs Over-score Mutual Funds in Fire Sales?

Chen Lin

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Business School

Starting References

- Malcolm Wardlaw (2020), Measuring Mutual Fund Flow Pressure as Shock to Stock Returns. The Journal of Finance, 75: 3221-3243. https://doi.org/10.1111/jofi.12962
- Olivier Dessaint, Thierry Foucault, Laurent Frésard, Adrien Matray, Noisy Stock Prices and Corporate Investment, The Review of Financial Studies, Volume 32, Issue 7, July 2019, Pages 2625–2672, https://doi.org/10.1093/rfs/hhy115
- EDMANS, A., GOLDSTEIN, I. and JIANG, W. (2012), The Real Effects of Financial Markets: The Impact of Prices on Takeovers. The Journal of Finance, 67: 933-971. https://doi.org/10.1111/j.1540-6261.2012.01738.x
- Joshua Coval, Erik Stafford, Asset fire sales (and purchases) in equity markets, Journal of Financial Economics, Volume 86, Issue 2, 2007, Pages 479-512, ISSN 0304-405X, https://doi.org/10.1016/j.jfineco.2006.09.007.
- Ben-David, I., Franzoni, F., & Moussawi, R. (2018). Do ETFs increase volatility?. The Journal of Finance, 73(6), 2471-2535. https://onlinelibrary.wiley.com/doi/pdf/10.1111/jofi.12727
- Moussawi, Rabih and Shen, Ke and Velthuis, Raisa, The Role of Taxes in the Rise of ETFs (March 8, 2024). Available at SSRN: https://ssrn.com/abstract=3744519
- Qifei Zhu, The Missing New Funds, Management Science 2020 66:3, 1193-1204, https://pubsonline.informs.org/doi/abs/10.1287/mnsc.2019.3454
- Cujean, Julien and Jaeger, Samuel, Recovering Price Informativeness from "Nonfundamental" Shocks (August 29, 2024). Available at SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4940898

T6. Climate Change, Carbon Uncertainty, and Emissions Trading

Stefan Scharnowski

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Topic Description

- To alleviate climate change, the output of CO2 has to be limited drastically. One efficient mechanism (in principle) is to put a price on CO2 emissions. Some jurisdictions have hence established a market for CO2 emission certificates.
- However, just as there is some uncertainty regarding the extent of climate change, there is uncertainty regarding public policies addressing climate change and uncertainty with respect to the price of carbon.
- Uncertainty about public policies aimed at reducing the impact of climate change or uncertainty regarding the price of carbon affect the whole economy and with it industrial output and hence carbon emissions. It is thus reasonable to expect that these uncertainties affect prices of and trading activity in carbon emission certificates.
- The aim of this thesis is to first briefly describe carbon emissions trading schemes with a focus on the European market and then to empirically study the question of the extent to which climate policy uncertainty (CPU) and carbon price uncertainty are related to each other, to the level and volatility of carbon prices, and the real economy. Emphasis should be placed on the prices of carbon allowances, on trading activity in this market, and on the futures-spot basis of carbon certificates.

Requirements

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

T6. Climate Change, Carbon Uncertainty, and Emissions Trading

Stefan Scharnowski

UNIVERSITY OF MANNHEIM
Business School

Starting References

- Adedoyin, F. F., & Zakari, A. (2020). Energy consumption, economic expansion, and CO2 emission in the UK: the role of economic policy uncertainty. Science of the Total Environment, 738, 140014.
- Albulescu, C. T., Demirer, R., Raheem, I. D., & Tiwari, A. K. (2019). Does the US economic policy uncertainty connect financial markets? Evidence from oil and commodity currencies. Energy Economics, 83, 375-388.
- Baker, S. R., Bloom, N., & Davis, S. J. (2016). Measuring economic policy uncertainty. The Quarterly Journal of Economics, 131(4), 1593-1636.
- Fuchs, M., Stroebel, J., and Terstegge, J., Carbon VIX: Carbon Price Uncertainty and Decarbonization Investments. Working Paper.
- Gavriilidis, K. (2021). Measuring climate policy uncertainty. Working Paper.
- Jiang, Y., Zhou, Z., & Liu, C. (2019). Does economic policy uncertainty matter for carbon emission? Evidence from US sector level data. Environmental Science and Pollution Research, 26(24), 24380-24394.
- Kang, W., & Ratti, R. A. (2013). Oil shocks, policy uncertainty and stock market return. Journal of International Financial Markets, Institutions and Money, 26, 305-318.
- Kang, W., Ratti, R. A., & Vespignani, J. L. (2017). Oil price shocks and policy uncertainty: New evidence on the effects of US and non-US oil production. Energy Economics, 66, 536-546.
- Ren, X., Zhang, X., Yan, C., & Gozgor, G. (2022). Climate policy uncertainty and firm-level total factor productivity: Evidence from China. Energy Economics, 113, 106209.

T7. Event Study: Protected Areas and Municipal Bond

Yanghua Shi

UNIVERSITY OF MANNHEIM
Business School

Topic Description

- Biodiversity, which includes genetic diversity, species diversity, and ecosystem diversity, is essential for the well-being of both ecosystems and hence human societies (UNESCO, 2010). However, this important natural capital has been decreasing at „the fastest rate known in geological history“, which is largely caused by human activity (UNESCO, 2010, p. 4).
- Despite being an emergent research area in finance, some researches have already shown that biodiversity risks matters for economy. E.g. Giglio et al. (2023) shows that biodiversity risks affect financial markets in a way different from climate risks; Garel et al. (2023) show that events that raise awareness about biodiversity issues may influence firm valuation.
- It is possible to proxy (the attention to) biodiversity of a US state by the absolute and relative sizes of protected areas in the state, as protected areas are usually dedicated to the protection of biodiversity. („Relative size“ is calcuated by dividing the size of the protected areas in a state with the total area of the state.) This could be priced in the municipal bond as a form of mitigation against biodiversity risk.
- The main purpose of the thesis is to investigate how the interaction between biodiversity-relevant events and the size of the protected areas influences the yield of the municipal bonds issued by states.
- The student needs to collect the biodiversity-relevant events and rationalize ther choice (an example can be found in Garel et al. (2023)). The data concerning protected areas will be made available for the student.
- If the student wish, they may also account for the temporal changes in the size of protected areas of the respective states.

Requirements

The empirical work requires the use of large databases. 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.

T7. Event Study: Protected Areas and Municipal Bond

Yanghua Shi

UNIVERSITY OF MANNHEIM
Business School

Starting References

- Cherief, Amina, Takaya Sekine, and Lauren Stagnol. "The Market Effect of Acute Biodiversity Risk: the Case of Corporate Bonds." Available at SSRN 4288552 (2022).
- Dasgupta, Partha, and Simon Levin. "Economic factors underlying biodiversity loss." Philosophical Transactions of the Royal Society B 378.1881 (2023): 20220197.
- Garel, Alexandre, et al. "Do Investors Care About Biodiversity?." Swiss Finance Institute Research Paper 23-24 (2023).
- Giglio, Stefano, et al. Biodiversity Risk. No. w31137. National Bureau of Economic Research, 2023.
- Goldsmith-Pinkham, P., Gustafson, M. T., Lewis, R. C., & Schwert, M. (2023). Sea-level rise exposure and municipal bond yields. The Review of Financial Studies, 36(11), 4588-4635.
- Rizzi, Claudio. "Nature as a defense from disasters: Natural capital and municipal bond yields." Available at SSRN 4038371 (2022).
- Version 3.0 Terrestrial Statistics (July 2022) - U.S. Geological Survey (USGS) Gap Analysis Project (GAP), 2022, Protected Areas Database of the United States (PAD-US) 3.0 Spatial Analysis and Statistics: U.S. Geological Survey data release, https://www.usgs.gov/programs/gap-analysis-project/science/pad-us-statistics-dashboard; https://tableau.usgs.gov/#/views/PADUS_Statistics/Dashboard

T8. Informed Corporate Bond Trading

Justus Veehof

UNIVERSITY OF MANNHEIM
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Topic Description

- Informed corporate bond trading prior to the release of firm-specific news has not been researched extensively. Addressing this gap, Wei and Zhou (2016) explore whether trading in corporate bonds prior to earnings announcements predicts the earnings surprise. Their findings suggest that, for negative earnings surprises in high-yield bonds, pre-announcement trading is indeed informative and provides economically meaningful net profits. These results are consistent with the notion that high-yield bonds are more sensitive to firm-specific information and thus more likely to be targeted by informed investors.
- The objective of this thesis is threefold. The student should (1) review the literature on the informational efficiency of corporate bonds (2) replicate the main empirical analyses of Wei and Zhou (2016) for the period from 2016 to 2023 (3) extend the analyses of Wei and Zhou (2016).

Requirements

The empirical work requires the use of large databases (i.e. TRACE, IBES, CRSP, 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.

T8. Informed Corporate Bond Trading

Justus Veehof

UNIVERSITY OF MANNHEIM
Business School

Starting References

- Wei, Jason; Zhou, Xing (2016): Informed Trading in Corporate Bonds Prior to Earnings Announcements. Financial Management 45 (3), pp. 641-674.
- Kedia, Simi; Zhou, Xing (2014): Informed trading around acquisitions: Evidence from corporate bonds. Journal of Financial Markets 18, pp. 182-205.
- Ronen, Tavy; Zhou, Xing (2013): Trade and information in the corporate bond market. Journal of Financial Markets 16, pp. 61-103.

T9. Geopolitical Risk and Stock Returns

Daniel Weiß

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Topic Description

- Geopolitical tensions have dramatically increased since the wars in Ukraine and the Middle East. Generally, the world has faced many periods with higher and with lower geopolitical risk (GPR) in the last decades. Time-varying GPR not only affects economic uncertainty but could also influence risk-averse investors and, ultimately, asset prices.
- Still, research on the asset pricing implications of time-varying GPR remains rather limited.
- Caldara & Iacoviello (2022) develop a news-based GPR index and provide monthly index data beginning in 1985 for a general GPR index as well as for more differentiated indices such as country-specific GPR indices on their website.
- The goal of this master thesis is twofold: First, the student should review the literature on how geopolitical risks affect asset prices and shape financial markets in general. Second, the student should empirically analyze the relationship between geopolitical risks and stock returns for US and international stocks using the GPR indices by Caldara & Iacoviello (2022). As a starting point, Chen et al. (2023) who use another political index to analyze stock returns can serve as an orientation.

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 in the use of a statistical software program (i.e., STATA, R) and econometric methods.

Starting References

- Caldara, D., & Iacoviello, M. (2022). Measuring geopolitical risk. *American Economic Review*, *112*(4), 1194-1225.
- Chen, Z., Da, Z., Huang, D., & Wang, L. (2023). Presidential economic approval rating and the cross-section of stock returns. *Journal of Financial Economics*, *147*(1), 106-131.
- Liu, X., & Zhang, X. (2024). Geopolitical risk and currency returns. *Journal of Banking & Finance*, *161*, 107097.
- Long, H., Demir, E., Będowska-Sójka, B., Zaremba, A., & Shahzad, S. J. H. (2022). Is geopolitical risk priced in the cross-section of cryptocurrency returns?. *Finance Research Letters*, *49*, 103131.
- Wang, X., Wu, Y., & Xu, W. (2019). Geopolitical risk and investment. *Journal of Money, Credit and Banking*.
- Zaremba, A., Cakici, N., Demir, E., & Long, H. (2022). When bad news is good news: Geopolitical risk and the cross-section of emerging market stock returns. *Journal of Financial Stability*, *58*, 100964.

- Data on the GPR Index: https://www.matteoiacoviello.com/gpr.htm [30.08.2024]
- Further Information on the GPR Index: https://www.policyuncertainty.com/gpr.html [30.08.2024]

T10. Limited retail attention and asset prices

Mengnan Wu

UNIVERSITY OF MANNHEIM
Business School

Topic Description

- Traditional finance theory assumes that investors are rational and capable of comprehending all available information before making decisions. However, recent empirical evidence indicates that investors have limited attention. The theory of rational inattention assumes that investors cannot process all available information, instead they can choose which pieces of information to attend to. This raises questions: How do retail investors allocate their attention when confronted with multiple information shocks, and how is this information incorporated into prices? Motivated by rational inattention theories, Liu et al. (2023) explore how retail and institutional investors process macroeconomic and firm-level news, and how this processing influences asset prices.
- In this master thesis, the student should: 1) construct the measurement for retail investor attention, examine the seasonal patterns for the daily average of retail investor attention for earnings announcements; 2) empirically examine how the retail investor attention reacts to the macro news, firm news and the joint arrival of both; and 3) test the impacts of macro news on earnings announcement returns and post-announcement drifts, following Liu et al. (2023).

Requirements

The empirical work requires the use of large databases (i.e. CRSP, IBES, Compustat). The candidate should feel comfortable in the use of a statistical software program (such as STATA) and econometric methods.

T10. Limited retail attention and asset prices

Mengnan Wu

UNIVERSITY OF MANNHEIM
Business School

Starting References

- Liu, H., Peng, L., & Tang, Y. (2023). Retail attention, institutional attention. *Journal of Financial and Quantitative Analysis*, 58(3), 1005-1038.
- Da, Z., Hua, J., Hung, T. C. C., & Peng, L. (2024). Market returns and a tale of two types of attention. *Available at SSRN 3551662*.
- Hirshleifer, D., Lim, S. S., & Teoh, S. H. (2011). Limited investor attention and stock market misreactions to accounting information. *The Review of Asset Pricing Studies*, 1(1), 35-73.
- Maćkowiak, B., Matějka, F., & Wiederholt, M. (2023). Rational inattention: A review. *Journal of Economic Literature*, 61(1), 226-273.