The 6th CERF Cavalcade
Thursday 23rd May 2019, 2.30 pm, Castle Teaching Room, Cambridge Judge Business School

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14.30-14.40	**Welcome and Introductions - A word from the CERF Director Bart Lambrecht**
14.40-14.55	***Financial Policies and Internal Governance with Heterogeneous Risk Preferences*** Shiqi Chen (CERF Scholar, Cambridge Judge Business School) We consider a group of investors with heterogeneous risk preferences that determines a firm's investment policy, and each investor's compensation function. The optimal investment policy is a time-varying weighted average of investors' optimal policies and converges to the policy of the least (most) risk averse investor in booms (busts), reconciling the diversification of opinions hypothesis and the group shift hypothesis. The most (least) risk averse investor has a strictly concave (convex) claim on the firm's net worth. For intermediate risk preferences investors' claim is S-shaped, resembling preferred stock. We derive investors' utility weights absent wealth distribution and under social optimization. 
14.55-15.10	***Why do ICOs (not) accept fiat money?*** Hui (Frank) Xu (CERF Research Associate, Cambridge Judge Business School) Abstract: Initial Coin Offerings, a blockchain based financing method, have drawn great attentions from investors and regulators. Oddly, only a small proportion of ICOs accept fiat money (bank transfers, credit cards and cash) while most do not. Accepting fiat money would facilitate finishing ICOs' financing target by reaching out to more unsophisticated retail investors. We conjecture that accepting fiat money is a costly signal and hence only sufficiently high-quality ICOs would choose to do so. Analysis of hand-collected token returns supports the empirical implications of the conjecture. 

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15.10-15.25	***The behaviour of betting and currency markets on the night of the EU referendum*** Tom Auld (INET, Project Investigator : Oliver Linton) We study the behaviour of the Betfair betting market and the sterling/dollar exchange rate (futures price) during 24 June 2016, the night of the EU referendum. We investigate how the two markets responded to the announcement of the voting results. We employ a Bayesian updating methodology to update prior opinion about the likelihood of the final outcome of the vote. We then relate the voting model to the real time evolution of the market determined prices as results are announced. We find that although both markets appear to be inefficient in absorbing the new information contained in vote outcomes, the betting market is apparently less inefficient than the FX market. The different rates of convergence to fundamental value between the two markets leads to highly profitable arbitrage opportunities.	
15.25-15.40	***Mapping Rumours and Information Diffusion*** Flavio Toxvaerd (CERF Fellow, Faculty of Economics) This talk will give an overview of an interdisciplinary project on the mapping of rumours in financial markets. Using tweets scraped from the Internet, we analyse the diffusion and nature of information about some of the largest successful mergers (i.e. mergers that were completed) and unsuccessful mergers (i.e. proposed mergers that were not completed). We contrast this contemporaneous information with verifiable information that was available ex post from companies' submissions to the Securities and Exchanges Commission. Last, we plan to contrast this information with movements in share prices, options prices and trading volumes.	
15.40-15.55	***Dispersion in Financing Costs and Development*** Tiago Cavalcanti (CERF Fellow, Faculty of Economics)	

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15.55-16.10	***Liquidation, bailout, and bail-in: Insolvency resolution mechanisms and bank lending*** Bart Lambrecht (Director CERF, Cambridge Judge Business School) We present a dynamic, continuous-time model in which risk averse inside equityholders set a bank's lending, payout, and financing policies, and the exposure of bank assets to crashes. We study how the prevailing insolvency resolution mechanism affects these policies, the insolvency rate, loss in default, value at risk (VaR), and the net value created by the bank. VaR depends non-trivially on jump (crash) risk, diffusion risk and the horizon. We examine the commonplace assertion that bailouts encourage excessive lending and risk-taking compared to the liquidation and bail-in regimes, and explore whether bailouts could be financed by banks without taxpayers' money. 
16.10-16.30	**Questions and Closing of the Cavalcade**