

The Exchange

NEWS FROM THE FINANCIAL ECONOMICS INSTITUTE AT CLAREMONT MCKENNA COLLEGE

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Director's Report

by Joshua Rosett



Joshua Rosett

THE 2014-15 academic year proved successful for the FEI as we continued existing programming and began looking to expand our reach in some directions. Regarding continuing programming, we employed 32 students during the Fall and Spring semesters, hired 8 full-time RAs last summer and we've hired 7 full-time RAs for this summer, co-sponsored and participated in the New York City Networking Trip, helped organize and sponsored a pitch event for the CMC Student Investment Fund and two finance conferences, brought in Randall Kroszner as an Athenaeum speaker, and continued to support students by providing tutors for the Bloomberg Terminal as well as Excel, Python, and Stata. On the initiative front, we expanded programming in several areas, including data and tutoring support, local finance-related programming, social impact support (co-sponsoring a trip by 17 CMC students to attend a conference and training program regarding local micro-finance via the In-Lend organization), and participated in the Research Institute Fair on campus on April 3rd (we thank Ed Leathers '15, for his excellent representation of the FEI at the event).

During the 2014-15 academic year, 11 students successfully completed the Financial Economics Sequence, and Joshua Thomas won the prize for Best Thesis in Financial

Economics for his thesis titled *10b5-1 Plans and Earnings Management by High-Level Executives*, in which he showed that firms manipulate earnings ahead of stock transactions under these plans in order to obtain favorable pricing at transaction time. We would also like to note that one of our FES graduating seniors, T. Connor Schlegel, was awarded the Best Thesis in Economics, for his thesis on *Strategic Risk Taking in Tournaments through the Lens of PGA Match Play*. Another FES graduating senior, Elan Bernstein, won the Outstanding Achievement in Quantitative Economics award. A past FEI RA and current BMGI/Michael Larson Asset

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FINANCIAL ECONOMICS
INSTITUTE

CLAREMONT MCKENNA COLLEGE

The Financial Economics Institute fosters education and research in financial economics by offering a unique undergraduate curricular program, the Financial Economics Sequence, supporting state-of-the-art databases, and encouraging student-faculty interaction on research.

Director's Report from page 1

Management Fellow, Andrew Dodds, won the award for Best Senior Overall. The awards were announced at the Robert Day School of Economics and Finance Awards Night at the Athenaeum on May 4th.

Our previous report noted the Fall 2014 Southern California Finance Conference organized by Professors Mitch Warachka and Eric Hughson, with keynote speaker Professor Ivo Welch of UCLA, as well as the Student Investment Fund pitch event including representatives of BMGI and WestRiver Capital. We followed those up this Spring by helping to organize the Student Investment Funds' Claremont Finance Conference on February 13, 2015, co-sponsored with the Pomona College and Scripps College Student Investment Funds. The conference included a luncheon at the Athenaeum with a Keynote talk by Don Gould '79 POM, President and Chief Investment Officer at Gould Asset Management, panel sessions at the Freeberg Forum, a networking and cocktail reception, and dinner at the Athenaeum with Keynote Speaker Shaw Wagener '81, Chairman at Capital Group International and CMC Trustee. The event was co-sponsored by the Robert Day School of Economics and Finance.

As part of the FEI Speaker Series, the Institute brought Randall S. Kroszner to CMC as an Athenaeum speaker the evening of February 12, 2015 (see article on page 9). Kroszner is the Norman R. Bobins Professor of Economics at the University of Chicago's Booth School of Business, twice served on the Council of Economic Advisers

to the President, and from 2006 to 2009 served as a Governor of the U.S. Federal Reserve System. As such, he played an important role in the Fed's actions to mitigate the financial crisis that began in 2008. His talk at the Athenaeum focused on the Fed's responses to the financial crisis, as well as initiatives to improve the stability of the financial sector and provide consumer protection and disclosure for credit cards and mortgages. The Lowe Institute of Political Economy co-sponsored Professor Kroszner's visit to CMC.

In January, the FEI and RDS jointly sponsored the New York City Networking Trip, taking 14 students to see a range of firms across a variety of service types and sizes within the financial sector. A highlight was our visit to the floor of the New York Stock Exchange. Several students interviewed with firms while on the trip, and some will be doing their summer internships this summer with firms we visited in January. We thank Michelle Chamberlain for her excellent work organizing and leading the trip.

During the year, we made progress on several initiatives. First, regarding data, we reviewed our existing data offerings (we thank Gabriel Ayala '16 for his excellent work compiling this review) during the year and added two new databases from Bureau Van Dijk noted in our Fall report. We subsequently sponsored a video conference training session for our faculty and students provided by a Bureau Van Dijk support specialist. We consider data to be a high priority for the FEI, and over the summer will be looking to add several additional databases. We are also pursuing a strategy for incorporation of big data into the FEI.

As noted in the Fall newsletter, we hired Aviv Caspi '16 to provide Python tutoring and support, and he assisted in a senior thesis analyzing text components as part of a broader analysis of project financing via crowdfunding site Kickstarter. We are also in negotiations with an outside group to provide support for development of access to CommonCrawl, a web imaging project, for projects in finance.

Second, during the Spring semester, we had two teams working on projects in local finance, one team constructing indices by geographic and industrial sectors for publicly traded firms headquartered in California. A second team began research on measures of deal activity in California, leveraging as one source of information one of the new databases purchased last Fall. These will appear on our new website, slated to go online later this year. Though not yet begun, we also plan a real estate analysis component for Southern California real estate segments.

Looking to next year, we anticipate working more closely with the CMC Student Investment Fund on several aspects of our programming. Our tentative plans include collaboration in bringing FEI/SIF alumni to campus for information sessions, and SIF participation in financial literacy training.

Finally, in closing, on behalf of myself and the many students and faculty who have benefitted from the FEI's activities this year, I thank both Terri Van Eaton and Brian Dennis for their excellent work at the FEI. Also, as always, I am grateful to the Robert Day School Board members and others for their generous contributions which make these activities possible. ▲

Congratulations to the FEI Summer 2015 Research Analysts:

AMBERISH CHITRE '18, Economics major
QIANYUN "CAROLE" GAO '17, Economics/Psychology dual major
PHILLIP JAUREGUI '17, Psychology/Economics dual major
KANISHK KAPUR '18, Economics-Accounting major with the Financial Economics Sequence
MINGDA LIU '17, Economics-Accounting major
CHENGWU "HARRIS" XUAN '17, Economics major
YI "NORA" ZHANG '17, Economics/Mathematics dual major

Congratulations to the 2015-2016 BMGI/Michael Larson Asset Management Fellows:

RACHEL DOEHR '16, Economics major with the Financial Economics Sequence
BRIAN ECKHARDT '16, BA/MA – BA degree in Economics, Master's degree in Finance
AMBER FALKNER '16, BA/MA – BA degree in Economics, Master's degree in Finance
SEAN SAKAGUCHI, PPE/Economics-Accounting dual major with the Financial Economics Sequence
ALBERT XU '17, Economics and Philosophy double major

2015 New York City Networking Trip

By Brian Delaney '16 and Kaitlyn Kelleher '17

THIS JANUARY, THE FINANCIAL Economics Institute and the Robert Day School of Economics and Finance sponsored the 12th annual New York City Networking Trip. In the final week of winter break, nine juniors and five sophomores traveled to NYC to learn about the wide array of opportunities available in the financial services industry. The trip offered chances for students to connect with various alumni in both professional and casual settings. Michelle Chamberlain, Director of Employer Relations for the RDS, and Professor Joshua Rosett, Director of the FEI, accompanied the students on their visit.

The group began their week the morning of January 12th with a tour of the New York Stock Exchange. Joe Vencil '85 hosted the group on behalf of Albert Fried & Company, a specialist, institutionally centric, trade execution firm. Students received a brief tour of the Exchange's museum and then walked the floor in small groups. They even witnessed a live broadcast of CNBC's "Squawk Box."

The trip to the New York Stock Exchange was followed by a visit to ITG (Investment Technology Group, Inc.), an electronic broker and independent research firm. Bob Gasser, ITG's President and CEO, addressed students on the importance of investing in talented youth within ITG and the evolving functions of a research-focused brokerage firm working in an increasingly competitive space. Following Gasser's remarks, students posed questions to a panel of young professionals operating across the company in everything from sales to analytics.

The group then traversed West Street to visit Goldman Sachs. Alumni working across many roles delivered a well-rounded perspective on working in financial services. Christine Mann '87 spoke to the firm's Private Wealth Management business and was joined by Andy Kaiser P'13, Chief Operating Officer of Goldman Sachs Bank. Kaiser reflected on his various roles within the bank over the past 20-plus years, including his time securitizing disaster risk, and the role of a Goldman Sachs Partner. Andrew Cosentino '11, Andrew Duckworth '12, Patricia Ingrassia '13, and David Alvilarr

'01 introduced Goldman's Securities Division to the group. Max Mullen '12 and Shree Pandya '14 overviewed the Investment Banking Division.

The evening offered a networking reception hosted by Doug Peterson '80 P '14 '15, CEO of McGraw Hill Financial. The event was well attended by many CMC alums living in the NYC area.

The second day kicked off with a trip to Moelis & Co., where Peter Li '06 and Jordan Stein '14 hosted the group along with Senior Vice President Griff Norquist. Students received a brief presentation expounding the major functions of the firm. Peter and Jordan then led a panel of their colleagues, which touched on the role of a boutique investment banking analyst.

Next, students made their way south to Deutsche Bank, where they were hosted for lunch by Alan Delsman '68, Head of Credit Risk Management for the Americas. He was joined by Rich Ferguson '81, Chief Risk Officer for the Americas, Debbie Jones '01, VP Equity Research, Steven Limandibhratha '14, Risk Analyst, and Zain Jamal '10, Credit Risk Analyst who specializes in Real Estate. The hosts delivered a firm-wide overview and presented various opportunities for young professionals within the bank. A panel discussion followed. The discussion provided a clear perspective of working in risk and equity research at a large global investment bank. A strong emphasis was placed on the advantages of working at a truly multinational corporation that values working abroad.

Following a quick stop at Wall Street's iconic bull statue, students received a tour of Bloomberg's remarkable office space. The strikingly open construction allowed the group to intimately observe the interworking of the information giant. After the tour, Justin Sheen '03 met the group on the top floor, where he spoke to his plethora of roles at Bloomberg from within one of the building's only non-glass conference rooms.

Students made their way to Rockefeller Plaza to visit Lazard, where they were hosted by Cav Walters '13, and Sam Kaplan POM '15. The visit consisted of an extended panel discussion that touched on the merits of working in boutique banking, as well as the

benefits of a liberal arts education for an investment banking analyst.

Tuesday concluded with a Dine Around program. Small groups or individual students connected over dinner with alumni at restaurants scattered across Manhattan. The nightly activities received rave reviews when students returned to the hotel. The unique opportunity to spend an evening with a single or small group of alumni left students knowing that they will return from the trip with at least one strong point of future contact.

Greenhill & Co. started off Wednesday with a presentation laying out their targeted services and an outline of the broader boutique investment banking landscape. A panel of current analysts followed, where students learned about the various benefits of a generalist analyst program.

Next, Kevin Collins, Client Portfolio Manager at Alger, delivered a presentation on the strategy of a research-driven asset manager, as well as explained the intricacies of the firm's managerial structure. Mr. Collins also gave a comprehensive overview of the asset management space.

Students then visited J.P. Morgan, where a panel discussion overviewed the various functions of the financial services giant. Dana Staley '12 gave insight into working in the investment banking division, while Merriel Foster '14, and Managing Directors Susan Adamsen '81 and Leslie Lassiter SCR '79 introduced the private bank. The panel spoke to the everyday duties of their positions, as well as the benefits of working for a well-integrated investment bank that performs a wide range of functions.

Wednesday's last firm visit was Millstein & Co., a boutique investment bank with a unique focus on restructuring. Ali Abramovitz '12 and Managing Director Bradley Hayes gave group presentations before the students broke into smaller groups to speak with both junior and senior bankers.

Wednesday concluded with an alumni networking reception at the Princeton Club. The packed event allowed students to acquaint themselves with many alumni from the New York City area.

NYC Networking Trip from page 3

The final day of the trip began with an early morning visit to Morgan Stanley, hosted by Ben Kraus '11. Students learned about the firm's securities division and asked questions about the roles and responsibilities of a trader working at a bulge bracket bank.

Next, the group visited BNP Paribas where students were treated to a presentation by Chris Innes '92 and Justin Eskind '11. Justin provided students with an overview of his day-to-day roles as a trader while Mr. Innes commented on the current equity trading environment and fielded questions about his unique path in finance.

In the afternoon, students had the opportunity to meet with Ivan Zinn '96, the founding partner and Chief Investment Officer at Atalaya Capital Management. Mr. Zinn spoke to his experience starting his own firm, discussed the value of investing in credit opportunities, and offered advice about a career in both private equity and in the financial services industry.

Finally, the students visited Credit Suisse where Meg Nunnally '03 led a panel discussion with representatives from the firm's investment banking, securities, research, and private banking divisions. Students learned about the various career opportunities within the firm and garnered valuable insight into navigating the recruiting process.

The 2015 New York Networking Trip was a great success. Many of the students spent their final day in the city interviewing with some of the 14 firms visited earlier. The scads of professional experience, coupled with the personal contacts developed during the firm visits and evening social events, will absolutely benefit students in future endeavors.

A great deal of thanks must be extended to the Robert Day School of Economics and Finance, the Financial Economics Institute, the CMC Alumni and Parent Relations Office, the CMC Alumni Association, the RDS Advisory Board, and the many alumni hosts at the various firms for their generous contributions that made this trip possible. ▲



Financial Economics Institute Spring 2015 Student Research Analysts

During the Spring 2015 semester, twenty-three students were hired to work for the FEI. The following is a list of the students, their roles at the Institute, or the topics of their research projects and their faculty advisors:

GABRIEL AYALA '16, *Building Regional and Industry Segment Equity Indices for California*, with Professor Joshua Rosett, and he was also the Excel tutor

AVIV CASPI '16, *Building Regional and Industry Segment Equity Indices for California*, with Professor Joshua Rosett, and he was also the Python tutor and programmer

AMBERISH CHITRE '18, *Understanding the Nature of Daubert Challenges*, with Professor Eric Helland

JAE SUNG "JASEN" CHOI '18, *Relevant vs. Reliable Information Disclosure and Investor Reaction*, with Professor Ananda Ganguly

JESSE CRABTREE '16, *Physiological responses to movie trailers as a predictor of sales: An economic model for movie revenues*, with Professor Paul Zak, Claremont Graduate University

RACHEL DOEHR '16, *Investigating the Role of Ideology in Appellate Court Decisions*, with Professors Eric Helland and Cameron Shelton

MATTHIEU HAFEMEISTER '17, *Credit Default Swap Trading and Internal Capital Markets*, with Professor George Batta

ALEX HWUNG '16, *Understanding the Nature of Daubert Challenges*, with Professor Eric Helland

AMY INGRAM '17, *Credit Default Swap Trading and Internal Capital Markets*, with Professor George Batta

MICHAEL IRVINE '16, *Understanding the Nature of Daubert Challenges*, with Professor Eric Helland

CHRISTOPHER JACKSON '17, *Physiological responses to movie trailers as a predictor of sales: An economic model for movie revenues*, with Professor Paul Zak, Claremont Graduate University

ANANT JAITHA '17, *Relevant vs. Reliable Information Disclosure and Investor Reaction*, with Professor Ananda Ganguly

NINA KAMATH '16, FEI website RA

CHRISTIAN KELLY '18, *Understanding the Nature of Daubert Challenges*, with Professor Eric Helland

MIN JUN "MJ" KIM '15, *Examining the Effects of Football Club Ownership on Share Prices: Evidence from China and Korea*, with Professor Richard Burdekin

BENJAMIN LAWSON '15, *Market Efficiency and the Dissemination of Public Information*, with Professors Mitch Warachka and Marc Weidenmier

EDWARD LEATHERS '15, *Congressional Insider Trading: Should We Be Concerned?*, with Professor Eric Hughson

IRIS LIU '16, *Understanding the Nature of Daubert Challenges*, with Professor Eric Helland

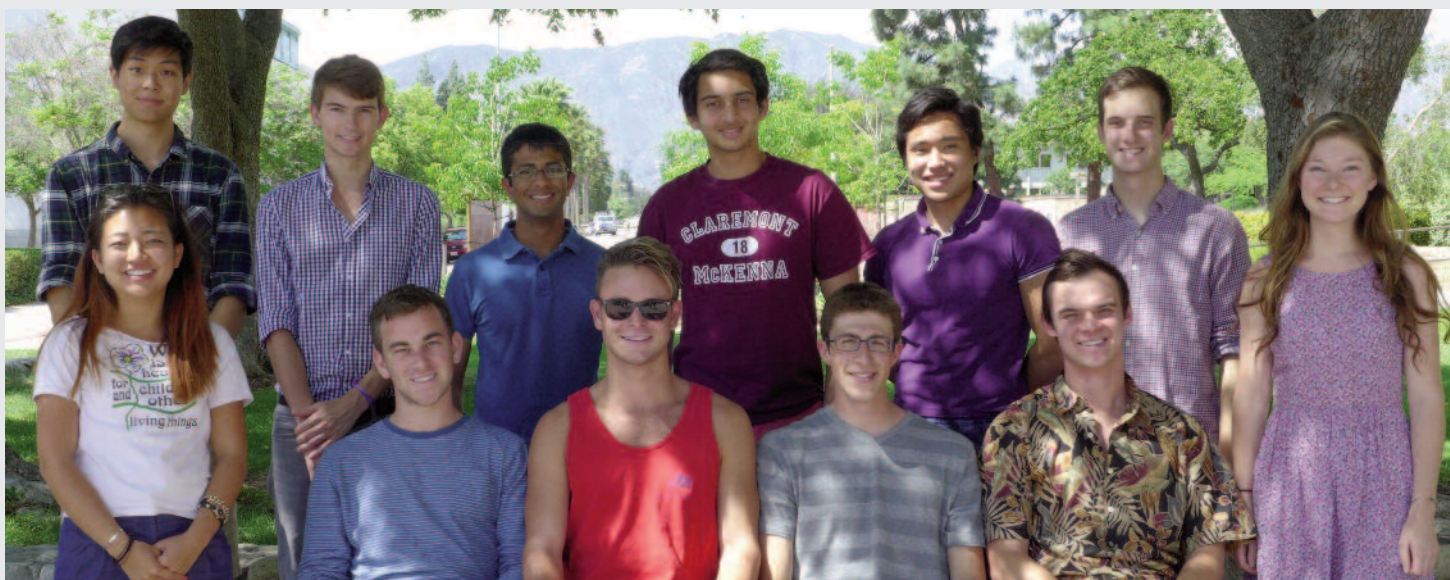
ANDREW NAM '15, Stata tutor

HANNAH OH '16, FEI website RA

CAMERON WHITING '15, *Building Regional and Industry Segment Equity Indices for California*, with Professor Joshua Rosett and he was also the Bloomberg tutor

ALBERT XU '16, *The Term Structure of Stock Required Returns*, with Professor Gary Smith, Pomona College

SOYEON "NIKKI" YEA '15, *Financial Flows and Payments Adjustment in a Mixed Exchange-Rate Regime*, with Professor Sven Arndt



Back row, from left: Alex Hwung '16, Matthieu Hafemeister '17, Anant Jaitha '17, Amberish Chitre '18, Gabriel Ayala '16, and Michael Irvine '16. Front row, from left: Iris Liu '16, Ed Leathers '15, Cameron Whiting '15, Aviv Caspi '16, Jesse Crabtree '16, and Amy Ingram '17.

Claremont Finance Conference

By Philip Crawford CMC '15 and SIF Chief Executive Officer (2014-2015)

CLAREMONT MCKENNA COLLEGE, Scripps College, and Pomona College collectively hosted the Seventh Annual Claremont Finance Conference on February 13, 2015. The conference was organized by strategic members of the Student Investment Funds of these colleges. The CFC was co-sponsored by CMC's Robert Day School of Economics and Finance, the CMC Alumni Association, the CMC Development Office, and the Financial Economics Institute.

This year, we selected "Investing at Market Highs" as the conference theme and invited a host of leading alumni and industry professionals to provide their perspectives on the industry. The theme this year was designed to be narrow enough to provide a specific focus for discussion, but broad enough to allow alumni from many different sectors of the investing world to participate. Alumni representing venture capital, private equity, portfolio management, trading, and hedge funds all participated in the conference and lent their perspective on current market conditions to a diverse array of students from across the Claremont Colleges.

The conference began with lunch in the Marian Miner Cook Athenaeum at CMC. Don Gould (POM '79), President and Chief Investment Officer at Gould Asset Management, spoke about efficient markets and his personal approach to investing. He also spoke about the emotional side of working with his clients and how to help them navigate through both bull and bear markets.

Attendees then transitioned to CMC's Freeberg Forum at the Kravis Center for two

panel discussions. The first panel focused on Equity Investing under today's frothy market conditions. Panelists represented a variety of firms and levels of experience: Tony Brenner (CMC P'17), Managing Partner at Pivot Point Capital; Todd Barker (CMC '01), Managing Director at Citadel Investment Partners; Brad Heaton (CMC '09 M '13), Managing Partner at Heaton Capital Management; and Ben Herrick (CMC '04), Senior Investment Analyst at del Rey Global. The panel was moderated by CMC Professor Eric Hughson.

A short networking reception was held before the second panel, which focused on Alternative Investing. Panelists included: Mark Robles (CMC '78), Principal at Alta Pacific Wealth Management; Gavin Teo (CMC '03), Principal at Comcast Ventures; and Mike Widmann (CMC '10), Senior Associate at Silver Lake Partners. The talk was moderated by CMC Professor Murat Binay.

Conference attendees then transitioned back to the Athenaeum for a networking and cocktail reception. Following the reception, dinner was served and Shaw Wagener (CMC '81), Chairman at Capital Group International and CMC Trustee, delivered a keynote presentation entitled, "Longer Term Perspectives of Market Tops and Bottoms Providing Context to Emerging Markets Today." Following the talk, Wagener answered questions from the



Don Gould '79 Pomona



Shaw Wagener '81 CMC

audience and met attendees after the conclusion of the conference.

Connor Stastny '17, an analyst in the CMC Student Investment Fund, was especially impressed by Keynote Speaker Shaw Wagener. Stastny commented that it was "fantastic getting to speak with Mr. Wagener and learn about his years of leadership in international investing. We share a strong passion for investing and the opportunity to meet an industry leader of his stature was amazing." Connor also stated that he thought both conference cocktail receptions provided the students and alumni great opportunities to network.

This year's conference had a great turnout, and conference organizers received a lot of positive feedback. Conference organizers said they have high hopes that, in the future, the conference will include more participation from every college in the Claremont Consortium. The conference has grown tremendously over the past seven years and organizers are determined to continue improving the conference every year. ▲



FEI Affiliated Faculty Research

Selected 2014-2015 publications by faculty members affiliated with the FEI:

- ▶ **Evolving Patterns in Global Trade and Finance**, **Sven W. Arndt**, World Scientific Studies in International Economics 39, World Scientific Publishing Co. Pte. Ltd., Singapore, 2015
- ▶ “Transfer Spending in the English Premier League: The Haves and the Have Nots,” **Richard C.K. Burdekin** with Michael Franklin, *National Institute Economic Review*, Vol. 232 (May 2015), in press
- ▶ “Assessing the Impact of the Chinese Stimulus Package at Home and Abroad: A Damp Squib?,” **Richard C.K. Burdekin** with **Marc D. Weidenmier**, *China Economic Review*, Vol. 33 (April 2015), pp. 137-162
- ▶ “Tiananmen Square 1989: The View from Financial Markets,” **Richard C.K. Burdekin** with Li Xinzhu, *Applied Economics Letters*, Vol.: No. 2 (January 2015), pp. 141-147
- ▶ “Bank Lending Margins in China and the Effects of the June 2012 Liberalization,” **Richard C.K. Burdekin** with Ran Tao, *Journal of International Commerce, Economics and Policy*, Vol. 5, No. 2 (2014), 19 pages [doi:10.1142/S1793993314500033]
- ▶ “Everything’s Bigger in Texas Except the Medmal Settlements,” **Eric Helland** with Tom Baker and Jon Klick, *Connecticut Insurance Law Journal*, forthcoming
- ▶ “Medical Malpractice Reform: Noneconomic Damages Caps Reduced Payments Fifteen Percent, with Varied Effects By Specialty,” **Eric Helland** with Anupam B. Jena and Seth Seabury, *Health Affairs*, October 2014
- ▶ “Stock Ownership and Patterns of Recusal in Federal Courts,” **Eric Helland** with James Anderson, *Georgetown University Law Review*, forthcoming
- ▶ “Bias in the Legal Profession: Self Assessed versus Statistical Measures of Discrimination,” **Eric Helland** with **Heather Antecol** and Deborah Cobb-Clark, *Journal of Legal Studies*, 43(2): 323-357, 2014
- ▶ “Tort Reform and Physician Labor Supply: A Review of the Evidence,” **Eric Helland** with Seth Seabury, *International Review of Law and Economics*, forthcoming
- ▶ “Why expertise is important for the detection of abnormal performance: the hot hand strikes back,” **Eric Hughson** with Chris Leach and David Frame, *Journal of Accounting, Auditing and Finance*, forthcoming
- ▶ “Are Public Equity Markets Declining in Importance?” **Joshua Rosett** and Richard Smith, *Journal of Applied Finance*, (2014) Vol. 24, No. 1:6-13
- ▶ “Disclosure-derived Financial Statement Adjustments in Equity Valuation,” **Joshua Rosett** with **George Batta** and **Ananda Ganguly**, *Review of Pacific Basin Financial Markets and Policies*, Vol. 17, Issue 2
- ▶ “Risk Taking in Competitive Settings: Evidence from Match Play Golf Tournaments,” **Janet Kiholm Smith** with **Serkan Ozbeklik**, *Journal of Corporate Finance*, forthcoming
- ▶ **Standard Deviations: Flowed Assumptions, Tortured Data, and Other Ways to Lie with Statistics**, **Gary Smith**, Overlook/Duckworth, New York, 2014
- ▶ “Why Are Some Home Values Resistant and Others Resilient?,” **Gary Smith**, *International Real Estate Review*, 17 (2), 2014, 223-240
- ▶ “Great Companies: Looking for Success Secrets in All the Wrong Places,” **Gary Smith** with Gabrielle Baum, *Journal of Investing*, forthcoming
- ▶ “Frog in the Pan: Continuous Information and Momentum,” **Mitch Warachka** with Z. Da and U. Gurun, *Review of Financial Studies* 27, 2171-2218, summary is to be published in *Finance and Accounting Memos (FAMe)*
- ▶ “Are Hard Pegs Ever Credible in Emerging Markets? Lessons from the Classical Gold Standard,” **Marc Weidenmier** with Kris Mitchener, *Journal of Economic History*, forthcoming
- ▶ “Measuring Power and the Rise of East Asia,” **Thomas Willett** with Eric Chiu in Benjamin J. Cohen and Chiu, eds., **Power in a Changing World Economy: Lessons from East Asia**, Routledge, 2014
- ▶ “Fixed Exchange Rates and Financial Markets as Sources of Macroeconomic Disciplines,” **Thomas Willett** with Eric Chiu and Stefanie Walter in Thomas Oatley, Ed., **Handbook of International Monetary Relations**, Edward Elgar, 2014
- ▶ “The Political Economy of the Euro Crisis: Cognitive Biases, Faulty Mental Models, and Time Inconsistence,” **Thomas Willett** with Nancy Srisorn, *Journal of Economics and Business*, forthcoming
- ▶ “Egypt’s Exchange Rate Policies After the Float,” **Thomas Willett** with Ali Massoud, *International Journal of Social Science Studies*, 2014
- ▶ “News and the Behavior in the Korean Stock Market during the Global Financial Crisis,” **Thomas Willett** with Yoonmin Kim, *Korea and the World Economy*, December 2014, pp. 395-419
- ▶ “How Common Are Capital Flow Surges? How They Are Measured Matters A Lot,” **Thomas Willett** with M. Crystalin, et al., *Open Economies Review*, forthcoming
- ▶ “Are Credit Ratings Relevant in China’s Corporate Bond Market?,” **Fan Yu** with Raghav Dhawan, *Chinese Economy*, 48(3), pp. 1-16, 2015
- ▶ “The Neural Inhibition of Learning Increases Asset Market Bubbles: Experimental Evidence,” **Paul Zak** with L. Efreimidze, G. Sarraf, and G. Miotto, *Journal of Behavioral Finance*, in press
- ▶ “Neuromanagement: Using Neuroscience to Build High Performance Organizations,” **Paul Zak**, P. Balthazard and D. Waldman, Eds., **Organizational Neuroscience**, Emerald Publishers, forthcoming
- ▶ “Why Trust Matters,” **Paul Zak**, *Ivey Business Journal*, in press

Congratulations Class of 2015!

THE FINANCIAL ECONOMICS

Sequence is part of the Robert Day School of Economics and Finance. The curriculum of the Sequence is designed for students interested in pursuing careers in the financial sector and/or graduate education in economics, finance, and related fields.

The Sequence has a rigorous quantitative focus and is designed to complement majors in economics, economics-accounting, and mathematics, as well as dual majors having an economics component. In addition, the Sequence is complementary to the coursework required for the undergraduate Robert Day Scholars Program, and prepares students for the Master's Program in Finance of the Robert Day School. Under the auspices of the Financial Economics Institute (FEI), students complete the Sequence, which is noted on the transcript, thereby attesting to their solid understanding of the discipline.

We had eleven FES seniors who graduated during the 2014-2015 academic year. Four of these seniors gave their FES oral defense presentations at the end of the Fall semester and seven at the end of the Spring semester. In order to receive the Financial Economics Sequence notation on their transcript, students must complete a major research project in the area of financial economics, the project may be the student's senior thesis, and make an oral presentation.

We would like to announce that **Joshua Thomas** wrote the Best Thesis in Financial Economics for 2014-2015! Congratulations!

The following is a list of the students who made their presentations this semester along with the titles of their senior theses and the Abstracts of their theses:

MOHAMAD ABDUL-RAHIM, *M&A in M&E: Acquirer Announcement Effects of Mergers & Acquisitions in the Media and Entertainment Industry*

"This paper uses event study methodology to present evidence that acquirer announcement effects for mergers and acquisitions (M&A) in the American Media and Entertainment (M&E) industry are insignificant. In order to reach this conclusion, this paper both examines existing literature on the topic and manipulates available data on public

companies in the M&E industry. It also uses this data to investigate the extent to which different factors influence the acquirer announcement effects. These factors include: the type of financing used for the deal, recent mega-merger failures in the M&E industry, M&A strategy (expansion vs. diversification), as well as target size, country, and sub-industry. The results show that none of these factors have a significant impact on announcement effects."

PITRA HARUN, *Founding-Family Ownership and Firm Performance: Evidence from Indonesia*

"In my study, I examine the relationship between founding family ownership and firm performance. Using publicly listed companies in Indonesia, I observe families are much more prevalent than in the US; in my sample, families are present in over 60% of Indonesian listed companies and families own an average outstanding equity of 50.4%. Contrary to previous literatures, I present new evidence to show founding family ownership and control is a more efficient form of ownership structure *only* when the family is a majority-shareholder in the company. Additional investigation shows that founding family ownership has a U-shaped quadratic relationship with firm performance, indicating that an increase in family ownership is initially associated with worsening firm performances, but is then associated with improving firm performances after passing a certain level of equity ownership."

VALERIE HO, *An Analysis of Water Rates and Home Prices: A Case Study*

"The issue of the rising Claremont water rates has been a heated topic of debate over the last couple of years. This study is part of a larger body of literature that seeks to determine the extent to which a location-specific amenity or dis-amenity is capitalized into housing values, and specifically aims to examine the relationship between water rates and home prices in Claremont. To do this, it uses houses in La Verne, where water rates have not been rising as rapidly, as a control group. Specifically, the regression model looks at whether the differences in the water

bills between Claremont and La Verne are associated with the differences in the house prices between Claremont and La Verne. In doing so, it also provides an estimate of the price discount faced by houses in Claremont due to the water rate."

CHRISTIAN MKPADO, *The Effects of El Nino and La Nina Weather Events on Corn Futures Prices*

(Part of Introduction): "The following paper will analyze the effects of the El Nino and La Nina weather patterns on corn futures prices. *The Effects of El Nino and La Nina Weather Events on Corn Futures Prices*, stemmed from my interest in agricultural economics, and how the changing environment will affect mankind's ability to produce the necessary food to survive. Recently, California has been hit with one of the longest and most severe droughts in the state's recent history. With mandatory water restriction now in effect, I was curious to understand how the country's food supply would be affected by adverse farming conditions."

BARUN ROYCHOWDHURY, *Do Internal Funds Play an Important Role in Financing Decisions for Constrained Firms?*

"In this paper, I discuss the importance of internal funds for corporate investment among financially constrained firms. I use the paper 'Financing Constraints and Corporate Investments' by Fazzari, Hubbard and Petersen as a base for my framework. I focus on a specific paper refuting their findings and their response in order to fully understand the benefits and costs of the framework. I then apply the original framework to a recent sample that covers the Great Recession to see the results of the initial paper are still valid today and if the recent recession and elongated recovery had an even more adverse effect on financially constrained firms than was previously noted."

JOSHUA THOMAS, *10b5-1 Plans and Earnings Management by High-Level Executives*

"Using historical firm financial and insider

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trading information, this paper examines whether high-level insiders manipulate earnings ahead of their own 10b5-1 equity transactions. The empirical evidence suggests that high-level executives appear to manipulate earnings through real activities such as abnormal discretionary expenditures and abnormal cash flows from operations to influence equity prices ahead of their own transactions under Rule 10b5-1. Evidence also suggests that executives appear to be

unlikely to engage in earnings management through highly scrutinized means such as accruals. An interpretation of these results is that high-level executives may be using 10b5-1 plans as an offensive tool to trade with the knowledge of inside information, which appears to be in direct opposition to the defensive mechanism that 10b5-1 plans are intended to represent.”

DAVID TSE, *Conditional Systematic Risk of Equity Real Estate Investment Trusts*

This paper examines whether REIT betas

have a consistent relationship with market performance. I find a statistically significant relationship between returns to the market and the level of systematic risk for a given REIT. During periods where monthly S&P returns outstrip those of the 30-day tbill, REIT betas are lower. Of the 11 largest REITs, 9 have this behavior. When using a fama-french model, however, this relationship is no longer statistically significant, seeming to indicate that REIT betas are affected by small-stock or value-stock effects. ▲

Lessons from the Financial Crisis of 2008: Are We Safer Today?

By Randall S. Kroszner



Randall S. Kroszner

AS PART OF THE Financial Economics Institute Speaker Series, Professor Randall S. Kroszner spoke at the Athenaeum on February 12, 2015 about the financial crisis that began in 2008 and its aftermath. Kroszner is the Norman R. Bobins Professor of Economics at the University of Chicago's Booth School of Business. He was an

undergraduate at Brown and received his Ph.D. from Harvard. From 2001 to 2003, Professor Kroszner was a member of the U.S. President's Council of Economic Advisers (CEA), where he was involved in issues ranging from sovereign debt restructuring to terrorism risk insurance to IMF reform. From 2006 to 2009, he served as a Governor of the U.S. Federal Reserve System. He chaired the Fed's committee on Supervision and Regulation and the committee on Consumer and Community Affairs. In these capacities, he took a leading role in developing responses to the financial crisis and in undertaking new initiatives to improve consumer protection and disclosure for credit cards and mortgages. He represented the Fed on the Financial Stability Board and the Basel Committee on Banking Supervision, and chaired the OECD working party of deputy central bank governors and deputy finance ministers on international macro policy.

Professor Kroszner has more than 100 publications. His recent book co-authored with Nobel laureate Robert J. Shiller, the Arthur M. Okun Professor of Economics at Yale University, **Reforming**

U.S. Financial Markets: Reflections Before and Beyond Dodd-Frank appeared on the *Washington Post's* "Book World" political bestsellers list. Kroszner's paper on corporate ownership won the Brattle Prize for best corporate finance paper in the *Journal of Finance*. He has served as Editor of the *Journal of Law and Economics* and has been on the editorial boards of numerous academic and policy journals. His research interests include financial crises, monetary policy, regulation of financial institutions, risk management, debt restructuring, and corporate governance.

Professor Kroszner is a much sought-after commentator in the international media. He provides advice on economic, monetary, financial, and regulatory outlook and strategy for financial institutions, government organizations, and central banks throughout the world. He is on the World Economic Forum's Global Agenda Council on the Global Financial System and is involved with Gates Foundation initiatives on promoting access to financial services for the poor in emerging market countries.

Professor Kroszner's presentation provided both a clear summary of the workings of the banking and housing mortgage sectors in the U.S. and global economies, and an interesting analysis of what went wrong as the interconnections between institutions and lack of transparency regarding risks associated with instruments such as mortgage-backed derivative securities combined to produce the downward spiral in late 2008. He also discussed several strategies for reform outlined in the book noted above, but warned that we are far from understanding the forces that caused the crisis and implementing policies that ensure stability going forward.

This Athenaeum talk was co-sponsored by the Lowe Institute of Political Economy and the Marian Miner Cook Athenaeum. ▲

Where Will FEI Students Be Working?

CONGRATULATIONS TO THE FOLLOWING SENIORS AND JUNIORS COMPLETING THE FINANCIAL ECONOMICS Sequence who have notified the FEI that they have secured a full-time job. This list identifies the students' major(s) and their place of employment.

Graduating Financial Economics Sequence Seniors:

ELAN BERNSTEIN, Economics/Mathematics, **LEK Consulting** (San Francisco, CA)

BRADEN CROCKETT, Economics, **Matthews Retail Group** (Manhattan Beach, CA)

PITRA HARUN, Economics, **Bain & Company** (Jakarta, Indonesia)

CHUN YIN "BORIS" LO, Economics, **Goldman Sachs Asset Management** (Hong Kong, People's Republic of China)

CHRISTIAN MKPADO, Economics, **The Boston Consulting Group** (Los Angeles, CA)

T. CONNOR SCHLEGEL, Economics, **Gran Ciudad, Black Creek Capital** (Mexico City, Mexico)

JOSHUA THOMAS, Economics, **Optiver** (Chicago, IL)

DAVID TSE, Economics-Accounting, **Goldman Sachs** (San Francisco, CA)

Financial Economics Sequence Juniors – Summer Positions:

VICTOR CHAN, History, **Bank of America Merrill Lynch** (Century City, CA)

CAROLINE COUNTS, Economics-Accounting, **Ernst and Young** (San Francisco, CA)

RACHEL DOEHR, Economics, **Goldman Sachs** (New York, NY)

JAMES INGRAM, Economics, **Dimensional Fund Advisors** (Santa Monica, CA)

GAVIN MACKINLAY, Economics-Accounting, **Tableau Software** (Seattle, WA)

SEAN SAKAGUCHI, Philosophy, Politics & Economics/Economics-Accounting, **Millstein & Co.** (New York, NY)

ANDREW SOVA, Economics, **Tremblay Financial** (Santa Barbara, CA)

GABRIEL SUNGA, Economics/Mathematics, **JMP Securities** (San Francisco, CA)

Upcoming Events

3rd Annual Southern California Finance Conference

SEPTEMBER 25-26, 2015
By Invitation Only

New York City Networking Trip

JANUARY 10-15, 2016

CMC students will visit prestigious firms in NYC to gain exposure to various job opportunities in the financial markets and to establish relationships with CMC alumni working at these companies. Applications for the trip will be available in Bauer Center 321 in September, 2015.



FINANCIAL ECONOMICS
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